



# 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

# 2021

ANNUAL 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](http://www.szwyzs.com.cn)

## **STOCK CODE**

1802

## DEFINITION

“Articles of Association”	:	the amended and restated articles of association of the Company (as amended from time to time)
“Board”	:	board of Directors of the Company
“BVI”	:	British Virgin Islands
“Chenli Holdings”	:	Chenli Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 16 October 2018 and is one of the Company’s Shareholders
“CG Code”	:	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Company”	:	Wenye Group Holdings Limited
“Director(s)”	:	director(s) of the Company
“ESOP Holdings”	:	Wenye Innovator Holdings Limited, a company incorporated under the laws of BVI with limited liability on 29 November 2018 and is one of the Company’s Shareholders
“Fanshazhou Holdings”	:	Fanshazhou Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 16 October 2018 and is one of the Company’s Controlling Shareholders
“Global Offering”	:	the offer of Shares by the Company for subscription by the public, the details of which are set out in the Prospectus
“Group”	:	the Company and its subsidiaries
“Hong Kong”	:	the Hong Kong SAR
“HK\$”	:	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Date”	:	14 January 2020, the Shares in issue were initially on the Main Board of the Stock Exchange
“Listing Rules”	:	Rules Governing the Listing of Securities and the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Model Code”	:	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“NEEQ”	:	the National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統), a PRC over-the-counter system for trading shares of public companies

## DEFINITION *(continued)*

“PRC or China”	:	The People’s Republic of China
“Prospectus”	:	the prospectus of the Company dated 31 December 2019 in connection with the Global Offering
“R&D”	:	research and development
“RSU Scheme”	:	restricted share unit scheme
“RMB”	:	Renminbi, the lawful currency of the People’s Republic of China
“Share(s)”	:	ordinary share(s) of HK\$0.0001 each in the share capital of the Company
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“Wenye Decoration”	:	Shenzhen Wenye Decoration Design Engineering Co., Ltd, a wholly owned subsidiary of the Company
“Wenye Elite Holdings”	:	Wenye Elite Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and one of the Company’s substantial Shareholders
“Wenye Talent Holdings”	:	Wenye Talent Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and one of our Shareholders

# CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to present the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “Year”).

The Group is a building decoration services provider incorporated in Shenzhen, Guangdong Province, PRC. The Group was listed on the main board of the Stock Exchange on 14 January 2020. 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.

## FINANCIAL PERFORMANCE

The Group's revenue decreased by approximately RMB216.2 million or 17.3% to approximately RMB1,031.4 million for the year ended 31 December 2021 from approximately RMB1,247.6 million for the year ended 31 December 2020. The decrease was caused by various factors including the state-imposed strict precautionary and control measures (such as working from home, lockdown and travel restrictions, etc.) in response to the Covid-19 pandemic which adversely affected the Group's operation and business, the state's macro-control policies on the Chinese real estate market which in turn exerted pressure on the building decoration industry and the rise of raw materials costs and labour costs during the Year.

## BUSINESS REVIEW AND OUTLOOK

As a result of the strong measures taken by the PRC government to control the pandemic in China, the economy has taken the lead to recover. The recovery and growth of the domestic economy are of high significance to the Group, signifying that the major business markets of the Group are still growing, and the Group is firmly confident in the future development. The pandemic severely hit the building decoration industry, and many small decoration enterprises may face close down. It will accelerate the survival of the fittest in the building decoration industry in China, while indirectly promoting the transformation and upgrading of the building decoration industry chain domestically. Nevertheless, more opportunities will emerge after the crisis. Hence, in order to seize the opportunities in the post-pandemic era, the Group accelerates its development to forge ahead to a new level of development. In the future, the Group will capture the growth after the pandemic stabilizes, secure the fundamental unswerving of traditional channels, and actively seize the opportunities of emerging channels. In addition, it will closely track changes in the demand side and promote the recovery of overall production capacity. In response to the industry reform after the pandemic, the Group will make innovative layout for its business model.

# CHAIRMAN'S STATEMENT *(continued)*

## MARKET CONDITIONS

The building decoration industry has a long history of development in China. In recent years, with the rapid growth of China's economy and the acceleration of urbanization, China's real estate and construction industry have continued to grow, and the building decoration industry has shown huge development potential. The building decoration industry has maintained a relatively high growth rate in recent years.

In the Year, the building decoration industry in China continued to be affected by the COVID-19 pandemic, and many public building decoration projects and interior building decoration projects were forced to be suspended. In the long run, the size of the domestic building decoration market is still in a growth momentum, albeit suppressed, it could have a strong rebound after the pandemic.

At present, the size of the domestic building decoration market is still expanding, but it is still in a relatively dispersed state in general, and the industry concentration is relatively low. However, the competition landscape has already changed, which is gradually shifting from a fragmented market to a concentrated one. The leading building decoration enterprises continue to develop and expand, and become the industry benchmark.

In general, the building decoration industry in which the Group operates still has great room for development. Firstly, China is still in the stage of rapid development of urbanization. And the building decoration industry, including public building decoration industry and residential housing, will maintain its growing momentum. Secondly, the development of the building decoration industry has the characteristics of multiplier effect and sustainable market demand. Unlike the one-off completion of engineering business such as civil construction industry and equipment installation industry, each building needs to undergo multiple decoration and renovation during the whole life cycle from the completion of its construction to the end of its service life. Therefore, the building decoration industry still has broad development prospects.

## CORPORATE RISK AND GOVERNANCE

The Group strictly complies with relevant laws and regulations in the course of business operation. The Group integrates risk management into its daily business operations, and manages and controls the risks in the Group's operations by formulating relevant rules and regulations, holding regular management meetings and Board meetings.

In accordance with the relevant listing rules of the Hong Kong Stock Exchange, the Group has established the Remuneration Committee, the Nomination Committee and the Audit Committee, and has strictly complied with the corporate governance code of the Hong Kong Stock Exchange and the code of conduct of directors, which effectively reduced the compliance risk of the Group. In addition, the Group will continue to improve its corporate structure and enhance its risk management capabilities to minimize the risks arising from its business operations.

# CHAIRMAN'S STATEMENT *(continued)*

## FINANCIAL MANAGEMENT

The Group was listed on the Hong Kong Stock Exchange on 14 January 2020. After deducting the relevant listing expenses, the Group raised net proceeds of HK\$107.4 million in total. The Group will continue to regulate the use of proceeds in accordance with the requirements of proceeds management. The Group adheres to the principles of reasonableness and prudence, and strives to ensure that financial indicators such as gearing ratio and cash flow are at a reasonable level, so that the Group's financial position is maintained at a good level.

Due to the impact of the COVID-19 pandemic, the Group's receivables and cash flows are under greater pressure. In order to ensure the sustainability of the Group's business and sufficient cash flow, the Group will pay close attention to the settlement of receivables and improve the financial operation efficiency to secure timely and safe settlement.

Since its establishment, the Group has always adhered to the business philosophy of law-abiding and trustworthy, and maintained good corporate credit. In 2018, the Group obtained the "AAA" corporate credit rating certificate issued by China Building Decoration Association (中國建築裝飾協會) valid until August 2021.

## RESEARCH, DEVELOPMENT AND INNOVATION

As a building decoration enterprise, the Group attaches high importance to the accumulation of its own R&D and innovation capabilities, and improves the Group's R&D and innovation capabilities and construction processes through continuous input.

In the Year, the Group was awarded 2 2021 scientific and technological innovation achievement awards in the construction industry of Guangdong Province (2021年廣東省建築裝飾行業科技創新成果獎) and 4 patents for utility models in the PRC.

## MAJOR AWARDS

With its outstanding construction process and outstanding design capability, the Group was honored with a number of awards in the Year and was fully recognized by customers and the industry.

In September 2021, the Group was awarded the Quality Progress Award for Shenzhen Multinational Corporation Headquarters and National (Shenzhen) Outstanding Foreign-invested Enterprises. In December 2021, the 「Shenzhen International Convention and Exhibition Center (Phase I) Renovation Project Section 3」(「深圳國際會展中心(一期)裝修工程三標段」) constructed by the Group was awarded the 「China Construction Engineering Decoration Award 2021-2022 (Public Building Decoration Category)」(「2021-2022年度中國建築工程裝飾獎(公共建築裝飾類)」) by the China Building Decoration Association. In addition, in December 2021, 「Overall Station Decoration Design and Management Services for Hangzhou Metro Line 5 Phase I Project」(「杭州地鐵5號線一期工程車站裝修設計總體和管理服務」), which was constructed by the Group, was awarded the 「2021-2022 China Construction Engineering Decoration Award (Public Building Decoration Design Category)」 by China Building Decoration Association (「2021-2022年度中國建築工程裝飾獎(公共建築裝飾設計類)」).

In July 2021, the 「Finishing and Installation Project of Yue Jiang Chun Luohu Store on the 8th Floor of Shenzhen Bao Neng Center」(「深圳寶能中心8樓粵江春羅湖店精裝修及安裝工程」) constructed by the Group won the 「Guangdong Excellent Building Decoration Project Award」(「廣東省優秀建築裝飾工程獎」) issued by the Building Decoration Branch of the Guangdong Construction Industry Association (廣東省建築業協會建築裝飾分會).

In terms of design, the Group won five 「The 11th China International Space Design Competition China Building Decoration Design Awards」(「第十一屆中國國際空間設計大賽中國建築裝飾設計獎」) issued by the China Building Decoration Design Association in the Year, including one gold award, two silver awards and one institutional award.

# CHAIRMAN'S STATEMENT *(continued)*

## BUSINESS STRATEGIES

1. By focusing on expanding marketing channel network and adhering to the business strategy of “based in Shenzhen and facing the whole country”, the Company gradually established a nationwide marketing network.
2. The Group will fully implement the strategic partnership model, establish close partnership with domestic leading large real estate companies and domestic and foreign high-end brand hotel customers, and provide them with all-round, high-quality and high-grade decoration services in the built interior and public spaces.
3. The Company will strive to develop high-end projects with brand effect and demonstration effect such as high-end star hotels, commercial complexes, high-end office buildings, government image projects and landmark public buildings, so as to continuously enhance the brand influence of the Company in the country.
4. Optimizing the Group's resources, developing green, technology and smart building decoration areas, and introducing financial services as the growth rate.
5. The Company will continue to carry out technological innovation, research and launch incentive mechanism in design innovation, technological innovation and management innovation, continuously improve the technical level and technological content of the Company in new material processing and building decoration construction, pursue excellence, and lead the new direction of scientific and technological decoration and environmental protection decoration.
6. We will build a “large-scale decoration” business structure with interior and exterior decoration design and construction as the main focus, and with the support services such as curtain wall, mechanical and electrical installation and intelligence.

## APPRECIATION

On behalf of the Board, I would like to express my appreciation to the devoted employees and the diligent and professional management of the Group. Furthermore, I would like to extend my sincere gratitude, on behalf of the Board, to our Shareholders and partners for their support, confidence, and concern for the Group.

**Fan Shaozhou**  
*Chairman*

# 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

In the year ended 31 December 2021, the Group has undertaken a total of 163 new construction projects, of which 117 are construction projects and 46 are design projects, with a total contract value of RMB514.1 million. Compared with last year, the total number of projects has decreased significantly, mainly because in 2021, the Group has mainly undertaken large-value projects and reduced small-value projects. In 2021, there were 16 projects with a value of more than RMB10 million.

In addition, the Group has also complied with the call of national policies to simultaneously strengthen digital transformation and upgrade under the dual carbon goals, realize digitalization of operations, reduce costs and increase efficiency in upstream and downstream, vigorously develop platform network technology, and transform into a high-tech platform-based enterprise based on industrial background.

The Group's revenue decreased by approximately RMB216.2 million or 17.3% to approximately RMB1,031.4 million for the year ended 31 December 2021 from approximately RMB1,247.6 million for the year ended 31 December 2020.

