



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

2022

INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

- Mr. Fan Shaozhou (范少周)
(Chairman and chief executive officer)
- Mr. Wan Neng (萬能)
(Chief financial officer) (Resigned on 14 March 2023)
- Mr. Kong Guojing (孔國競) (Co-Chairman)
(appointed on 6 June 2023)
- Mr. Peng Weizhou (彭偉周)
(Resigned on 20 November 2023)

Non-Executive Directors

- Mr. Deng Guanghui (鄧光輝)
(Resigned on 13 February 2023)
- Mr. Chen Li (陳立)
- Mr. Shen Peng (譔鵬) (Appointed on 18 January 2023)
- Mr. Li Hongxing (黎紅星) (Appointed on 13 February 2023)

Independent Non-Executive Directors

- Ms. Huang Guiqing (黃桂清)
(Resigned on 14 June 2022)
- Mr. Liu Xiaoyi (劉曉一) (Resigned on 19 April 2023)
- Mr. Liu Ziping (劉子平) (Resigned on 14 June 2022)
- Mr. Gao Rongshun (高榮順) (Appointed on 14 June 2022
and Resigned on 20 July 2023)
- Mr. Yi Xiaopei (易曉培) (Appointed on 14 June 2022 and
Resigned on 7 August 2023)
- Mr. Ma Kin Ling (馬健凌) (Appointed on 22 July 2023)
- Mr. Huang Wei (黃偉) (Appointed on 13 October 2023)
- Ms. Lau Chui Ping Soey (柳翠萍)
(Appointed on 13 October 2023)

BOARD COMMITTEES

Audit Committee

- Ms. Huang Guiqing (黃桂清) (Chairperson)
(Resigned on 14 June 2022)
- Mr. Liu Ziping (劉子平)
(Resigned on 14 June 2022)
- Mr. Yi Xiaopei (易曉培) (Chairman) (Appointed on 14 June
2022 and Resigned on 7 August 2023)
- Mr. Gao Rongshun (高榮順)
(Appointed on 14 June 2022 and Resigned on
20 July 2023)
- Mr. Liu Xiaoyi (劉曉一)
(Resigned on 19 April 2023)
- Mr. Ma Kin Ling (馬健凌) (Chairman)
(Appointed on 22 July 2023)
- Mr. Huang Wei (黃偉) (Appointed on 13 October 2023)
- Ms. Lau Chui Ping Soey (柳翠萍)
(Appointed on 13 October 2023)

Remuneration Committee

- Mr. Liu Xiaoyi (劉曉一) (Chairman)
(Resigned on 19 April 2023)
- Ms. Huang Guiqing (黃桂清)
(Resigned on 14 June 2022)
- Mr. Yi Xiaopei (易曉培) (Chairman)
(Appointed on 14 June 2022; Appointed as Chairman
on 22 July 2023 and Resigned on 7 August 2023)
- Mr. Ma Kin Ling (馬健凌) (Appointed on 22 July 2023)
- Ms. Lau Chui Ping Soey (柳翠萍) (Chairperson)
(Appointed on 13 October 2023)
- Mr. Fan Shaozhou (范少周)

Nomination Committee

- Mr. Fan Shaozhou (范少周) (Chairman)
- Ms. Huang Guiqing (黃桂清)
(Resigned on 14 June 2022)
- Mr. Yi Xiaopei (易曉培) (Chairman) (Appointed on 14 June
2022 and Resigned on 7 August 2023)
- Mr. Liu Xiaoyi (劉曉一)
(Resigned on 19 April 2023)
- Mr. Ma Kin Ling (馬健凌) (Appointed on 22 July 2023)
- Mr. Huang Wei (黃偉) (Appointed on 13 October 2023)

LEGAL ADVISER AS TO HONG KONG LAW

C&T Legal LLP
10/F & 22/F, Shum Tower,
268 Des Voeux Road Central,
Sheung Wan, Hong Kong

AUDITOR

ZHONGHUI ANDA CPA Limited
23/F, Tower 2, Enterprise Square Five,
38 Wang Chiu Road, Kowloon Bay,
Kowloon, Hong Kong

REGISTERED OFFICE

VISTRA (CAYMAN) LIMITED
P.O. Box 31119,
Grand Pavilion,
Hibiscus Way,
802 West Bay Road,
Grand Cayman,
KY1-1205,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

5/F, Baoneng Motor Building,
No. 128 Liyuan Road,
Luohu District,
Shenzhen, PRC

CORPORATE INFORMATION *(continued)*

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

10/F, Shum Tower,
268 Des Voeux Road Central,
Sheung Wan, Hong Kong

COMPANY SECRETARY

Mr. Law Man Hei Eugene (羅文僖)

AUTHORISED REPRESENTATIVES

Mr. Fan Shaozhou (范少周)
Mr. Law Man Hei Eugene (羅文僖)

COMPLIANCE ADVISER

Fortune Financial Capital Limited
Units No. 4102-06, 41/F
COSCO Tower
183 Queen's Road Central
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Shenzhen Branch, Zhenhua sub-branch
1/F, Design Tower
No. 8 Zhenhua Road
Futian District, Shenzhen, PRC

Bank of Hangzhou
Shenzhen Branch
Room 1701, 17/F, Block B
CNOOC Building
No. 3168 Houhaibin Road
Nanshan District, Shenzhen, PRC

COMPANY'S WEBSITE

www.szwyzs.com.cn

STOCK CODE

1802

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a building decoration services provider based in Shenzhen City, Guangdong Province, the PRC. With approximately 30 years of operating history, the Group possesses a range of the highest level of qualifications and licences in the building decoration industry in the PRC. The Group's projects cover a wide range of buildings and properties, including public infrastructure, commercial buildings and residential buildings.