The year ended 31 December 2021 is a period full of challenges. As the COVID-19 pandemic continues, the PRC government continued to impose strict precautionary and control measures (such as working from home, lockdown and travel restrictions, etc.), which negatively affected the development of the domestic building decoration industry. Furthermore, the state's macro-control policies and measures has resulted in the decline in the PRC real estate market in general and exerted tremendous pressure on the building decoration industry.

Looking forward, the Group's plans in 2022 was to implement industrial internet-based SaaS service platform to achieve organization platformisation and to solve the industry closed-loop sore points. Through the online labour services platform, the smart construction site system based on BIM technology, the centralized procurement system covering the entire region, and the combination of industry and financial innovation, the Company aims to become a leading platform-based enterprise and to achieve exponential performance growth.

# MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

## FINANCIAL REVIEW

### Revenue

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

	Year ended 31 December			
	2021		2020	
	RMB million	%	RMB million	%
Revenue from construction services	<b>1,016.9</b>	<b>98.6</b>	1,224.3	98.1
Design service income	<b>14.5</b>	<b>1.4</b>	23.3	1.9
Total	<b>1,031.4</b>	<b>100.0</b>	1,247.6	100.0

The Group's revenue decreased to approximately RMB1,031.4 million for the year ended 31 December 2021 from approximately RMB1,247.6 million for the year ended 31 December 2020, representing a decrease of approximately 17.3%. Such decrease was mainly due to the implementation of precautionary and control measures by the government authorities in the PRC after the outbreak of COVID-19 in 2021, resulting in the delay in work schedules of the Group's projects.

### Cost of sales

The cost of sales of the Group decreased to approximately RMB953.7 million for the year ended 31 December 2021 from approximately RMB1,099.0 million for the year ended 31 December 2020, representing a decrease of approximately 13.2%, which is in line with the decrease in revenue due to suspension of the projects caused by the outbreak of COVID-19 in 2021.

### Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB77.7 million for the year ended 31 December 2021 from approximately RMB148.6 million for the year ended 31 December 2020, representing a decrease of approximately 47.7%. Due to the increase in the cost of materials, the gross profit margin decreased. Our gross profit margin decreased from 11.9% for the year ended 31 December 2020 to 7.5% for the year ended 31 December 2021.

### Other income

The Group recorded other income of approximately RMB2.7 million for the year ended 31 December 2021 which mainly comprised rental income from investment properties of approximately RMB0.6 million, and government grants of approximately RMB2.0 million.

### Other losses, net

Other losses, net of the Group for the year ended 31 December 2021 is approximately RMB31.1 million mainly arising from the penalty of lawsuit of approximately RMB31.3 million.

# MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

## **Selling and marketing expenses**

Selling and marketing expenses of the Group primarily consist of marketing and advertising expenses, employee benefit expenses and travelling expenses.

Selling and marketing expenses decreased to approximately RMB9.7 million for the year ended 31 December 2021 from approximately RMB9.9 million for the year ended 31 December 2020, representing a decrease of 2%. The decrease was mainly attributable to the decrease in travelling expenses as a result of the suspension of projects due to the COVID-19 outbreak.

## **General and administrative expenses**

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

General and administrative expenses increased to approximately RMB64.1 million for the year ended 31 December 2021 from approximately RMB57.0 million for the year ended 31 December 2020, representing an increase of approximately 12.5%. The increase was mainly attributed to the increase in bad debts written-off by approximately RMB27.6 million.

## **Impairment losses on financial and contract assets**

Impairment losses on financial and contract assets increased by 2,640.0% from approximately RMB44.3 million for the year ended 31 December 2020 to approximately RMB1,125.2 million for the year ended 31 December 2021.

## **(Loss)/profit for the year**

Profit for the year of the Group decreased by 5,816.6% from approximately RMB21.1 million for the year ended 31 December 2020 to net loss of approximately RMB1,206.2 million for the year ended 31 December 2021.

## **Financial position, liquidity and financial resources**

### **Trade and other receivables**

Trade and other receivables decreased from approximately RMB991.2 million as of 31 December 2020 to approximately RMB240.5 million as of 31 December 2021, representing a decrease of 75.7%. Trade and other receivables are mainly representing the amount due from customers and the prepayments to the suppliers and subcontractors.

### **Trade and other payables**

Trade and other payables decreased by 16.3% from approximately RMB1,034.8 million as of 31 December 2020 to approximately RMB865.9 million as of 31 December 2021. Trade and other payables are mainly representing the amounts due to suppliers and the provision for litigation penalty.

# MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

## Bank Borrowings

As of 31 December 2021, the Group had bank borrowings of approximately RMB102.3 million (2020: approximately RMB161.3 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, investment properties, trade receivables, restricted cash, certain properties owned by certain shareholders and related parties of the Group and limited personal guarantee executed by certain shareholders.

## Working capital management

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

## Liquidity ratios

As of 31 December 2021, the Group has cash and cash equivalents of approximately RMB22.7 million (2020: approximately RMB56.9 million). The Group's current ratio and gearing ratio are as follows:

	31 December 2021	31 December 2020
Current ratio	47.0%	140.5%
Gearing ratio	(27.4%)	23.2%

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

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

## Significant investments/material acquisitions and disposals

The Group had no other significant investment, nor had it made any material acquisition or disposal of the Group's subsidiaries or associated companies during the year ended 31 December 2021.

## Capital commitments

As at 31 December 2021, the Group had no capital commitment.

## Contingent liabilities

As at 31 December 2021, the Group and the Company did not have any significant contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

## Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

## Foreign currency exposure

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

As at 31 December 2021, 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

Saved as disclosed elsewhere in this Report, the Group had no subsequent event after 31 December 2021 and up to the date of this report.

## Charges on the Group's assets

As at 31 December 2021, the Group's land and buildings of RMB4.8 million, investment properties of RMB2.1 million, restricted cash of RMB25.1 million and trade receivables were pledged as collateral for the Group's borrowings (31 December 2020: land and buildings of RMB4.9 million, investment properties of RMB2.2 million, restricted cash of RMB25.2 million and trade receivables were pledged as collateral of the Group's borrowings).

## USE OF PROCEEDS

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

In light of the difference between the actual and estimated amount of the total net proceeds raised from the IPO (the "**Net Proceeds**"), the Group has adjusted the intended use of the Net Proceeds in the same manner and in the same proportion as shown in the Prospectus. As at 31 December 2021, the Group has fully utilized the net proceeds from the Global Offering of approximately HK\$107.4 million.

## Future plans for substantial investments or capital assets

As at 31 December 2021, the Group did not have any future plans for material investments or capital assets.

# MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Set out below are details of the original allocation of the Net Proceeds, revised allocation of the Net Proceeds (after the adjustment as mentioned above), the utilised amount of the Net Proceeds as of 31 December 2021:

		<b>Original allocation of Net Proceeds</b>	<b>Revised allocation of Net Proceeds</b>	<b>The remaining net proceeds as at 31 December 2020</b>	<b>The amount utilised during the year ended 31 December 2021</b>	<b>Unutilised amount (as of 31 December 2021)</b>
		HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Fund the Group's capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	–	–	–
Hiring of additional project managers and designer	8.1%	10.6	8.7	2.0	2.0	–
Improvement of the existing branch offices	20.9%	27.4	22.5	12.8	12.8	–
General working capital	9.8%	12.9	10.5	–	–	–
	100%	131.1	107.4	14.8	14.8	–

During the year ended 31 December 2021, the actual application of the net proceeds from the Global Offering were used according to the plan disclosed in the Prospectus and saved for the disclosure, there was no material change or delay in the use of proceeds. The Net Proceeds was fully utilised as at 31 December 2021.

# FIVE-YEAR FINANCIAL SUMMARY

## Year ended 31 December

	<b>2021</b>	2020	2019	2018	2017
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<b>1,031,361</b>	1,247,561	1,557,914	1,440,788	1,266,783
(Loss)/profit before taxation	<b>(1,162,866)</b>	32,525	59,340	83,141	76,719
Income tax expense	<b>(43,310)</b>	(11,456)	(19,508)	(23,053)	(20,258)
(Loss)/profit for the year	<b>(1,206,176)</b>	21,069	39,832	60,088	56,461

## ASSETS AND LIABILITIES

### At 31 December

	<b>2021</b>	2020	2019	2018	2017
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>567,801</b>	1,952,677	1,823,038	1,469,135	1,291,750
Total liabilities	<b>(1,147,687)</b>	(1,326,873)	(1,348,285)	(1,028,268)	(913,071)
	<b>(579,886)</b>	625,804	474,753	440,867	378,679

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and Senior Management as at the date of this report are as follows:

## EXECUTIVE DIRECTORS

**Mr. Fan Shaozhou (范少周)**, aged 56, is the chairman, executive Director and chief executive officer of our Group. He is responsible for the overall management, strategic planning and decision-making of our Group.

Mr. Fan has over 29 years of experience in the decoration and design engineering industry. He joined the Group in January 1993 and he served as a project manager of Shenzhen Wenye Decoration Design Engineering Co., Ltd (深圳文業裝飾設計工程有限公司) (“**Wenye Decoration**”) from January 1993 to October 1996. Subsequently, he served as the manager of Ji’nan branch company of Wenye Decoration from October 1996 to October 2006. From October 2006 to September 2008, Mr. Fan served as the deputy general manager of Wenye Decoration. After that, prior to the listing of the shares of Wenye Decoration on the NEEQ in April 2016 (the “**NEEQ Listing**”), Mr. Fan served as a director and the general manager of Wenye Decoration from September 2008 to September 2015. In preparation of the NEEQ Listing, Wenye Decoration converted into a joint stock company in September 2015 and Mr. Fan was appointed as a director and the general manager of Wenye Decoration. During the NEEQ Listing, Mr. Fan was appointed as the chairman of the board of directors of Wenye Decoration in November 2016. After the NEEQ De-Listing and conversion to a limited liability company, in November 2018, Mr. Fan ceased to be the director and chairman of the board of directors of Wenye Decoration and has been acting as the sole executive director and general manager of Wenye Decoration since then. From the incorporation of our Company in November 2018 to March 2019, Mr. Fan acted as the sole director of our Company, and since March 2019, Mr. Fan has been acting as our executive Director, chief executive officer and chairman of the Board.

Mr. Fan received his diploma in electric engineering from Guangdong University of Education (廣東第二師範學院), (formerly known as Guangdong Institute of Education (廣東教育學院)) in June 1990. He further received his master’s degree in Business Administration from Chinese University of Hong Kong (香港中文大學) in November 2013.

**Mr. Kong Guojing (孔國競)**, 59 years old, is the co-chairman and executive Director of our Group. He joined the Group in June 2023 and has been engaged in social enterprises and corporate management and operation for more than 20 years. He has extensive experience in internal and external management such as company investment planning, policy deployment and asset management service and actively serve the society through charity and public welfare work. He also has extensive experience and resources in project management in the construction industry.

From 1995 to 1997, he was the general manager of branch office of Shenzhen Tegeta Decoration Design & Engineering Co. Ltd\* (深圳市特藝達裝飾設計工程有限公司) and was the general manager of the business development department of Shenzhen Ping Wing Construction Co. Ltd.\* (深圳市坪榮建築有限公司) from 1998 to 2006.

In 2006, he served as the chairman of Zhikang Special Children’s Rehabilitation Center\* in Longgang District, Shenzhen (深圳市龍崗區智康特殊兒童康復中心). The center was rated as a 5A-level social organization and an advanced social organization for the disabled in Shenzhen. In 2007, he served as the vice president of Shenzhen Longgang Luhe Enterprise Association\* (深圳市龍崗陸河企業協會) and served as the chairman of Shenzhen Weida Property Management Co., Ltd.\* (深圳市偉達物業管理有限公司) from 2009 to 2020. In 2013, he became the honorary vice president of Shenzhen Business Red Cross Society\* (深圳市商務紅十字會) and was awarded the honour of “Helping the Disabled and Caring Model” by Shenzhen Longgang District Disabled Persons’ Federation\* (深圳市龍崗區殘疾人聯合會) in 2016. In 2022, he became the honorary president of the Luhe County Table Tennis Association\* (陸河縣乒乓球協會).

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

## NON-EXECUTIVE DIRECTORS

**Mr. Chen Li (陳立)**, aged 63, is our non-executive Director. He is responsible for providing strategic advice and guidance on the business development of our Group.

Mr. Chen has more than 28 years of experience in the decoration and engineering industry. Mr. Chen joined our Group in January 1994. From January 1994 to September 2001, he served as a project manager in Wenye Decoration. Subsequently, He acted as the branch manager in Wuhan branch of Wenye Decoration from September 2001 to April 2013. Mr. Chen then served as a vice president of Wenye Decoration from April 2013 to September 2015. From September 2015 to July 2016, Mr. Chen served as a director of Wenye Decoration. Mr. Chen served as general manager of first business department from June 2016 to May 2017. Mr. Chen has been serving as the project manager of Wenye Decoration since June 2017. Apart from his positions in our Group, Mr. Chen is currently acting as a vice chairman of the board of directors of Wuhan Naite Information Technology Co., Ltd. (武漢奈特信息技術有限公司); as a director of Shanghai Mingrui Financial Leasing Co., Ltd. (上海明銳融資租賃有限公司); as a director of Shanghai Delong Commercial Factoring Co., Ltd. (上海德礮商業保理有限公司); and as the supervisor of Wuhan Shenjian Construction Decorative Design Co., Ltd. (武漢深建建築裝飾設計工程有限公司).

Mr. Chen received his master's degree in Business Administration in Executive Management from the Royal Roads University in Canada in June 2006.

**Mr. Shen Peng (諶鵬)**, aged 37, is our non-executive Director. He joined the Group in June 2023. Mr. Shen has over 10 years of experience in business management and is experienced in corporate strategic investment planning, corporate mergers and acquisitions, asset management, internal control, etc. From 2008 to 2012, he worked at Beijing Hezhi Chuangzhan Investment Company Limited\* (北京合智創展投資有限公司) as department manager. From 2012 to 2014, he worked at Sichuan Guoxin Limited\* (四川國信有限公司) as department manager. From 2015 to 2017, he worked at Zhongjin Tianyin Asset Management Limited\* (中金天銀資本管理有限公司) as person-in-charge of the western district. From 2017 to 2021, he worked at Sichuan Ruifeng Investment Management Group Limited\* (四川銳豐投資管理集團有限公司) as general manager, and was responsible for investment and asset management matters. Since 2021, he has been serving as the chairman of Sichuan Dingsheng Ronghui Enterprise Limited\* (四川鼎盛榮輝實業有限公司), which engages in investment and supply chain related services in the PRC.

Mr. Shen obtained a bachelor's degree in economics from the Central University of Finance and Economics of the PRC in 2009 and a master's degree in international business management from the Paris School of Business of France in March 2020. He obtained a Certificate of Human Resource Manager\* (人力資源總監證書) from the Department of Human Resources and Social Security of Sichuan Province of the PRC (中國四川省人力資源和社會保障廳) in August 2014. He also obtained a Fund Management Qualification Certificate\* (基金管理資格證) and a Fund Practitioner Qualification Certificate\* (基金從業資格證) from the Asset Management Association of China (中國證券投資基金業協會) in April 2021.

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

**Mr. Li Hongxing (黎紅星)**, aged 43, is our non-executive Director. He joined the Group in February 2023. Mr. Li has over 10 years of experience in engineering management. He served as the executive vice president of Shenzhen Construction and Decoration Industry Group Co., Ltd.\* (深圳市建裝業集團股份有限公司) from November 2009 to June 2015, during which he was responsible for assisting the chairman to oversee the administrative and project management of the company. He served as the general manager of Shenzhen Yatian Decoration Design Engineering Co., Ltd.\* (深圳市雅田裝飾設計工程有限公司) (currently known as Shenzhen Ruiyuan Decoration and Design Engineering Co., Ltd.\* (深圳市瑞元裝飾設計工程有限公司)) from July 2015 to April 2016, during which he was responsible for overseeing the overall management of the company. He has been the vice president of Shenzhen Wenye Decoration Design Engineering Co., Ltd. (深圳文業裝飾設計工程有限公司) since April 2016, and he is responsible for overseeing departments for marketing, procurement, cost control, overseas business etc.. Mr. Li graduated from the Wuhan University of Technology (武漢理工大學) in the People's Republic of China (the "PRC") with an associate degree in industrial and civil construction in July 2007. He further obtained a bachelor's degree in computer science and technology from the PLA Academy of Artillery (中國人民解放軍炮兵學院) in the PRC in June 2010. Mr. Li obtained a master's degree in construction and civil engineering from Chongqing University in the PRC in December 2016. He was accredited as a first-grade certified constructor (一級建造師) by the Ministry of Construction of the PRC (中華人民共和國建設部) in June 2010. He was accredited as a senior engineer by the Ministry of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) in March 2015. Mr. Li was awarded the Honorary Certificate for 2014 National Building Decoration Industry Excellent Project Manager\* (2014年全國建築裝飾行業優秀項目經理榮譽證書) by the China Building Decoration Association (中國建築裝飾協會) in June 2014 and the Special Honorary Certificate for 2014 "Luban Award" Project Manager (Construction Participation)\* (2014年度「魯班獎」工程項目經理(參建)特別榮譽證書) by the China Construction Industry Association (中國建築業協會) in June 2015.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Huang Wei (黃偉)**, aged 39, is our independent non-executive Director. He joined the Group in October 2023. Mr. Huang is a registered lawyer admitted in the People's Republic of China ("PRC") since November 2011 and has over 10 years of experience in advising corporations in capital markets and in corporate governance. Mr. Huang has been the senior partner of Hylands Law Firm Shenzhen Office\* (北京浩天(深圳)律師事務所) since September 2022. From January 2018 to August 2022, Mr. Huang worked in Guanghe Law Firm\* (廣東廣和律師事務所) as a senior partner. From July 2013 to December 2017, Mr. Huang worked in Yingke Law Firm Shenzhen Office\* (北京市盈科(深圳)律師事務所) as a partner. From March 2010 to June 2013, Mr. Huang worked in China Commercial Law Firm\* (廣東華商律師事務所). Mr. Huang graduated from The National Police University for Criminal Justice\* (中央司法警官學院) in the PRC in June 2008 with a Bachelor's Degree in Law. He subsequently completed his postgraduate studies in civil and commercial law from Sun Yat-Sen University\* (中山大學) in the PRC in July 2013.

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

**Ms. Lau Chui Ping Soey (柳翠萍)**, aged 41, is our independent non-executive Director. She joined the Group in October 2023. Ms. Lau has been a fellow certified management accountant of the Institute of Certified Management Accountants, Australia since December 2016. Ms. Lau possesses around 10 years of experience in accounting, internal control and compliance. Prior to joining the Group, Ms. Lau served as an accounting manager of Ultima Healthcare Limited from February 2022 to April 2022. From November 2019 to February 2022, Ms. Lau worked in L. C. Industrial (Hong Kong) Limited as a financial controller. From February 2017 to April 2018, Ms. Lau worked in Crownwell Contracting (HK) Co., Ltd. as a compliance officer. From October 2015 to January 2017, Ms. Lau worked as the head of corporate & investor relations in FLS Engineering (HK) Ltd. From July 2014 to November 2015, Ms. Lau worked in Landmaster Associates & Valuer Ltd. as an assistant company secretary. From May 2011 to January 2013, Ms. Lau was the sole proprietor of Smart Accounting Services Company. From May 2010 to January 2011, Ms. Lau worked in Success International Bullion (H.K.) Ltd as a senior account executive. From November 2008 to June 2009, Ms. Lau worked in Luen Thai International Group Limited as an assistant business analyst. From March 2007 to May 2008, Ms. Lau worked as an auditor in KL CPA Limited. Ms. Lau graduated from Staffordshire University in the United Kingdom in June 2006 with a Bachelor of Arts Degree in Accounting. She obtained a Professional Diploma for Legal Executives from the Hong Kong Institute of Vocational Education in July 2013 and a Master of Arts Degree in Legal Translation from Hong Kong Metropolitan University (formerly known as The Open University of Hong Kong) in November 2014. Ms. Lau further obtained a Graduate Diploma in English and Hong Kong Law awarded by Manchester Metropolitan University in the United Kingdom in September 2023.

**Mr. Ma Kin Ling (馬健凌)**, aged 41, is our independent non-executive Director. He joined the Group in July 2023. Mr. Ma holds various positions in companies listed on the Main Board of the Stock Exchange.

He is currently the chief financial officer and company secretary of China Zenith Chemical Group Limited (stock code: 362) and an independent non-executive director of SunCorp Technologies Limited (stock code: 1063) and Wisdom Wealth Resources Investment Holding Group Limited (stock code: 7). Mr. Ma is a member of the Hong Kong Institute of Certified Public Accountants. He graduated from City University of Hong Kong with a Bachelor degree of Business Administration (Honours) in Accountancy and Law. Prior to the joining the Group, he worked in reputable international accounting firms and has over 10 years' experience in auditing and accounting.

## SENIOR MANAGEMENT

**Mr. Law Man Hei Eugene (羅文僖)**, aged 30, was appointed as our company secretary in July 2022. Mr. Law is a practicing solicitor qualified in Hong Kong and is experienced in corporate finance, corporate governance and compliance matters. Mr. Law holds a Bachelor of Laws degree from the London School of Economics and Political Science in the United Kingdom.

# DIRECTORS' REPORT

The Board is pleased to present its report together with the audited financial statements (the “**Consolidated Financial Statements**”) of the Group for the year ended 31 December 2021.

## PRINCIPAL ACTIVITY

The principal activity of the Group is the provision of interior and exterior building decoration and design services, and our projects mainly cover a wide range of buildings and properties, including industrial buildings, public infrastructure, commercial buildings and residential buildings.

## BUSINESS REVIEW

A review of the Group's business during this Year, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's financial key performance, particulars of important events affecting the Group during this Year, and an indication of likely future developments in the Group's business that has a significant impact on the Company, an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company and on which the Company's success depends, can be found in the section headed “Management Discussion and Analysis” set out on pages 10 to 15 of this annual report.

## RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2021 and the financial information of the Group as at 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report.

The Board does not recommend the payment of any final dividend for the year ending 31 December 2021.

## DIVIDEND POLICY

The Company has established its dividend policy. When the Company records a profit and after taking into account other relevant factors, we would pay dividend to our shareholders according to the articles of association of the Company and applicable laws. However, such dividend is non-guaranteed. Our decision on dividend distribution depends on the financial situation of our Company, future market prospects, company funding needs and any other relevant factors which the Company thinks fit. The remaining net profits after dividend payout (if any) would be used for the development of the Company.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company to receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditor of the Company for the year ended 31 December 2021 (the “**AGM**”) will be held on a date to be announced by the Company. The notice and circular convening the AGM will be published and dispatched to the shareholders in accordance with the requirements of the Listing Rules in due course. Shareholders should refer to details in the circular of the Company regarding the AGM, the notice of the AGM and form of proxy despatched by the Company.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the AGM, the register of members will be closed during a period to be announced by the Company, during which no transfer of the Shares will be registered. In order to be eligible to attend and vote at the AGM held on a date to be announced by the Company, non-registered shareholders must lodge all completed transfer forms accompanied by the relevant share certificates with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on a date to be announced by the Company.