BUSINESS REVIEW AND FUTURE PROSPECTS

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

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

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

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

1. Improve liquidity by strengthening cash management

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

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

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

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

3. The Group's overseas establishment

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW

Revenue

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income

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

Other losses, net

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

Selling and marketing expenses

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

General and administrative expenses

The general and administrative expenses of the Group primarily consist of employee benefit expenses, legal and professional fees and depreciation of property, plant and equipment, investment properties and right-of-use assets.

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

Net impairment losses on financial and contract assets

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

(Loss)/Profit for the period

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

Financial position, liquidity and financial resources

Trade and other receivables

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

Trade and other payable

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

Bank Borrowings

As at 30 June 2022, the Group had bank borrowings of approximately RMB57.3 million (31 December 2021: approximately RMB102.3 million). Based on the scheduled repayment terms set out in the loan agreements, all the bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and building, trade receivables, a related company, certain properties owned by certain shareholders and related parties of the Group and limited personal guarantee executed by certain shareholders.

Working capital management

The Group has committed to maintaining sound financial policy. The Group intends to improve its operational efficiency in order to improve the healthiness of the working capital primarily through capital contribution from operating activities and interest-bearing bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity ratios

As at 30 June 2022, the Group had cash and cash equivalents of approximately RMB12.7 million (31 December 2021: approximately RMB22.7 million). The Group's current ratio and gearing ratio are as follows (1H2022: nil):

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

Current ratio is calculated by dividing the current assets by the current liabilities as at the respective dates.

Gearing ratio is calculated by dividing the net debt (being total bank and other borrowings and lease liabilities net of cash and cash equivalents) as at the respective dates by equity attributable to our Shareholders as at the respective dates.

Significant investments/material acquisitions and disposals

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

Capital commitments

As at 30 June 2022, the Group had no capital commitment (1H2022: nil).

Contingent liabilities

As at 30 June 2022, the Group and the Company did not have any significant contingent liabilities (2021: Nil).

Future plans for substantial investments or capital assets

As at 30 June 2023, the Group did not have any future plans for material investments and capital assets (1H2022: nil).

Dividends

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2022 (1H2022: nil).

Foreign currency exposure

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

As at 30 June 2022, foreign exchange risks on financial assets and liabilities denominated in other currencies were insignificant to the Group, and therefore, the Group did not have any hedging activities during the year.

Important events after the end of the period

The Group had no subsequent event after of 30 June 2022 and up to the date of this announcement.

Charges on the Group's assets

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

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Name of Directors	Capacity/Nature of interest	Relevant company	Number of Shares held (Note 1)	Approximate percentage of issued share capital (Note 2)
Mr. Fan Shaozhou	Founder of a discretionary trust	Fanshaozhou Holdings (Note 3)	175,117,150	29.48%
	Beneficial owner		32,482,000	5.47%
Mr. Wan Neng	Interest in a controlled corporation	Wenye Talent Holdings (Note 4)	4,500,000	0.76%
Mr. Deng Guanghui	Beneficial owner		8,100,000	1.36%
Mr. Chen Li	Founder of a discretionary trust	Chenli Holdings (Note 5)	19,350,000	3.26%

Notes:

- All interest stated are long positions.
- The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares of 594,000,000 as the date of this annual report.
- Fanshaozhou Holdings is indirectly wholly-owned by CMB Wing Lung (Trustee) Limited, the Trustee of the Fan Family Trust. The Fan Family Trust is a discretionary family trust established by Mr. Fan and for the benefit of himself. Accordingly, Mr. Fan, as the founder and settlor of the Fan Family Trust, is deemed to be interested in such Shares held by Fanshaozhou Holdings for the purpose of Part XV of the SFO.
- Mr. Wan Neng holds 13.02% of the share capital of Wenye Talent Holdings; and Wenye Talent Holdings holds 5.82% of the issued Shares of our Company. Accordingly, Mr. Wan Neng is deemed to be interested in 0.76% of the equity interest of our Company for the purpose of Part XV of the SFO.
- Chenli Holdings is indirectly wholly-owned by CMB Wing Lung (Trustee) Limited, the Trustee of the Chen Family Trust. The Chen Family Trust is a discretionary family trust established by Mr. Chen Li and for the benefit of himself. Accordingly, Mr. Chen Li, as the founder and settlor of the Chen Family Trust, is deemed to be interested in such Shares held by Chenli Holdings for the purpose of Part XV of the SFO.

OTHER INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, so far as the Directors and the chief executive of the Company are aware of, the following persons or entities had interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO and recorded in the register referred to Section 336 of the SFO.

Name of Shareholders	Capacity/Nature of interest	Numbers of Shares held <i>(Note 1)</i>	Approximate percentage of the issued share capital <i>(Note 2)</i>
CMB Wing Lung Trustee Limited <i>(Note 3)</i>	Trustee of a trust	194,467,150	32.74%
Antopex Limited <i>(Note 3)</i>	Nominee for another person	194,467,150	32.74%
Fanshaozhou Holdings <i>(Note 3)</i>	Beneficial owner	175,117,150	29.48%
Modest Faith Limited <i>(Note 3)</i>	Interest in a controlled corporation	175,117,150	29.48%
Ms. Ye Jinhua (葉錦花) <i>(Note 4)</i>	Interest of spouse	207,599,150	34.95%
Wenye Elite Holdings <i>(Note 5)</i>	Beneficial owner	72,000,000	12.12%
	Interest in a controlled corporation	26,992,350	4.54%

Notes:

- All interests stated are long positions.
- The percentage represents the total number of the Shares held by each shareholder divided by the number of issued Shares of the Company of 594,000,000 as the date of this annual report.
- Antopex Limited is wholly-owned by CMB Wing Lung (Trustee) Limited. CMB Wing Lung (Trustee) Limited is the trustee of the Fan Family Trust and Chen Family Trust. Antopex Limited is the nominee of the Fan Family Trust and Chen Family Trust and holds the entire equity interest of Modest Faith Limited and Best On Enterprises Limited on trust. Modest Faith Limited holds the entire equity interest of Fanshaozhou Holdings and Best On Enterprises Limited holds the entire equity interest of Chenli Holdings. Accordingly, Antopex Limited and CMB Wing Lung (Trustee) Limited is deemed to be interested in such number of Shares held by Fanshaozhou Holdings and Chenli Holdings and Modest Faith Limited is deemed to be interested in such number of Shares held by Fanshaozhou Holdings for the purpose of Part XV of the SFO.
- Ms. Ye Jinhua is the spouse of Mr. Fan Shaozhou. Accordingly, Ms. Ye Jinhua is deemed to be interested in such Shares held by Mr. Fan Shaozhou for the purpose of Part XV of the SFO.
- The entire share capital of ESOP Holdings is owned by Wenye Elite Holdings. Accordingly, Wenye Elite Holdings is deemed to be interested in such Shares held by ESOP Holdings for the purpose of Part XV of the SFO.

OTHER INFORMATION *(continued)*

Save as disclosed above, as at 30 June 2022, so far as is known by or otherwise notified to the Directors, none of any person (other than a Director or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

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

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

COMPLIANCE WITH THE CODE OR CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high quality corporate governance. The corporate governance principles of the Company are to promote effective internal management measures, to maintain high quality ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders. The Company's corporate governance practice is based on the principles and code provisions as set out in Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the six months ended 30 June 2022, the Company has complied with all the code provisions set out in the CG code, except for the following deviation.

Under Code Provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive officer should be separated and performed by different individuals.

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.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors were not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

OTHER INFORMATION *(continued)*

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 2022. The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in Code Provision 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 2022.

CHANGES IN DIRECTORS’ OR CHIEF EXECUTIVES’ INFORMATION

The Directors and the chief executive officer confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Group’s unaudited consolidated Interim Financial Information for the six months ended 30 June 2022. 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 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, 3 December 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	8	238,039	662,590
Cost of sales		(224,096)	(581,875)
Gross profit		13,943	80,715
Other income	9	530	2,978
Other losses, net	9	(290)	(2,484)
Selling and marketing expenses		(2,591)	(4,700)
General and administrative expenses		(30,619)	(16,893)
Impairment losses of financial assets and contract assets		(70,122)	(17,756)
Finance costs, net	10	(6,426)	(6,336)
(Loss)/Profit before tax		(95,575)	35,524
Income tax expense	11	(172)	(9,267)
(Loss)/Profit for the period		(95,747)	26,257
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		—	486
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		—	486
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(95,747)	26,743
(LOSS)/EARNING PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
— Basic and diluted (RMB)		(0.16)	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As At 31 December 2021 RMB'000 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	7,893	9,676
Right-of-use assets	14	13,455	6,007
Investment properties	14	2,089	2,128
Trade and other receivables	15	259	11,229
		23,696	29,040
CURRENT ASSETS			
Trade and other receivables	15	201,990	229,286
Contract assets	16	152,228	220,175
Restricted cash		29,545	66,611
Bank and cash balances	17	12,704	22,689
		396,467	538,761
CURRENT LIABILITIES			
Trade and other payables	18	852,424	865,933
Contract liabilities	16	56,390	57,072
Bank borrowings	19	57,261	102,261
Other borrowings	20	75,623	70,864
Lease liabilities		6,017	6,400
Amounts due to related parties	24	—	4,100
Current income tax liabilities		38,809	39,082
		1,086,524	1,145,712
NET CURRENT LIABILITIES		(690,056)	(606,951)
TOTAL ASSETS LESS CURRENT LIABILITIES		(666,360)	(577,911)
NON-CURRENT LIABILITIES			
Other borrowings	20	866	866
Lease liabilities		8,407	1,109
		9,273	1,975
NET LIABILITIES		(675,633)	(579,886)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	<i>Note</i>	As at 30 June 2022 RMB'000 (Unaudited)	As At 31 December 2021 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	21	51	51
Reserves		(675,684)	(579,937)
Equity attributable to owners of the Company		(675,633)	(579,886)
Non-controlling interest		—	—
TOTAL EQUITY		(675,633)	(579,886)

The consolidated financial statements on pages 11 to 48 were approved and authorised for issue by the board of directors on 1 December 2023 and are signed on its behalf by:

Approved by:

Mr. Fan Shaozhou
Director

Mr. Kong Guojing
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							Total equity
	Share capital	Share premium	Capital reserve	Statutory reserves	Translation reserve	Retained earnings	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	51	130,425	142,570	36,552	(488)	316,694	625,804	625,804
Loss for the period	—	—	—	—	—	26,257	26,257	26,257
Other comprehensive income for the period	—	—	—	—	486	—	486	486
Total comprehensive income/(loss) for the period	—	—	—	—	486	(26,257)	(26,743)	(26,743)
At 30 June 2021	51	130,425	142,570	36,552	(2)	(342,951)	(652,547)	(652,547)
At 1 January 2022	51	130,425	142,570	36,552	(2)	(342,951)	(652,547)	(652,547)
Capital contribution by non-controlling interest	—	—	—	—	—	—	—	2,000
Loss for the period	—	—	—	—	—	(95,747)	(95,747)	(95,747)
Total comprehensive loss for the period	—	—	—	—	—	(95,747)	(95,747)	(93,747)
At 30 June 2022	51	130,425	142,570	36,552	(2)	(438,698)	(748,294)	(746,294)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 30 June 2021 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	(95,747)	35,524
Adjustments for:		
Amortisation of intangible assets	—	310
Depreciation of property, plant and equipment	2,252	539
Depreciation of investment properties	39	38
Depreciation of right-of-use assets	194	2,925
Finance income	(75)	(605)
Finance costs	6,501	6,941
Impairment of property, plant and equipment	98	—
Net impairment losses on financial assets and contract assets	70,122	17,756
Gain on disposal of a subsidiary	(1,164)	—
Operating cash flows before movements in working capital	(17,780)	63,428
Change in contract assets	30,502	(113,886)
Change in trade and other receivables	6,913	122,614
Change in restricted cash	37,066	14,618
Change in trade and other payables	(9,827)	(79,610)
Change in contract liabilities	(682)	13,316
Change in balances with related parties	(4,100)	(721)
Cash generated from operations activities	42,092	19,759
Income tax paid	(273)	(2,172)
Net cash flows generated from operating activities	41,819	17,587
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(567)	(2)
Proceed from disposal of a subsidiary	(1,290)	—
Finance income received	75	605
Net cash flows (used in)/generated from investing activities	(1,782)	603

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

	As at 30 June 2022 RMB'000 (Unaudited)	As at 30 June 2021 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	32,761	74,389
Repayments of bank and other borrowings	(73,002)	(78,704)
Payment for principal of lease liabilities	(3,280)	(3,293)
Payment for interest of lease liabilities	(263)	(492)
Finance cost paid	(6,238)	(6,449)
Net cash flows used in financing activities	(50,022)	(14,549)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	22,689	56,856
Effect of foreign exchange rate changes	—	486
Cash and cash equivalents at end of year	12,704	60,893
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	12,704	60,893

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Wenye Group Holdings Limited (“**the Company**”) was incorporated in the Cayman Islands on 13 November 2018 as an exempted company with limited liability under Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in provision of interior and exterior building decoration and design services (the “**Business**”) in the People’s Republic of China (the “**PRC**”).

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 January 2020 (the “**Listing**”).

The consolidated financial statements are presented in thousands of Renminbi (“**RMB’000**”), unless otherwise stated.

2. GOING CONCERN BASIS

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

Based on the latest available management account, the aggregate outstanding principal amounts of the bank and other borrowings in the book of the Company of approximately RMB28,794,000 and RMB109,337,000 respectively while its cash and cash equivalents amounted to approximately RMB3,389,000. Certain bank and other borrowings of approximately RMB28,794,000 and RMB79,988,000 are repayable on demand or within one year.

As of the date of this report, the Group is involved in 255 litigations due to its inability to repay its outstanding bank and other borrowings as well as trade and other payables. The expected cash outflow arising from abovementioned litigations amounted to approximately RMB35,292,000.

The above conditions indicate the existence of material uncertainties which cast significant doubt regarding the Group’s ability to continue as a going concern.

The Directors have undertaken a number of plans and measures to improve the Group’s liquidity and financial position, including: (i) the Group has been actively seeking and communicating with new customers on the projects of interior and exterior building decoration and design; (ii) the Group has been actively negotiating with the Bank Borrower and Other Borrowers on the extension of Overdue Bank Borrowing and Overdue Other Borrowings; (iii) the Group has been actively seeking Potential New Fundings through various channels, including but not limited to new financing in terms of issuance of new shares of the Company and from potential investors and (iv) the Group has been actively communicating with Creditors to resolve outstanding amount due to the creditors as well as the due payments on pending lawsuits through carrying out Debt Restructuring.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

2. GOING CONCERN BASIS *(continued)*

The directors of the Company, taking into account the above plans and measures, are in the opinion that, they are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the current financial period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current period and prior period.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in Note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealized profits are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognized in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognized in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognized in the translation reserve. When a foreign operation is sold, such exchange differences are recognized in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Land and buildings	50 years
Leasehold improvements	Shorter of 12 years or the lease term
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in profit or loss.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life. The estimated useful lives are as follows:

Owned properties	48 years
Leased properties	Lease term of 9 years

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful lives are as follows:

Land and buildings	3 to 12 years
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Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000.