## USE OF PROCEEDS

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

As at 31 December 2021, the Group does not anticipate any change to its plan on the use of proceeds as stated in the prospectus dated 31 December 2020 and the utilised and unutilised amount of the Net Proceeds as at 31 December 2021:

		Original allocation of Net Proceeds HK\$ million	Revised allocation of Net Proceeds HK\$ million	The remaining net proceeds as at 31 December 2020 HK\$ million	The amount utilised during the year ended 31 December 2021 HK\$ million	Unutilised amount (as of 31 December 2021) HK\$ million
Fund the Group's capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	—	—	—
Hiring of additional project managers and designer	8.1%	10.6	8.7	2.0	2.0	—
Improvement of the existing branch offices	20.9%	27.4	22.5	12.8	12.8	—
General working capital	9.8%	12.9	10.5	—	—	—
	100%	131.1	107.4	14.8	14.8	—

# DIRECTORS' REPORT *(continued)*

## SHARES ISSUED IN THE YEAR

Details of the shares issued in this Year are set out in Note 30 to the Consolidated Financial Statements.

## DISTRIBUTABLE RESERVES

Details of the movements during this Year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 55 of this report.

As at 31 December 2021, the Company has no reserves available for distribution to the shareholders.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 16 of this annual report.

This summary does not form part of the audited consolidated financial statements.

## BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2021 are set out in Note 27 to the Consolidated Financial Statements.

## PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY'S LISTED SECURITIES

During the period from the Listing Date and up to the date of this report, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, or sell such shares.

## DONATIONS

The Group did not make any charitable donations during the year ended 31 December 2021.

## PRINCIPAL RISKS AND UNCERTAINTY

### Risk associated with financial instruments of the Group

The financial risk management objectives and policies of the Group are set out in Note 6 to the Consolidated Financial Statements.

### Key sources of estimation uncertainty

Details of the key sources of estimation uncertainty as at 31 December 2021 are set out in Note 5 to the Consolidated Financial Statements.

## ENVIRONMENTAL POLICY AND ITS PERFORMANCE

The Group is fully aware of the importance of environmental protection and has adopted strict environmental protection measures to ensure compliance with current environmental protection laws and regulations.

During the reporting period and up to the date of this report, the Group has not suffered any fines or penalties for violation of China's environmental protection laws.

The environmental, social and corporate governance report will be published as an independent report on the websites of the Company and the Stock Exchange.

## RSU SCHEME

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

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from 13 March 2019 (unless it is terminated earlier in accordance with its terms). As at 31 December 2021, the remaining life of the RSU Scheme was approximately seven years and three months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

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

As at 31 December 2021, no RSU has been granted by the Company pursuant to the RSU Scheme.

# DIRECTORS' REPORT *(continued)*

## EQUITY-LINKED AGREEMENTS

During the Year, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company or subsisting during this Year.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors

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

### Non-executive Director

Mr. Chen Li (陳立) (*Appointed on 13 March 2019*)  
Mr. Shen Peng (譔鵬) (*Appointed on 18 January 2023*)  
Mr. Li Hongxing (黎紅星) (*Appointed on 13 February 2023*)  
Mr. Deng Guanghui (鄧光輝) (*Resigned on 13 February 2023*)

### Independent Non-Executive Directors (the “INEDs”)

Mr. Huang Wei (黃偉) (*Appointed on 13 October 2023*)  
Ms. Lau Chui Ping Soey (柳翠萍) (*Appointed on 13 October 2023*)  
Mr. Ma Kin Ling (馬健凌) (*Appointed on 22 July 2023*)  
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 2023*)  
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. Fan Shaozhou (Executive Director) and Mr. Chen Li (Non-executive Director) shall retire by rotation, and offer themselves for re-election at the AGM in accordance with articles 16.2 and 16.18 of the Articles of Association.

The biographical details of the Directors are disclosed the section headed “Biographies of Directors and Senior Management” on pages 17 to 20 in this annual report.

## INDEPENDENCE OF THE INEDs

The Company has received, from each of the INEDs, a confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent.

## **DIRECTORS' SERVICE CONTRACTS**

The Company has entered into service contracts with all Directors, with the maximum term of 2 to 3 years. No service contract that can be terminated by the Group within one year without paying any compensation (other than statutory compensation) was entered or is to be entered into between Directors or Supervisors and members of the Group.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS**

Save for the contracts described under the section headed "Connected Transactions" below, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its holding company or subsidiaries or fellow subsidiaries was a party and in which a Director and his/her connected party had a material interest, whether directly or indirectly, subsisted at the end of this Year or at any time during this Year.

## **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

There was no contract of significance (whether for the provision of services to the Group or not) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of this Year or at any time during this Year.

## **CONNECTED TRANSACTIONS**

During this Year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards and the Company has complied with the requirements in Chapter 14A of the Listing Rules. Details of the related party transactions entered into by the Group during this Year are disclosed in Note 35 to the Consolidated Financial Statements. The related party transactions disclosed in Note 35 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

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

As the 31 December 2021, 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 <i>(Note 1)</i>	Approximate percentage of issued share capital <i>(Note 2)</i>
Mr. Fan Shaozhou	Founder of a discretionary trust	Fanshaozhou Holdings <i>(Note 3)</i>	178,515,150	30.05%
	Beneficial owner		31,302,000	5.27%
Mr. Wan Neng	Interest in a controlled corporation	Wenye Talent Holdings <i>(Note 4)</i>	4,500,000	0.76%
Mr. Deng Guanghui	Beneficial owner		8,500,000	1.43%
Mr. Chen Li	Founder of a discretionary trust	Chenli Holdings <i>(Note 5)</i>	19,350,000	3.26%

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# DIRECTORS' REPORT *(continued)*

## Notes:

1. All interests stated are long positions.
2. 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.
3. 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.
4. 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.
5. 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.

# DIRECTORS' REPORT *(continued)*

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

As at 30 December 2021, 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	197,865,150	33.31%
Antopex Limited <i>(Note 3)</i>	Interest in a controlled corporation Nominee for another person	197,865,150	33.31%
Fanshaozhou Holdings <i>(Note 3)</i>	Beneficial owner	178,515,150	30.05%
Modest Faith Limited <i>(Note 3)</i>	Interest in a controlled corporation	178,515,150	30.05%
Ms. Ye Jinhua (葉錦花) <i>(Note 4)</i>	Interest of spouse	209,817,150	35.32%
Wenye Elite Holdings <i>(Note 5)</i>	Beneficial owner Interest in a controlled corporation	98,992,350	16.67%

*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.

Save as disclosed above, as at 31 December 2021, 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.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

At no time during this Year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or their respective associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the businesses of the Group was entered into or existed during this Year.

## **MAJOR SUPPLIERS AND CUSTOMERS**

The percentages of purchases and sales for this Year attributable to the Group's major suppliers and customers are as follows:

### **Purchases – raw material**

- the largest supplier 2.4%
- five largest suppliers in aggregate 5.4%

### **Purchases – subcontractor**

- the largest subcontractor 7.5%
- five largest subcontractors in aggregate 22.2%

### **Sales**

- the largest customer 10.7%
- five largest customers in aggregate 29.0%

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors, own more than 5% of the Company's issued Shares) had any beneficial interest in the Group's five largest suppliers or customers.

## **TAX RELIEF AND EXEMPTION**

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group are set out in Note 16 to the Consolidated Financial Statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Articles of Association or under the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

## **SUFFICIENCY OF PUBLIC FLOAT**

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float as required by the Listing Rules (i.e. at least 25% of the Company's issued Shares in public hands).

## **COMPETING BUSINESS**

None of the Directors or the controlling Shareholders or their respective associates (as defined under the Listing Rules) has interests in any business apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, during this Year.

## **IMPORTANT EVENTS AFTER THE END OF THE PERIOD**

Save as disclosed elsewhere in this Report, the Group had no subsequent event after 31 December 2021 and up to the date of this report.

## **PERMITTED INDEMNITY PROVISION**

A permitted indemnity provision as defined in the Hong Kong Companies Ordinance for the benefit of the Directors is currently in force and was in force throughout this Year. The Company has maintained Directors' liabilities insurance, which provides appropriate cover for the Directors.

Pursuant to the Articles of Association and the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Following a specific enquiry made by the Company on each of the Directors, all Directors have confirmed that they had complied with the required standards as set out in the Model Code and the Own Code of Conduct since the Listing Date and up to 31 December 2021. The Model Code also applies to other specified senior management of the Group.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 178 employees (2020: 366). For this Year, the Group incurred staff costs, including Directors' remuneration of approximately RMB36.9 million (Year 2020: approximately RMB40.5 million).

The remuneration policy of the senior employees of the Group was tabled and recommended by the Remuneration Committee to the Board on the basis of the employees' merit, qualifications and competence.

The remuneration of the Directors are formulated and recommended by the Remuneration Committee to the Board, having regards to the Company's operating results, individual performance of the Directors and comparable market statistics.

The Company has implemented employee recognition schemes and awards, such as the restricted share unit scheme. At the same time, the group provides social security funds and related benefits for employers and provides appropriate training.

Details of the emoluments of the Directors and the five individuals with the highest emoluments for this Year are set out in Note 13 to the Consolidated Financial Statements.

## CHANGES IN THE INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B OF THE LISTING RULES

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the reporting period and up to the date of this annual report are set out below:

Ms. Huang Guiqing has resigned as the Company's independent non-executive Director, the chairperson of the Audit Committee, a member of the Remuneration Committee, and a member of the Nomination Committee, with effect from 14 June 2022. Please see the announcement of the Company dated 14 June 2022 for details.

Mr. Liu Ziping has resigned as the Company's independent non-executive Director and a member of the Audit Committee, with effect from 14 June 2022. Please see the announcement of the Company dated 14 June 2022 for details.

Mr. Gao Rongshun has been appointed as the Company's independent non-executive Director and a member of the Audit Committee, with effect from 14 June 2022. Mr. Gao subsequently resigned from the office of directors from 20 July 2023. Please see the announcements of the Company dated 14 June 2022 and 27 September 2023 for details.

Mr. Yi Xiaopei has been appointed as the Company's independent non-executive Director and the chairperson of the Audit Committee, with effect from 14 June 2022. Mr. Yi subsequently resigned from the office of directors from 7 August 2023. Please see the announcements of the Company dated 14 June 2022 and 27 September 2023 for details.

## DIRECTORS' REPORT *(continued)*

Mr. Shen Peng has been appointed as the Company's non-executive Director, with effect from 18 January 2023. Please see the announcement of the Company dated 18 January 2023 for details.

Mr. Deng Guanghui has resigned as the Company's non-executive director and Mr. Li Hongxing has been appointed as the Company's non-executive director, with effect from 13 February 2023. Please see the announcement of the Company dated 13 February 2023 for details.

Mr. Wan Neng has resigned as the Company's executive Director, with effect from 14 March 2023. Please see the announcements of the Company dated 2 May 2023 and 8 May 2023 for details.

Mr. Liu Xiaoyi has resigned as independent non-executive Director, the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee, with effect from 19 April 2023. Please see the announcements of the Company dated 2 May 2023 and 8 May 2023 for details.

Mr. Kong Guojing has been appointed as the Company's executive Director and co-Chairman of the Company, with effect from 6 June 2023. Please see the announcement of the Company dated 7 June 2023 for details.

Mr. Ma Kin Ling has been appointed as the Company's independent non-executive Director and Chairman of the Audit Committee, with effect from 22 July 2023. Please see the announcement of the Company dated 22 July 2023 for details.

Mr. Huang Wei has been appointed as the Company's independent non-executive Director, a member of the Audit Committee and a member of the Nomination Committee, with effect from 13 October 2023. Please see the announcement of the Company dated 13 October 2023 for details.

Ms. Lau Chui Ping Soey has been appointed as the Company's independent non-executive Director, a member of the Audit Committee and the chairperson of the Remuneration Committee, with effect from 13 October 2023. Please see the announcement of the Company dated 13 October 2023 for details.

Mr. Peng Weizhou has resigned as the Company's executive Director, with effect from 20 November 2023. Please see the announcement of the Company dated 20 November 2023 for details.

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

### **CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintain a high level of corporate governance. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 35 to 48 of this annual report.