The Group as lessor

(i) *Operating leases*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(ii) *Finance leases*

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the leases.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a sublease lessor

Sub-lease is a transaction for which an underlying asset is re-leased by a lessee (the “**sublease lessor**”) to a third party, and the lease (the “**head lease**”) between the head lessor and lessee remains in effect. In classifying a sublease, a sublease lessor shall classify the sublease as a finance lease or an operating lease as follows:

- (i) If the head lease is a short-term lease that the entity, as a lessee, has accounted for the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, the sublease shall be classified as an operating lease.
- (ii) Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease as finance lease or operating lease.

Intangible assets

Intangible assets represent computer software licenses and patents that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs incurred to acquire and bring specific computer software licenses to working condition are capitalised.

Amortisation of intangible assets with finite useful lives is charged to the consolidated statements of comprehensive income on a straight-line basis over the assets’ estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Computer software	5 years
Patents	5 years

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognized when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset’s carrying amount is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Financial assets are recognized and derecognized on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognized at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets of the Group are classified under the following category:

- Financial assets at amortized cost

(i) Financial assets at amortized cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortized cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Group recognizes loss allowances for expected credit losses, on financial assets at amortized cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“**lifetime expected credit losses**”) for trade receivables and contract assets, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognized in profit or loss as an impairment gain or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated financial statements where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial guarantee contracts liabilities

Financial guarantee contract liabilities are initially recognised at fair value and subsequently measured at the higher of:

- the loss allowance; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss over the terms of the guarantee contracts.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognized by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognized using the effective interest method.

Rental income is recognized on a straight-line basis over the lease term.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

(i) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iii) Housing funds, medical insurances and other social insurances

Employees of the Group companies in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these funds are expensed of as incurred.

(iv) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised within “Other income” in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are offset against the costs of the related assets.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognized in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets except deferred tax assets and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

5. KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognized in the consolidated financial statements apart from those involving estimations, which are dealt with below.

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the certain measures to improve the Group's liquidity and financial position. Details are explained in Note 2 to financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Revenue recognition

The Group recognises the revenue according to the percentage of completion of the individual contract of construction. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of each reporting period compared with the estimated budgeted cost. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

In addition, when determining the transaction price, the Group consider factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group does not consider the arrangement with customers have significant financing component. The Group has, therefore, recognised revenue on progress confirmation over the period during which the services are rendered and transferred to customers.

(b) Current and deferred income tax

The Group is subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to temporary differences are recognised when management considers it is probable that future taxable profits will be available against the temporary differences can be utilised. The Group's management reassesses its expectation at the end of each reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

5. KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(c) Impairment of trade and retention receivables and contract assets

The Group's management determines the provision for impairment of trade and retention receivables and contract assets on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade and retention receivables and contract assets with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

(c) Credit risk

The Group is exposed to credit risk in relation to its cash at bank, restricted cash, trade and retention receivables, contract assets, bills receivable, deposits and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

The Group expects that there is no significant credit risk associated with cash at bank and restricted cash since they are deposited with credit worthy financial institutions. Management does not expect that there will be any significant losses from non-performance by these counterparties.

Bills receivable mainly represent bank acceptance bills. The maturity period of these bills is usually from 6 months to 1 year. These bills are mainly issued by state-owned enterprises, reputable financial institutions or large private corporations in the PRC. The expected credit loss is close to zero.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

6. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Credit risk *(continued)*

(i) Trade receivables, retention receivables and contract assets

The Group applies the simplified approach to provide expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and retention receivables and contract assets.

Contract assets are related to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same types of contract. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Individually impaired trade receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses.

To measure the expected credit losses of trade receivables, retention receivables and contract assets, they have been grouped based on shared credit risk characteristics. The expected credit losses for invoiced trade receivables and unbilled revenue balances were determined based on the ageing by due date and project completion date adjusted by the estimated invoicing procedures time, respectively.

The expected loss rates are based on the payment profiles of sales over a period of 3 to 5 years before 30 June 2022 and 2021 and the corresponding historical credit losses experienced within this period. The loss allowance also incorporates forward looking information.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the owner, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank and other borrowings and lease liabilities (including "current and non-current bank and other borrowings and lease liabilities" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statements of financial position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

7. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by chief operation decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. The CODM reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the CODM regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measure reported to the CODM for the purpose of resources allocation and performance assessment.

The Group’s revenue was mainly derived in the PRC during the period ended 30 June 2022 (2021: Same).

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

The revenue from external parties is derived from numerous external customers and the revenue reported to the CODM is measured in a manner consistent with that in the consolidated financial statements.

8. REVENUE

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

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Construction services	232,964	657,555
Design services	5,075	5,035
Total	238,039	662,590
Timing of revenue recognition		
Over time	238,039	662,590
Total	238,039	662,590

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

8. REVENUE *(continued)*

Revenue from construction services

The Group engages in construction of indoor and outdoor decoration and fitment for office buildings, public facilities, high-end star hotels, traffic hubs, commercial properties, residential properties and curtain wall. The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract (input method for measuring progress). Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the progress towards complete satisfaction of the performance obligation.

The payment terms differed for different customers due to the variety of projects. Most of the payment is payable according to the stage of construction with credit term of up to 60 days, while 10% to 20% of payments will be payable upon the completion of construction, such portion of payment is recognised as contract assets before the completion of the projects and transfer to trade receivables when the Group has the right to bill the customers which is usually upon completion of construction; 5% to 10% of the contract price are recognised as retention money receivables, which would be paid after the warranty period expires. The Group does not intend to give a financing to customers and the Group make efforts to collect the receivables and timely monitor the credit risk.

The Group accounts for a modification if the customers to a contract approve a change in the scope and/or the price of a contract. A contract modification is approved when the modification creates or changes the enforceable rights and obligations of the customers to the contract. If the customers have approved a change in scope, but have not yet determined the corresponding change in price, the Group estimates the change to the contract price as a variable consideration.

The estimated amount of the variable consideration is included in the contract price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable considerations is subsequently resolved.

The Group records contract liability for non-refundable advance payment from customer before rendering of services since there is still performance obligation to complete. The contract liabilities are recognised as revenue over the period during which the relevant services are rendered to customers.

Design service income

The Group provides customised interior design and curtain wall design services. Design service income is recognised over time as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The measure of progress is determined based on the proportion of specific costs incurred to-date to the estimated total costs for each service (input method for measuring progress).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

9. OTHER INCOME AND OTHER LOSSES, NET

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Other income:			
Government grants	(i)	15	2,026
Rental income from investment properties		263	437
Others		252	515
		530	2,978
Other losses, net:			
Penalty of lawsuit	(ii)	(369)	(1,971)
Loss on disposal of property, plant and equipment		(1,070)	—
Gain on deregistration of a subsidiary		334	—
Gain on disposal of a subsidiary		540	—
Others		275	(513)
		(290)	(2,484)

Note:

- (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 has provided a penalty of lawsuits of approximately RMB369,000 (30 June 2021: RMB1,971,000) as at 30 June 2022 since the directors of the Company are of the opinion that it is probable that an outflow of resources embodying economic benefits would be required to settle the lawsuits.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

10. FINANCE COSTS, NET

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Finance income:		
– Interest income from bank deposits	76	605
Finance costs:		
– Interest expense on bank and other borrowings	(6,237)	(6,449)
– Interest expense on lease liabilities	(263)	(492)
	(6,500)	(6,941)
Finance costs, net	(6,426)	(6,336)

11. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Current income tax	172	9,267
Deferred income tax	–	–
Income tax expense	172	9,267

Current taxation primarily represented the provision for PRC Corporate Income Tax (“CIT”) for companies operating in the PRC. These companies are subject to CIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC. Pursuant to the PRC Corporate Income Tax Law, the CIT rate for domestic enterprises and foreign invested enterprises is 25% (2021: 25%).

Shenzhen Wenye Decoration Design Engineering Co., Ltd., a wholly owned subsidiary of the Company, has qualified as high and new technology enterprise (“HNTE”) for which preferential tax rate of 15% is granted on 11 December 2020.

No provision for Hong Kong Profits Tax is required since the Group’s income is derived from overseas source which is not liable to Hong Kong Profit Tax.

12. DIVIDENDS

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

13. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss (30 June 2021: earnings) per share attributable to owners of the Company is based on the loss (30 June 2021: profit) for the period attributable to owners of the Company of approximately RMB95,747,000 (30 June 2021: RMB26,257,000) and the weighted average number of ordinary shares of 594,000,000 (30 June 2021: 594,000,000, as adjusted to reflect the capitalisation of 444,510,000 shares which took place on 14 January 2020) and excluded shares held under the restricted share unit scheme (“RSU scheme”) in issue during the six months 30 June 2022 (30 June 2021: Same).

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the six months ended 30 June 2022 (2021: Same).

14. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	Property, plant and equipment RMB'000 (Unaudited)	Investment properties RMB'000 (Unaudited)	Intangible assets RMB'000 (Unaudited)	Right-of-use assets RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the six months ended					
30 June 2022					
Opening net book amount as at 1 January 2022	9,676	2,128	—	6,007	17,811
Additions	567	—	—	10,512	11,079
Depreciation and amortisation	(2,252)	(39)	—	(194)	(2,485)
Impairment	(98)	—	—	(2,870)	(2,968)
Closing net book amount as at 30 June 2022	7,893	2,089	—	13,455	23,437
For the six months ended					
30 June 2021					
Opening net book amount as at 1 January 2021	12,128	2,205	595	13,534	28,461
Additions	(44)	—	—	—	(44)
Depreciation and amortisation	(493)	(38)	(310)	(2,925)	(3,765)
Closing net book amount as at 30 June 2021	11,591	2,167	285	10,609	24,652

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

15. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	<i>(i)</i>	676,034	739,930
Provision for loss allowance		(569,042)	(551,107)
Trade receivables, net		106,992	188,913
Retention receivables	<i>(ii)</i>	200,822	194,667
Provision for loss allowance		(192,709)	(178,924)
Retention receivables, net		8,113	15,743
Deposits	<i>(iii)</i>	13,529	21,545
Provision for loss allowance		(8,661)	(8,105)
Deposits, net		4,868	13,440
Bills receivables	<i>(iv)</i>	6,395	7,035
Prepayments		327	1,644
Advances to staff		4,713	7,582
Loan receivable	<i>(v)</i>	1,487	1,068
Other receivables		69,354	5,090
Total trade and other receivables		202,249	240,515
Analysed as:			
Current assets		201,990	229,286
Non-current assets		259	11,229
		202,249	240,515

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

15. TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

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

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

Note (i): The balances above included unbilled revenue for projects completed by the Group but yet to bill, which has excluded the portion of retention receivables. The Group has unconditional right to the payment of these unbilled revenue and hence classified as trade receivables.