### **DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES**

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

## AUDIT COMMITTEE

The Company has the Audit Committee which was established with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “**CG Code**”) for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. As at the date of this report, the Audit Committee comprises three members who are the INEDs, namely Mr. Huang Wei, Mr. Lau Chui Ping Soey and Mr. Ma Kin Ling. Mr. Ma Kin Ling is the chairman of the Audit Committee.

The Audit Committee and the Management have reviewed the accounting principles and practices adopted by the Group, as well as the audited Consolidated Financial Statements. The Audit Committee has reviewed the audited Consolidated Financial Statements and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made. The Audit Committee has recommended the same to the Board for approval.

## CHANGE OF INDEPENDENT AUDITOR

On 20 May 2022, PricewaterhouseCoopers resigned as the auditor of the Company and ZHONGHUI ANDA was appointed by the Directors to fill the casual vacancy so arising on 20 June 2022. The Consolidated Financial Statements for the year ended 31 December 2021 have been audited by ZHONGHUI ANDA whose term of office will expire upon the conclusion of the forthcoming annual general meeting. A resolution to re-appoint ZHONGHUI ANDA as the Independent Auditor will be proposed to the shareholders at the forthcoming annual general meeting.

By order of the Board

**Wenye Group Holdings Limited**

**Fan Shaozhou**

*Chairman and Executive Director*

Shenzhen, PRC, 3 December 2023

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICE

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 the CG Code.

The Company has been listed on the Main Board of the Stock Exchange since the Listing Date and has complied with the principles and code provisions as set out in the CG Code during the year ended 31 December 2021 (the "Period"), except for the deviation from code provision C.2.1 of the CG Code which provides that the roles of chairman and chief executive officer should be separated and performed by different individuals. As of the date of this report, the roles of chairman and chief executive officer of the Company are not separated and Mr. Fan Shaozhou ("Mr. Fan") currently holds both positions. Nonetheless, 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.

The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they have strictly complied with the required standards set out in the Model Code during the Period.

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 C.1.3 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the Period upon making reasonable enquiry.

## DUTIES OF THE BOARD

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and performance, and is collectively responsible for facilitating the success of the Company by directing and supervising its affairs.

The Board directly, and indirectly through its committees, leads and provides directions to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that effective internal control and risk management systems are in place. The Board has delegated responsibilities to the Board committees as set out in their respective terms of reference.

# CORPORATE GOVERNANCE REPORT *(continued)*

## CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

During the Period, the Board is responsible for performing the corporate governance functions set out in the provision A.2.1 of the CG Code, including at least the following:

- (1) to develop and review the Company's policies and practices on corporate governance;
- (2) to review and monitor the training and continuous professional development of directors and senior management;
- (3) to review and monitor the Company's policies and practices on legal and regulatory compliance;
- (4) to formulate, review and monitor code of conduct and compliance manual (if any) for employees and Directors; and
- (5) to review the Company's compliance with the CG Code and disclosure made in the Company's annual report.

## DELEGATION OF MANAGEMENT FUNCTIONS

The major powers and functions of the Board include, but not limited to, convening general meetings, reporting its work at general meetings, implementing resolutions passed at general meetings, considering and approving operating and investment plans of the Company, formulating the Company's strategic development plans, formulating annual financial budgets and final accounts, formulating profit distribution plans and plans on making up losses, and exercising other powers and functions as conferred by the Articles of Association.

All Directors have full and timely access to all the information of the Company and advice from the company secretary and senior management of the Company, and may, where appropriate, request to seek independent professional advice at the Company's expenses for discharging their duties to the Company.

The Board is responsible for making decisions on strategic plans, major investment decisions and other significant operational issues of the Company, while responsibilities for implementing decisions of the Board, day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and tasks are subject to regular review. Prior approvals shall be obtained from the Board for any major transaction.

## COMPOSITION OF THE BOARD

As at the date of this report, the Board consists of eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors.

### Executive Directors

Mr. Fan Shaozhou (*Chairman and Chief Executive Officer*)

Mr. Kong Guojing (*Co-Chairman*)

# CORPORATE GOVERNANCE REPORT *(continued)*

## **Non-Executive Directors**

Mr. Chen Li  
Mr. Shen Peng  
Mr. Li Hongxing

## **Independent Non-Executive Directors**

Mr. Huang Wei  
Ms. Lau Chui Ping Soey  
Mr. Ma Kin Ling

The biographies of the Directors are set out in the section headed “Biographies of Directors and Senior Management”.

Save as disclosed in the biographies of the Directors set out in the section headed “Biographies of Directors and Senior Management” in this annual report, none of the Directors has any personal relationship (including business, financial, family or other material/relevant relationship) with any other Director or chief executive.

All Directors, including non-executive Directors and independent non-executive Directors, contribute a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Under code provision C.2.1 of Part 2 the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Fan Shaozhou has been performing both the roles of chairman and chief executive officer of the Company. 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 current Board which comprises experienced and high calibre individuals with sufficient number of independent non-executive Directors.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

As at the date of this report, the Company complied with Rules 3.10(1) and 3.10(2), and Rule 3.10A of the Listing Rules. The Company has three independent non-executive Directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors accounts for one-third of the number of Board members.

All independent non-executive Directors of the Company have confirmed in writing to the Company regarding their independence during the Period pursuant to Rule 3.13 of the Listing Rules. Based on the confirmations of the independent non-executive Directors, the Company has assessed their independence and considers each of them to be independent during the Period.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Under code provision B.2.2 of the CG Code, non-executive Directors should be appointed for a specific term and subject to re-election, and those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment. Any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations and suggestions to the Board on the appointment, re-appointment and succession planning of Directors.

Each of Mr. Fan Shaozhou, being one of the executive Directors of the Company, and Mr. Chen Li, being one of the non-executive Directors of the Company, has entered into a service agreement with the Company for a term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Kong Guojing, an executive Director of the Company, has entered into a service agreement with the Company for an initial term of one year commencing from 6 June 2023 and will continue thereafter be automatically renewed for one year upon expiry of his term of office until terminated by not less than one month' notice in writing served by either party on the other.

Mr. Shen Peng and Mr. Li Hongxing, being the non-executive Directors of the Company, have entered into a service agreement with the Company for an initial term of one year commencing from 18 January 2023 and 13 February 2023, respectively, and they will thereafter be automatically renewed for one year upon expiry of their term of office until terminated by not less than one month' notice in writing served by either party on the other.

Each of Mr. Huang Wei, Ms. Lau Chui Ping Soey and Mr. Ma Kin Ling, being the independent non-executive Directors of the Company, has entered into a letter of appointment with the Company, the terms and conditions of each of such letters of appointment are similar in all material respects, subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

None of the Directors has a contract with the Company which is not expiring or determinable within one year without payment of compensation (other than statutory compensation).

# CORPORATE GOVERNANCE REPORT *(continued)*

## BOARD MEETINGS

The Company adopts the practice of holding regular Board meetings at least four times a year and on average at least once each quarter. Notices of not less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend the meetings and discuss matters included in the agenda therein.

For other meetings of the Board and the Board committees, reasonable notices are generally given. The agenda and related Board meeting papers are despatched to the Directors or members of the Board committees at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. Where the Directors or members of the Board committees are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of the meetings are kept by the secretary of the Board with copies of such meeting minutes circulated to all Directors for their perusal and record purposes.

Minutes of meetings of the Board and the Board committees are recorded in full detail about the matters considered by the Board and the Board committees and the decisions reached, including any concern raised by the Directors. Draft minutes of each meeting of the Board and the Board Committees are sent to the Directors for comments within a reasonable time after the date of the meeting. Minutes of Board meetings are open for inspection by Directors.

The following table summarizes the attendance of individual Directors and committee members at each meeting during the Period:

	Number of Board meetings attended/eligible to attend	Number of Audit Committee meetings attended/eligible to attend	Number of Remuneration Committee meetings attended/eligible to attend	Number of Nomination Committee meetings attended/eligible to attend	Number of annual general meetings' attended/eligible to attend
<b>Executive Directors</b>					
Mr. Fan Shaozhou	7/7	N/A	2/2	1/1	1/1
Mr. Wan Neng	7/7	N/A	N/A	N/A	1/1
Mr. Peng Weizhou	7/7	N/A	N/A	N/A	1/1
<b>Non-Executive Directors</b>					
Mr. Deng Guanghui	7/7	N/A	N/A	N/A	1/1
Mr. Chen Li	7/7	N/A	N/A	N/A	1/1
<b>Independent Non-Executive Directors</b>					
Ms. Huang Guiqing	7/7	2/2	2/2	1/1	1/1
Mr. Liu Xiaoyi	7/7	2/2	2/2	1/1	1/1
Mr. Liu Ziping	7/7	2/2	N/A	N/A	1/1

# CORPORATE GOVERNANCE REPORT *(continued)*

## DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and update their knowledge and skills to ensure that their contribution to the Board remains fully informed and relevant.

Each newly appointed Director has been provided with necessary induction training and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant ordinances, laws, rules and regulations. Prior to the Listing Date, all Directors have attended training sessions provided by the Company's legal advisers on duties of directors of listed companies and their on-going obligations.

All Directors are encouraged to participate in continuous professional development and their participation and training records during the year ended 31 December 2021 are as follows:

	Participation in Directors' training	Reading materials relating to the latest development of applicable regulatory requirements and the Listing Rules
<b>Executive Directors</b>		
Mr. Fan Shaozhou	✓	✓
Mr. Wan Neng	✓	✓
Mr. Peng Weizhou	✓	✓
<b>Non-Executive Directors</b>		
Mr. Deng Guanghui	✓	✓
Mr. Chen Li	✓	✓
<b>Independent Non-Executive Directors</b>		
Ms. Huang Guiqing	✓	✓
Mr. Liu Xiaoyi	✓	✓
Mr. Liu Ziping	✓	✓

## LIABILITY INSURANCE OF DIRECTORS AND SENIOR MANAGEMENT

The Company has purchased liability insurance for all Directors and members of the senior management to minimize risks that may be incurred in their normal performance of responsibilities.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the financial year ended 31 December 2021.

The Directors are responsible for overseeing the preparation of financial statements of the Company to ensure that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the senior management the management accounts and such accompanying explanation and information as necessary to enable the Board to make an informed assessment for approving the financial statements.

## COMPANY SECRETARY

During the year ended 31 December 2021, Ms. Mak Po Man Cherie ("**Ms. Mak**") was the company secretary of the Company (the "**Company Secretary**") and authorised representative of the Company. On 15 July 2022, Ms. Mak resigned as our Company Secretary and authorised representative of the Company, and Mr. Law Man Hei Eugene ("**Mr. Law**") was successively appointed as our Company Secretary and authorized representative. The biographical details of the Company Secretary are set out in the section headed "Biographies of Directors and Senior Management" of this annual report. The Company Secretary took not less than 15 hours of relevant professional trainings in the Year as required under Rule 3.29 of the Listing Rules.

## BOARD COMMITTEES

### Audit Committee

As of the date of this report, the Audit Committee of the Company consists of three independent non-executive Directors, namely Mr. Huang Wei, Ms. Lau Chui Ping Soey and Mr. Ma Kin Ling. All members of the Audit Committee are independent non-executive Directors.

Mr. Ma Kin Ling is the chairman of the Audit Committee, who meets the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit Committee include independently examining the financial positions of the Company, overseeing the financial reporting system, the risk management system and the internal control system of the Company, the audit procedures and the proposals of internal management, independently communicating with, monitoring and verifying the work of, internal auditors and external auditors. The Audit Committee is also responsible for reviewing the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), the risk management system and procedures and the re-appointment of the external auditor and the performance of duties as required aforesaid. The Board did not deviate from any recommendation given by the Audit Committee on the selection, appointment, removal or dismissal of the external auditor. The Audit Committee also reviewed the annual results of the Company and its subsidiaries for the financial year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. The Audit Committee also makes appropriate arrangements for employees to raise concerns in a confidential way about possible improprieties in financial reporting, internal control and other matters. The written terms of reference of the Audit Committee are available for inspection on the websites of the Company and the Stock Exchange.

# CORPORATE GOVERNANCE REPORT *(continued)*

The audit committee has reviewed the year-end audit plan for the year 2021 and has reviewed the audited financial statements of the Group for the financial year ended 31 December 2021 with the management and the independent auditor. The Audit Committee has also reviewed the unaudited consolidated interim financial information of the Group for the six months ended 30 June 2021. The Audit Committee is of the opinion that the preparation of the underlying financial statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made. In addition, the Audit Committee has also reviewed significant internal audit issues, the re-appointment of external auditors and relevant scope of work and continuing connected transactions. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the selection and appointment of the external auditors, and reviewed the effectiveness of the risk management and internal control systems of the Group for the year 2021.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## Remuneration Committee

As of the date of this report, the Remuneration Committee comprises three members, namely Ms. Lau Chui Ping Soey (Chairperson), Mr. Fan Shaozhou and Mr. Ma Kin Ling, and the majority of them are independent non-executive Directors.

The primary duties of the remuneration committee are to recommend the Board on the Group's remuneration policy and structure for the remuneration of the Directors and senior management of the Group, to establish formal and transparent procedures for developing the remuneration policy, to review and approve proposals for remuneration of the management, and to approve the terms of service contracts between the Company and our executive directors, with reference to the Board's corporate goals and objectives, to review and/or approve matters relating to share schemes and to make recommendations to the Board on the remuneration packages of the executive Directors and senior management. The written terms of reference of the Remuneration Committee are available for inspection on the websites of the Company and the Stock Exchange.

During the Period, the Remuneration Committee held 2 meetings to consider and recommend to the Board the remuneration packages paid by the Company to the Directors and other related issues.

Pursuant to the Code Provision E.1.5 of the CG Code, the following table sets forth the remuneration band (excluding equity-settled share expenses) of the Directors and members of senior management for the year ended 31 December 2021 categorized by bands:

Emolument Band	Remuneration	Number of Directors
1	HK\$Nil-HK\$1,000,000	9

Further details on remuneration of the Directors and the five highest paid employees required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 13 to the Consolidated Financial Statements.

## Nomination Committee

As of the date of this report, the Nomination Committee comprises three members, namely Mr. Fan Shaozhou (Chairman), Mr. Huang Wei and Mr. Ma Kin Ling, and the majority of them are independent non-executive Directors.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year, to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to make recommendations to the Board on candidates to fill vacancies of the Board and/or the management, and to assess the independence of independent non-executive Directors. The written terms of reference of the Nomination Committee are available for inspection on the websites of the Company and the Stock Exchange.

The Company has adopted nomination policy ("**Nomination Policy**"). According to the Nomination Policy, the Nomination Committee duly considers (including but not limited to) the following criteria to assess, select and recommend candidates of directors to the Board:

1. Diversity in all its aspects, including but not limited to gender, age, experience, cultural and educational background, professional level, skill, and knowledge;
2. Sufficient time to effectively carry out their duties; their services on other listed and non-listed companies should be limited to reasonable numbers;
3. Qualifications, including skills, accomplishment and experience in the relevant industries where the Company's business is involved in;
4. Independence;
5. Integrity and reliability;
6. Potential contributions that the individual(s) can bring to the Board; and
7. Commitment to enhance and maximize Shareholders' value.

The Nomination Committee will assess the candidates or existing Directors on such criteria as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for approval.

During the Period, the Nomination Committee held a meeting to review the structure, size and composition of the Board, assess the independence of independent non-executive Directors and make recommendations to the Board on the re-election of retiring Directors.

## BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy (the “**Board Diversity Policy**”) on 21 December 2019, which sets out the objective of achieving and maintaining a high level of diversity on the Board and the approach to achieve the said goal. The Company recognises the benefits of having a diversified Board because this will ensure that the Board members are able to maintain an appropriate balance of skills, experience and diversity that are necessary to support the Group’s business strategies and sustainable development. The Company seeks to achieve a diversified Board by selecting candidates with reference to a number of factors, including but not limited to skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender, ethnicity and length of service. All appointments to the Board will be based on meritocracy, and candidates will be considered against objective criteria having due regard to the benefits of a diversified Board.

The nominations and appointments of members of the Board will continue to be made on merit basis based on its business needs from time to time and the contribution which the selected candidates will bring to the Board while taking into account diversity.

The Nomination Committee has primary responsibility for identifying candidates, formulating selection standards and procedures, and examining candidates for directors and senior management of the Company, and providing recommendations on the selection. The Nomination Committee will give adequate consideration to this policy in identifying and selecting suitably qualified candidates to become Directors of the Company.

The Nomination Committee is delegated to be responsible for compliance with relevant codes governing board diversity under the CG Code. The Nomination Committee will review the Board Diversity Policy from time to time to ensure the consistent effectiveness of which, and where necessary, will make required revisions and recommend any such revision to the Board for consideration and approval.

For the year ended 31 December 2021, the workforce of the Company, including senior management, totaled 178 employees, of which 73% are male and 27% are female. The Company aims to avoid any form of harassment and discrimination in the workplace regarding age, gender, race, nationality, religion, marital status or disability through the implementation of human resources management policies and to ensure that all employees are treated equally and fairly. The Company will also ensure that gender diversity is promoted in the recruitment of middle and senior level employees and that they are provided with more appropriate on-the-job training and development, job promotion and compensation benefits, thereby achieving greater gender diversity.

## DIVIDEND POLICY

The Company adopts a dividend policy on 21 December 2019 that aims to provide shareholders of the Company with dividends out of the Group’s profit attributable to shareholders in any financial year, subject to the criteria set out below.

Such declaration and payment of dividends shall remain to be determined at the discretion of the Board and subject to all applicable requirements (including without limitation, restrictions on dividend declaration and payment) under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), the Companies Act (2023 Revision), Cap. 22 of the Cayman Islands (the “**Companies Act**”) and the Articles of Association.

# CORPORATE GOVERNANCE REPORT *(continued)*

In proposing any dividend payout, the Board shall take into account, inter alia: (i) the Group actual and expected financial performance; (ii) shareholders' interests; (iii) retained earnings and distributable reserves of the Company and each of the other members of the Group; (iv) the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject; (v) possible effects on the Group's creditworthiness; (vi) any restrictions on payment of dividends that may be imposed by the Group's lenders; (vii) the Group's expected working capital requirements and future expansion plans; (viii) liquidity position and future commitments at the time of declaration of dividend; (ix) taxation considerations; (x) statutory and regulatory restrictions; (xi) general business conditions and strategies; (xii) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and (xiii) other factors that the Board deems appropriate.

Subject to the Companies Act and the Memorandum and Articles of Association, the Company in general meetings may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The dividends, interest and bonuses and any other benefits and advantages in the nature of income receivable in respect of the Company's investments, and any commissions, trusteeship, agency, transfer and other fees and current receipts of the Company shall, subject to the payment thereof of the expenses of management, interest upon borrowed money and other expenses which in the opinion of the Board are of a revenue nature, constitute the profits of the Company available for distribution.

The Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide, the Board shall not incur any responsibility to the holders of shares conferring any preferential rights.

The Board may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

The Board may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit, and the provisions as regards the powers and the exemption from liability of the Board as relate to declaration and payment of interim dividends shall apply, mutatis mutandis, to the declaration and payment of any such special dividends.

The Company will continually review the Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Policy at any time, and the Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

## COMPANY SECRETARY

During the year ended 31 December 2021, Ms. Mak Po Man Cherie ("**Ms. Mak**") was the company secretary of the Company (the "**Company Secretary**") and authorised representative of the Company. On 15 July 2022, Ms. Mak resigned as our Company Secretary and authorised representative of the Company, and Mr. Law Man Hei Eugene ("**Mr. Law**") was successively appointed as our Company Secretary and authorized representative. Mr. Law is a practicing solicitor qualified in Hong Kong. He holds a Bachelor of Laws degree from the London School of Economics and Political Science and a Postgraduate Certificate in Laws from the City University of Hong Kong. He has experience in corporate finance, corporate governance and compliance matters. Ms. Mak and Mr. Law each confirmed that they have complied with all the qualifications and experience requirements as required by the Listing Rules.

# CORPORATE GOVERNANCE REPORT *(continued)*

## AUDITORS

The financial statements set out in this annual report have been audited by Zhonghui Anda CPA Limited. For the year ended 31 December 2021, the fees payable by the Group to Zhonghui Anda CPA Limited in respect of audit and non-audit services provided by them were as follows:

	RMB (million)
Audit services	2.3
— annual audit on the consolidated financial statements of the Company for the year ended 31 December 2021, which included reviewing regulators' comments and the Company's response	
<hr/>	
Total	2.3

The responsibility statement of the Company's external auditor on preparing reports on the Consolidated Financial Statements is set out in the independent auditor's report in pages 49 to 51.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Company is committed to establishing high quality risk management and internal control systems to safeguard shareholders' investment and corporate interests, and with the support of the Audit Committee, reviewing the effectiveness of such systems annually. The Company has designated a special department to be responsible for the internal audit function and established a sound system.

The Group makes use of an integrated risk management system to minimise and protect against a range of strategic, business, financial and legal risks. Through the risk management system, we seek to manage and reduce risks, encourage effective and reliable communication, maintain legal compliance and improve the efficiency of our business and management.

In order to formulate and implement policies in an effective way, our risk management system emphasises continuous information gathering. Our risk management system collects data on a variety of business, financial and legal risks, such as market demand, technological trends and innovations, comparisons with our competitors, our financial performance and operating results, costs of services, changes in intellectual property laws and company laws and possible legal disputes.

The information gathered is used for risk assessment. Our risk assessment procedures take into account the Company's general risk philosophy and seek to accurately evaluate how a potential risk may affect our objective in areas of strategies, business, compliance and financial reporting. We seek to identify both internal risks, such as employee ethics, our financial condition or product quality, as well as external risks, such as economic and legal development, technology advancement and environmental factors. Identified risks are assessed on the basis of likelihood of occurrence and the extent of influence it may have on our business. Risks with a high probability of occurring will be examined in a more stringent way to ensure accurate results. We then determine what countermeasures should be implemented in order to mitigate, absorb or reduce such risks and any negative consequence.

# CORPORATE GOVERNANCE REPORT *(continued)*

The Board is not aware of any material internal control and risk management deficiency nor significant breach of limits or risk management policies, and considers that the current control system of the Company is effective and adequate, including the qualifications and experience of the staff of the Company, the performance of the accounting and financial reporting function, and the training programmes of the Company and the Company's experience and resources in relation to the budget. The Company has complied with the requirements under D.2.1 to D.2.7 of the CG Code relating to risk management and internal control.

During the Period, the Company has approved and reviewed the internal control system of the Group and the Board has conducted a review of the effectiveness of the risk management and internal control system of the Group and confirmed that it is adequate and effective.

The Company has adopted an inside information policy in accordance with the SFO and the Listing Rules to ensure the confidentiality of the handling of inside information and to publish the relevant disclosure to the public as soon as practicable. For information that is difficult to maintain confidentiality, the Company timely discloses relevant information to ensure effective protection of the interests of investors and stakeholders.

## **SHAREHOLDERS' RIGHTS**

To safeguard shareholders' interests and rights, a separate resolution will be proposed by the Company for each issue, including the election of an individual director, at the general meeting. All resolutions put forward at the general meeting will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

### **Procedures for Shareholders to Convene an Extraordinary General Meeting**

According to Article 12.3 of the Articles of Association, general meetings can be convened on the written requisition of any two or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company deposited at the principal office of the Company in Hong Kong. Where the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company.

### **Procedures for Shareholders to Propose a Person for Election as a Director**

According to Article 16.4 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of the Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after despatching the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been a written notice given to the company secretary by a member of the Company (not being the person to be proposed) entitled to attend and vote at the said meeting of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness for election.