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

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

- (ii) Retention receivables represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts for 1 to 2 years. The 30 June 2022 and 31 December 2021, the ageing analysis of the retention receivables based on the retention period expiry date, is as follows:

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

15. TRADE AND OTHER RECEIVABLES *(continued)*

Notes: *(continued)*

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

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

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

(v) On 24 February 2020, the Group granted a loan of HK\$13,000,000 (equivalent to approximately RMB11,717,000) to an independent third party. The loan bears an interest rate of 1.5% per month and is repayable in one year from the drawdown date on 25 February 2020. Up to the date of this announcement, the loan receivable was fully settled.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

16. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

16. CONTRACT ASSETS AND LIABILITIES *(continued)*

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

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

A contract asset is the Group's right to consideration in the exchange for services that the Group has transferred to the customer. The contract assets transferred to trade and retention receivables when receipt of the consideration is conditional only on the passage of time.

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to render services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group renders the service to the customer.

17. BANK AND CASH BALANCES

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

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

18. TRADE AND OTHER PAYABLES

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

19. BANK BORROWINGS

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Bank borrowings	57,261	102,261

The carrying amounts of the Group's bank borrowings approximate their fair value and are denominated in RMB.

As at 30 June 2022, the Group had aggregate banking facilities of RMB34,293,000 (31 December 2021: 136,261,000). The Group's banking facilities are subject to annual review and are secured and guaranteed by:

- (i) The Group's land and buildings of RMB4,684,000 (31 December 2021: RMB4,792,000) as at 30 June 2022 (Note 14);
- (ii) The Group's owned investment properties of RMB2,051,000 (31 December 2021: RMB2,128,000) as at 30 June 2022 (Note 14);
- (iii) The Group's trade receivables (Note 15);
- (iv) The Group's restricted cash of approximately HK\$Nil (equivalent to approximately RMBNil) (31 December 2021: HK\$30,700,000 (equivalent to approximately RMB25,100,000)) as at 30 June 2022;
- (v) Certain properties owned by certain shareholders and related parties of the Group (Note 23); and
- (vi) Limited personal guarantee executed by the shareholders, Mr. Fan Shaozhous, Mr. Chen Li, Mr. Deng Guanghui, Mr. Wan Neng, Mr. Lin Yongqi, Mr. Peng Weizhou and related parties, Ms. Ye Jinhua and Ms. Li Guoying of the Group (31 December 2021: Same) (Note 23).

20. OTHER BORROWINGS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Other borrowings	76,489	71,730

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

20. OTHER BORROWINGS *(continued)*

The borrowings are repayable as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
On demand or within one year	75,623	70,864
In the third to fifth years, inclusive	866	866
	76,489	71,730
Less: Amount due for settlement within 12 months (shown under current liabilities)	(75,623)	(70,864)
Amount due for settlement after 12 months	866	866

Notes:

- (i) As at 31 December 2021, the Group had a financing arrangement with a supply chain finance company, an independent third party in the PRC, which acts as an agent to finance certain procurement of raw materials and consumables. Under the arrangement, the Group bears the interest at a rate of 1.5% (2021: 1.5%) per month on the outstanding borrowing amounts of such other borrowings, which are unsecured and have a term of repayment of 60 days after the settlement of the relevant purchase. The carrying amount of such other borrowing was approximately RMB554,000 (2021: RMB654,000) as at 30 June 2022.
- (ii) On 27 May 2020 and 16 September 2020, the Group entered into two loan agreements with a financing company which granted loan facilities of RMB15,000,000 and RMB10,000,000, respectively. The loans bear interest at a rate of 15.4% (2021: 15.4%) per annum, respectively. The loan facilities are guaranteed by the shareholder, Mr. Fan Shaozhou. As at 30 June 2022, the carrying amounts of such loans were approximately RMB12,910,000 and RMB10,000,000 (2021: RMB12,910,000 and RMB10,000,000), respectively and were overdue by the Group due to a shortage of funds disclosed in Note 2. The overdue loans are expected to be repaid in the end of 2023.
- (iii) On 19 November 2021, 30 December 2021 and 31 December 2021, the Group entered into four loan agreements with four independent third parties in the PRC which granted loan facilities of RMB2,500,000, RMB2,000,000, RMB35,000,000 and RMB2,800,000, respectively. The loans bear interest at a rate of 7.92% per annum. The loan facilities are unsecured and repayable in eighteen months from the drawdown date. As at 30 June 2022, the carrying amount of such loan were RMB2,000,000, RMB2,000,000, RMB35,000,000 and RMB368,000, respectively.
- (iv) On 19 November 2021, the Group entered into a loan agreement with a financing company which granted loan facilities of RMB5,000,000. The loan bears interest at a rate of 7.92% per annum. The loan facility is unsecured and repayable in eighteen months from the drawdown date. As at 30 June 2022, the carrying amount of such loan was of approximately RMB2,209,600 (2021: RMB5,000,000).
- (v) On 12 August 2021, the Group entered into a loan agreement with an independent third party which was granted a loan facility of RMB1,247,000. The unsecured loans is interest free and repayable in 48 months. As at 30 June 2022, the carrying amount of such loan was approximately RMB1,247,000 (2021: approximately RMB1,247,000).
- (vi) On 24 February 2022, the Group entered into a loan agreement with a independent third party which granted loan facilities of RMB3,000,000. The loan bears interest at a rate of 24.46% per annum. The loan facility is secured by a property owned by a shareholder of the Group and repayable in two months from the drawdown date. As at 31 December 2022, the loan facility is fully repaid.
- (vii) On 11 March 2022 and 1 April 2022, the Group entered into two loan agreements with two independent third parties in the PRC which granted loan facilities of RMB8,800,000 and RMB5,000,000, respectively. The loans are interest free, unsecured and repayable in thirty-six months and thirty-six months, respectively. As at 30 June 2022, the carrying amount of such loan were RMB8,800,000 and RMB4,906,806, respectively.
- (viii) On 19 May 2022 and 31 May 2022, the Group entered into two loan agreements with two independent third parties in the PRC which granted loan facilities of RMB8,000,000 and RMB2,000,000, respectively. The loans bear interest at a rate of 10% and 7% per annum, respectively. The loans are unsecured and repayable in six months and 10 days, respectively. As at 30 June 2022, the loans are past due and the carrying amount of such loans were RMB8,000,000 and 2,000,000, respectively.