# CORPORATE GOVERNANCE REPORT *(continued)*

## Procedures for Shareholders to send enquiries to the Board

The Company's corporate website provides email address, postal address, fax number and telephone number by which shareholders may at any time address their concerns or enquiries to the Company's Board.

Accordingly, where a shareholder intends to nominate a person for election as a director of the Company at a general meeting, the following documents shall be validly served at the registered office of the Company, namely: (1) his/her notice of intention to propose a resolution at the general meeting; (2) a notice signed by the nominated candidate of his/her willingness for election; (3) the nominated candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules; and (4) the nominated candidate's written consent to the publication of his/her personal information.

## Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

To promote effective communication, the Company posts the latest information and updates on the Company's business operations and developments, financial information, corporate governance practice and other information in the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.szwyzs.com.cn](http://www.szwyzs.com.cn) for public access.

The general meeting of the Company provide a forum and an important channel for communication between the Board and the Shareholders. The chairman of the Board as well as the chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committee and, where applicable, the chairman of the independent Board committee, are available normally at the annual general meetings and other relevant general meetings to answer questions. Shareholders are also encouraged to attend general meetings held by the Company and are invited to express their views and raise questions therein.

Shareholders should direct their inquiries on their shareholdings to Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong. For any enquiry, investors may also write to the Company through the following contact details, in order to facilitate the communication between Shareholders and the Company:

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

Telephone: 86-0755-83288118

Email address: [ir@szwyzs.com.cn](mailto:ir@szwyzs.com.cn)

The Company reviewed the implementation and effectiveness of the shareholders' communication policy and considered it to be effective for the year ended 31 December 2021.

## CHANGES IN CONSTITUTIONAL DOCUMENTS

The Memorandum of Association and the Articles of Association of the Company (the "**Memorandum and Articles**") have been amended and restated with effect from the Listing Date. Save for the aforesaid disclosed, during the Year, no change has been made to the Memorandum and Articles.

# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF WENYE GROUP HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Wenye Group Holdings Limited and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 52 to 108, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

### BASIS FOR DISCLAIMER OF OPINION

#### Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements which mentions that, the Group incurred a loss of approximately RMB1,206,176,000 for the year ended 31 December 2021 and as of 31 December 2021, the Group had net current liabilities and net liabilities of approximately RMB606,951,000 and RMB579,886,000 respectively. The Group's total bank and other borrowings amounted to approximately RMB102,261,000 and RMB71,730,000, respectively as of 31 December 2021 while its cash and cash equivalents amounted to approximately RMB22,689,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the Directors as described in Note 2 to the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

Up to the date of this report, the Group had signed contracts with several independent third party new customers on the projects of interior and exterior building decoration and design (the “**Projects**”). We were unable to obtain sufficient appropriate audit evidence as to the source of funding in materializing the Projects, as well as whether the estimated completion dates of the project can be satisfactorily adhered to.

# INDEPENDENT AUDITOR'S REPORT *(continued)*

## **BASIS FOR DISCLAIMER OF OPINION** *(continued)*

### **Material uncertainty related to going concern** *(continued)*

Furthermore, up to the date of this report, the Group had notified and requested a settlement arrangement with the bank (the **"Bank Borrower"**) with respect to its overdue bank borrowing with principal amount of approximately RMB28,794,000 (the **"Overdue Bank Borrowing"**). The Group is also in the process of negotiating with other borrowers (the **"Other Borrowers"**) as to the settlement arrangement of overdue other borrowing with principal amount of approximately RMB84,720,000 (the **"Overdue Other Borrowing"**) (Collectively, the **"Settlement Arrangements"**). As of the date of this report, we have not been provided with the Settlement Arrangements with Bank Borrower and Other Borrowers in respect to the Overdue Bank Borrowing and Overdue Other Borrowing.

In addition, the Company planned to issue new shares after the resumption of trading of its shares listed in The Stock Exchange of Hong Kong Limited (the **"SEHK"**) (the **"Resumption"**), subjected to the successful Resumption, approval from the SEHK as well as the approval by the shareholders of the Company in extraordinary general meeting. As of the date of this report, the Resumption had not been materialized. The Group had also been in discussions with several potential investors to obtain new funding to support the Group's operation (the **"Potential New Fundings"**). We have not been provided with the investments/capital injection agreement and were unable to obtain sufficient appropriate audit evidence as to verify such Potential New Fundings.

As to the outstanding amounts due to the creditors as well as the due payments on pending lawsuits (the **"Creditors"**), the Group is currently discussing with Creditors to carry out debt restructuring exercise (the **"Debt Restructuring"**) for the purpose of reducing the level of debts of the Group. As of the date of this report, we have not been provided with the debt restructuring agreements and were unable to obtain sufficient appropriate audit evidence as to confirm the timing and extent of the Debt Restructuring.

In the absence of sufficient appropriate audit evidence of the above, we were unable to ascertain whether the use of the going concern assumption in the preparation of the consolidated financial statements is appropriate.

## **RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the **"HKICPA"**) and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITOR'S REPORT *(continued)*

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

Wan Ho Yuen

Audit Engagement Director

Practising Certificate Number P04309

Hong Kong, 3 December 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>REVENUE</b>	8	<b>1,031,361</b>	1,247,561
Cost of sales		<b>(953,668)</b>	(1,098,967)
<b>Gross profit</b>		<b>77,693</b>	148,594
Other income	9	<b>2,662</b>	14,282
Other losses, net	9	<b>(31,060)</b>	(4,364)
Selling and marketing expenses		<b>(9,719)</b>	(9,912)
General and administrative expenses		<b>(64,084)</b>	(57,016)
Impairment losses of financial assets and contract assets	12	<b>(1,125,166)</b>	(44,312)
Impairment losses of non-current assets	12	<b>(1,039)</b>	—
Finance costs, net	10	<b>(12,153)</b>	(14,747)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(1,162,866)</b>	32,525
Income tax expense	11	<b>(43,310)</b>	(11,456)
<b>(LOSS)/PROFIT FOR THE YEAR</b>	12	<b>(1,206,176)</b>	21,069
<b>Other comprehensive income/(loss):</b> <i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<b>486</b>	(494)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>		<b>486</b>	(494)
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b>(1,205,690)</b>	20,575
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	15		
— Basic and diluted (RMB)		<b>(2.03)</b>	0.04

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	9,676	12,128
Right-of-use assets	17	6,007	13,534
Investment properties	18	2,128	2,205
Intangible assets	19	—	595
Deferred income tax assets	21	—	41,590
Trade and other receivables	22	11,229	39,855
		<b>29,040</b>	109,907
<b>CURRENT ASSETS</b>			
Trade and other receivables	22	229,286	951,297
Contract assets	23	220,175	790,722
Restricted cash	24	66,611	43,895
Bank and cash balances	25	22,689	56,856
		<b>538,761</b>	1,842,770
<b>CURRENT LIABILITIES</b>			
Trade and other payables	26	865,933	1,034,774
Contract liabilities	23	57,072	39,620
Bank borrowings	27	102,261	155,311
Other borrowings	28	70,864	24,384
Lease liabilities	29	6,400	6,710
Amounts due to related parties	35	4,100	721
Current income tax liabilities		39,082	49,899
		<b>1,145,712</b>	1,311,419
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<b>(606,951)</b>	531,351
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>(577,911)</b>	641,258
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	27	—	6,000
Other borrowings	28	866	—
Lease liabilities	29	1,109	9,454
		<b>1,975</b>	15,454
<b>NET (LIABILITIES)/ASSETS</b>		<b>(579,886)</b>	625,804

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2021

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 RMB'000
<b>CAPITAL AND RESERVES</b>			
Share capital	30	<b>51</b>	51
Reserves	31	<b>(579,937)</b>	625,753
<b>TOTAL EQUITY</b>		<b>(579,886)</b>	625,804

The consolidated financial statements on pages 52 to 108 were approved and authorised for issue by the board of directors on 3 December 2023 and are signed on its behalf by:

Approved by:

**Mr. Fan Shaozhou**  
*Director*

**Mr. Kong Guojing**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to owners of the Company						
	Share capital	Share premium	Capital reserve	Statutory reserves	Translation reserve	Retained earnings/ (Accumulated loss)	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	–	–	142,570	31,811	6	300,366	474,753
Profit for the year	–	–	–	–	–	21,069	21,069
Other comprehensive loss for the year	–	–	–	–	(494)	–	(494)
Total comprehensive (loss)/income for the year	–	–	–	–	(494)	21,069	20,575
Transfer to statutory reserves	–	–	–	4,741	–	(4,741)	–
Capitalisation issue	38	(38)	–	–	–	–	–
Shares issued pursuant to the initial public offering (the "IPO")	13	142,770	–	–	–	–	142,783
Transaction costs attributable to the IPO	–	(12,307)	–	–	–	–	(12,307)
At 31 December 2020	51	130,425	142,570	36,552	(488)	316,694	625,804
At 1 January 2021	51	130,425	142,570	36,552	(488)	316,694	625,804
Loss for the year	–	–	–	–	–	(1,206,176)	(1,206,176)
Other comprehensive income for the year	–	–	–	–	486	–	486
Total comprehensive income/(loss) for the year	–	–	–	–	486	(1,206,176)	(1,205,690)
At 31 December 2021	51	130,425	142,570	36,552	(2)	(889,482)	(579,886)

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/profit before tax	<b>(1,162,866)</b>	32,525
Adjustments for:		
Amortisation of intangible assets	<b>310</b>	464
Depreciation of property, plant and equipment	<b>2,452</b>	3,536
Depreciation of investment properties	<b>77</b>	2,544
Depreciation of right-of-use assets	<b>5,476</b>	7,824
Finance income	<b>(1,350)</b>	(1,878)
Finance costs	<b>13,503</b>	16,625
Gain on early termination of a lease contract	<b>(325)</b>	(20,020)
Impairment of property, plant and equipment	<b>754</b>	—
Impairment of intangible assets	<b>285</b>	—
Loss on disposal of property, plant and equipment	<b>30</b>	10,093
Net impairment losses on financial assets and contract assets	<b>1,125,166</b>	44,312
Bad debt written-off	<b>27,602</b>	—
Penalty of lawsuits	<b>31,334</b>	—
Operating cash flows before movements in working capital	<b>42,448</b>	96,025
Change in contract assets	<b>(35,010)</b>	(239,445)
Change in trade and other receivables	<b>203,426</b>	81,263
Change in restricted cash	<b>(22,716)</b>	(36,255)
Change in trade and other payables	<b>(211,683)</b>	7,876
Change in contract liabilities	<b>17,452</b>	(2,918)
Change in balances with related parties	<b>(721)</b>	(127)
Cash used in operations	<b>(6,804)</b>	(93,581)
Income tax paid	<b>(12,537)</b>	(6,745)
<b>Net cash flows used in operating activities</b>	<b>(19,341)</b>	(100,326)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(784)</b>	(2,716)
Purchase of intangible assets	<b>—</b>	(132)
Finance income received	<b>926</b>	1,878
<b>Net cash flows generated from/(used in) investing activities</b>	<b>142</b>	(970)

# CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2021

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issue of shares by the IPO	—	142,783
Proceeds from bank and other borrowings	<b>122,517</b>	212,917
Repayments of bank and other borrowings	<b>(133,840)</b>	(215,384)
Payment for principal of lease liabilities	<b>(6,279)</b>	(2,623)
Payment for interest of lease liabilities	<b>(804)</b>	(1,049)
Finance cost paid	<b>(1,148)</b>	(12,859)
Payment for listing expenses	—	(12,307)
Advance from a related party	<b>4,100</b>	—
<b>Net cash flows (used in)/generated from financing activities</b>	<b>(15,454)</b>	111,478
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	<b>56,856</b>	46,684
Effect of foreign exchange rate changes	<b>486</b>	(10)
<b>Cash and cash equivalents at end of year</b>	<b>22,689</b>	56,856
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>22,689</b>	56,856

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 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 RMB1,206,176,000 for the year ended 31 December 2021 and as of 31 December 2021 the Group had net current liabilities and net liabilities of approximately RMB606,951,000 and RMB579,886,000 respectively. The Group’s total bank and other borrowings amounted to approximately RMB102,261,000 and RMB71,730,000 respectively as of 31 December 2021 while its cash and cash equivalents amounted to approximately RMB22,689,000.