The carrying amounts of the Group's other borrowings approximate their fair value and are denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

21. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Equivalent nominal value of share of share RMB'000
Authorised:			
3,800,000,000 shares of HK\$0.0001 each	<i>(i)</i>	3,800,000,000	327
Issued and fully paid:			
At 1 January 2020		990,000	—
Capitalisation issue of shares	<i>(ii)</i>	444,510,000	38
Shares issued pursuant to the IPO	<i>(ii)</i>	148,500,000	13
At 31 December 2020, 1 January 2021, 31 December 2021 and 30 June 2022		594,000,000	51

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 incorporation, 1 ordinary share of HK\$0.0001 was allocated and issued by the Company.
- (ii) Wenye Innovator Holdings Limited holds 59,983 shares of the Company under the RSU Scheme. 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 2021 and up to the report date, no RSU has been granted by the Company pursuant to the RSU Scheme (2020: same).

22. CONTINGENT LIABILITIES

As at 30 June 2022, the Group and the Company did not have any significant contingent liabilities (2021: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

23. COMMITMENTS

(a) Lease commitments

The Group leases various office premise under non-cancellable operating lease. The leases terms are between 1 to 5 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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
No later than 1 year	560	825
Later than 1 year and no later than 5 years	—	—
	560	825

(b) Capital commitments

As at 30 June 2022, the Group and the Company did not have any significant capital commitments (31 December 2021: Nil).

24. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholder and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following companies were related parties that had material transactions or balances with the Group during the year ended 30 June 2022:

- (i) The directors of the Company are of the view that the following parties/companies were related parties that had transactions or balances with the Group during the year:

Name of related parties	Relationship with the Group
Mr. Fan Shaozhou	Substantial Shareholder
Mr. Wan Neng	Shareholder
Mr. Peng Weizhou	Shareholder
Mr. Lin Yongqi	Shareholder
Mr. Chen Li	Shareholder
Mr. Deng Guanghui	Shareholder
Mr. Han Kailong	Shareholder
Ms. Ye Jinhua	Spouse of Mr. Fan Shaozhou, the Substantial shareholder
Ms. Li Guoying	Spouse of Mr. Wan Neng, shareholder

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

24. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Amount due to a related party

	2022	2021
	RMB'000	RMB'000
Non-trade payables to Mr. Peng Weizhou (Note)	268	4,100

As at 30 June 2022 and 2021, non-trade payables balance to a related party was unsecured, interest-free and repayable on demand and approximate their fair values.

The balances with related parties are denominated in RMB.

Note:

On 18 September 2021, Mr. Peng Weizhou and an independent third party A entered into a loan agreement with an independent third party B, who granted loan facilities of RMB8,100,000. The loan bears interest at a rate of 14.6% per annum and is repayable in 6 months. The loan facility is secured by certain properties owned by Mr. Peng Weizhou and the independent third party A, respectively and guaranteed by Mr. Fan Shaozhou, and a subsidiary of the Group.

On 18 September 2021, Mr. Peng Weizhou and the independent third party A transferred RMB4,100,000 and RMB4,000,000 to the Group to support its daily operation. Such amounts are interest-free and the repayment terms are consistent with the above-mentioned loan agreement. As of the report date, such facilities were fully repaid to the independent third party A and an amount of approximately RMB257,000 was not settled to Mr. Peng Weizhou.

(iii) Guaranteed by shareholders and related parties

Certain banking facilities available to the Group were secured by limited guarantees provided by the shareholders, who are Mr. Fan Shaozhou, Mr. Wan Neng, Mr. Lin Yongqi, Mr. Chen Li, Mr. Deng Guanghui, Mr. Peng Weizhou and related parties, who are Ms. Ye Jinhua, Ms. Li Guoying as at 30 June 2022 and 2021.

Certain banking facilities available to the Group were also secured by properties owned by shareholders who are Mr. Fan Shaozhou, Mr. Wan Neng, Mr. Peng Weizhou and related parties who are Ms. Ye Jinhua and Ms. Li Guoying as at 30 June 2022 and 2021.