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. The detailed information on bank and other borrowings is illustrated in Notes 27 and 28 respectively to the consolidated financial statements.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 2. GOING CONCERN BASIS *(continued)*

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

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

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

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

## 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 investment properties which are carried at their fair values/fair values less costs to sell.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 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.

### 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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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases *(continued)*

#### The Group as lessee *(continued)*

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.

#### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

#### (i) Financial assets at amortized cost *(continued)*

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.

#### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties *(continued)*

(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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 5. KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

#### (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.

#### (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.

As at 31 December 2021, if the interest rates on bank deposits and borrowings had been 50 basis-points higher/lower with all other variables held constant, pre-tax profit for the year would be RMB65,000 (2020: RMB303,000) lower/higher.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (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.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

### (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 31 December 2021 and 2020 and the corresponding historical credit losses experienced within this period. The loss allowance also incorporates forward looking information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (c) Credit risk *(continued)*

#### (i) Trade receivables, retention receivables and contract assets *(continued)*

The information about the exposure to credit risk and ECL for trade receivables, retention receivables and contract assets as at 31 December 2021 and 2020 are summarised as follows:

#### Trade receivables

	Expected loss	Gross carrying amount RMB'000	Loss allowance provision RMB'000	Total loss allowance provision RMB'000
<b>As at 31 December 2021</b>				
Current	63%	47,535	(29,903)	(29,903)
Within 6 months	59%	38,432	(22,815)	(22,815)
6 months to 1 year	80%	110,167	(87,845)	(87,845)
1 to 2 years	59%	100,190	(59,314)	(59,314)
2 to 3 years	71%	170,149	(120,682)	(120,682)
Over 3 years	84%	273,457	(230,458)	(230,458)
		<b>739,930</b>	<b>(551,017)</b>	<b>(551,017)</b>

#### As at 31 December 2020

Current	2%	227,571	(3,935)	(3,935)
Within 6 months	7%	222,426	(15,593)	(15,593)
6 months to 1 year	8%	105,955	(8,985)	(8,985)
1 to 2 years	13%	146,232	(19,048)	(19,048)
2 to 3 years	25%	155,385	(38,597)	(38,597)
Over 3 years	71%	162,200	(115,883)	(115,883)
		<b>1,019,769</b>	<b>(202,041)</b>	<b>(202,041)</b>

#### Retention receivables

	Expected loss	Gross carrying amount RMB'000	Loss allowance provision RMB'000	Total loss allowance provision RMB'000
<b>As at 31 December</b>				
<b>2021</b>	<b>92%</b>	<b>194,667</b>	<b>(178,924)</b>	<b>(178,924)</b>
2020	2%	109,704	(2,047)	(2,047)

#### Contract assets

	Expected loss	Gross carrying amount RMB'000	Loss allowance provision RMB'000	Total loss allowance provision RMB'000
<b>As at 31 December</b>				
<b>2021</b>	<b>73%</b>	<b>830,206</b>	<b>(610,031)</b>	<b>(610,031)</b>
2020	2%	808,145	(17,423)	(17,423)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (c) Credit risk *(continued)*

#### (i) Trade receivables, retention receivables and contract assets *(continued)*

Reconciliation of the loss allowance for trade receivables, retention receivables and contract assets as at 31 December 2021 and 2020 are as follows:

	2021			2020		
	Trade receivables RMB'000 <i>(Note 22)</i>	Retention receivables RMB'000 <i>(Note 22)</i>	Contract assets RMB'000 <i>(Note 23)</i>	Trade receivables RMB'000 <i>(Note 22)</i>	Retention receivables RMB'000 <i>(Note 22)</i>	Contract assets RMB'000 <i>(Note 23)</i>
At 1 January	202,041	2,047	17,423	169,406	1,365	6,428
Impairment loss	350,064	178,880	594,940	44,559	682	10,995
Reversal of impairment	(1,088)	(2,003)	(2,332)	(11,924)	—	—
At 31 December	551,017	178,924	610,031	202,041	2,047	17,423

Trade receivables, retention receivables and contract assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

#### (ii) Deposits and other receivables

As at 31 December 2021 and 2020, all of these financial assets are considered to have low credit risk, and thus the impairment provision recognised during the years was limited to 12 months expected losses. Management considered these financial assets to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed that the 12 months expected credit losses for these receivables are not material, and thus, no loss allowance provision was recognised during the year ended 31 December 2021, except for the following set out below.

Reconciliation of the loss allowance for deposits:

	2021 RMB'000	2020 RMB'000
At 1 January	1,400	1,400
Impairment loss	6,705	—
At 31 December	8,105	1,400

As at 31 December 2021 and 2020, the maximum exposure to credit risk of these financial assets were as follows:

	2021 RMB'000	2020 RMB'000
Deposits and other receivables	34,215	56,188

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (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.

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

	On demand or within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>31 December 2021</b>						
Trade and other payables	865,933	—	—	—	865,933	865,933
Amounts due to related parties	4,100	—	—	—	4,100	4,100
Bank borrowings	110,814	—	—	—	110,814	102,261
Other borrowings	74,936	—	1,247	—	76,183	71,730
Lease liabilities	6,707	1,118	—	—	7,825	7,509
	<b>1,062,490</b>	<b>1,118</b>	<b>1,247</b>	<b>—</b>	<b>1,064,855</b>	<b>1,051,533</b>

	On demand or within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>31 December 2020</b>						
Trade and other payables	1,034,774	—	—	—	1,034,774	1,034,774
Amounts due to related parties	721	—	—	—	721	721
Bank borrowings	161,685	6,311	—	—	167,996	161,311
Other borrowings	26,819	—	—	—	26,819	24,384
Lease liabilities	7,583	7,352	2,645	—	17,580	16,164
	<b>1,231,582</b>	<b>13,663</b>	<b>2,645</b>	<b>—</b>	<b>1,247,890</b>	<b>1,237,354</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (e) Categories of financial instruments

	2021 RMB'000	2020 RMB'000
<b>Financial assets:</b>		
Financial assets at amortized cost		
– Trade and other receivables	238,871	981,573
– Restricted cash	66,611	43,895
– Bank and cash balances	22,689	56,856
	<b>328,171</b>	1,082,324
<b>Financial liabilities:</b>		
Financial liabilities at amortized cost		
– Trade and other payables	865,933	1,034,774
– Amounts due to related parties	4,100	721
– Bank borrowings	102,261	161,311
– Other borrowings	71,730	24,384
– Lease liabilities	7,509	16,164
	<b>1,051,533</b>	1,237,354

### (f) 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (f) Capital risk management *(continued)*

The Group's strategy was to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2021 and 2020 were as follows:

	2021 RMB'000	2020 RMB'000
Total bank borrowings <i>(Note 27)</i>	102,261	161,311
Total other borrowings <i>(Note 28)</i>	71,730	24,384
Lease liabilities <i>(Note 29)</i>	7,509	16,164
	<b>181,500</b>	201,859
Less: Bank and cash balances <i>(Note 25)</i>	<b>(22,689)</b>	(56,856)
Net debt	<b>158,811</b>	145,003
Total equity	<b>(579,886)</b>	625,804
Gearing ratio	<b>-27.4%</b>	23.2%

### (g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 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.

All of the Group's revenue was mainly derived in the PRC during the years ended 31 December 2021 and 2020.

As at 31 December 2021 and 2020, all of the non-current assets were located in the PRC.

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

### Revenue from major customers:

	2021 RMB'000	2020 RMB'000
Customers A	109,941	N/A*

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group in the particular year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 8. REVENUE

	2021 RMB'000	2020 RMB'000
Revenue from construction services	1,016,893	1,224,256
Design service income	14,468	23,305
	<b>1,031,361</b>	1,247,561

### Disaggregation of revenue from contracts with customers:

	2021 RMB'000	2020 RMB'000
<b>Type of goods or services</b>		
Construction services	1,016,893	1,224,256
Design services	14,468	23,305
Total	<b>1,031,361</b>	1,247,561
<b>Timing of revenue recognition</b>		
Over time	<b>1,031,361</b>	1,247,561
Total	<b>1,031,361</b>	1,247,561

### 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 year 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 8. REVENUE *(continued)*

### Revenue from construction services *(continued)*

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).

## 9. OTHER INCOME AND OTHER LOSSES, NET

	Notes	2021 RMB'000	2020 RMB'000
<b>Other income:</b>			
Government grants	(i)	2,001	1,161
Rental income from investment properties	18	636	2,471
Compensation from lawsuit		—	630
Compensation from termination of a lease contract	17	—	10,000
Others		25	20
		<b>2,662</b>	14,282
<b>Other losses, net:</b>			
Penalty of lawsuits	(ii)	(31,334)	(14,165)
Loss on disposal of property, plant and equipment		(30)	(10,093)
Gain on termination of a lease contract	17	325	20,020
Others		(21)	(126)
		<b>(31,060)</b>	(4,364)

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 RMB31,334,000 (2020: RMB14,165,000) for the year ended 31 December 2021 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 10. FINANCE COSTS, NET

	Notes	2021 RMB'000	2020 RMB'000
<b>Finance income:</b>			
Interest income		926	1,878
Imputed interest income on other borrowings	28(v)	424	—
		<b>1,350</b>	1,878
<b>Finance costs:</b>			
Interest expense on bank and other borrowings		(12,656)	(12,859)
Interest expense on lease liabilities		(804)	(3,766)
Imputed interest expense on other borrowings	28(v)	(43)	—
		<b>(13,503)</b>	(16,625)
Finance costs, net		<b>(12,153)</b>	(14,747)

## 11. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current income tax	1,720	8,474
Deferred income tax (Note 21)	41,590	2,982
Income tax expense	<b>43,310</b>	11,456

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% (2020: 25%).

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

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

The tax on the Group’s (loss)/profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (loss)/profits of the entities as follows:

	2021 RMB'000	2020 RMB'000
(Loss)/profit before tax	(1,162,866)	32,525
Tax calculated at weighted average tax rate	(174,782)	9,098
Tax effect of income that is not taxable	(1,058)	(5,005)
Tax effect of expenses that are not deductible	164,544	7,031
Tax effect of tax losses not recognised	13,016	332
Tax losses previously recognised and reversed	41,590	—
	<b>43,310</b>	11,456

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 12. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	<i>Notes</i>	<b>2021 RMB'000</b>	2020 RMB'000
Amortisation of intangible assets	19	310	464
Auditors' remuneration		2,251	2,300
Bad debt written-off		27,602	—
Cost of sales		953,668	1,098,967
Depreciation of property, plant and equipment	16	2,452	3,536
Depreciation of investment properties	18	77	2,544
Depreciation of right-of-use assets	17	5,476	7,824
Impairment losses of financial assets and contract assets:			
Impairment of trade receivables, net	6(c)(i)	348,976	32,635
Impairment of contract assets	6(c)(i)	592,608	10,995
Impairment of retention receivables	6(c)(i)	176,877	682
Impairment of deposits	6(c)(ii)	6,705	—
		<b>1,125,166</b>	44,312
Impairment losses of non-current assets			
Impairment of property, plant and equipment	16	754	—
Impairment of intangible assets	19	285	—
		<b>1,039</b>	—
Listing expenses		—	12,277
Staff costs including directors' remuneration:			
Salaries, wages and bonuses		31,759	35,812
Housing funds, medical insurances and other social insurances		3,994	3,650
Other welfare and allowances		1,117	1,043
		<b>36,870</b>	40,505

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Fees	<b>210</b>	210
Other emoluments:		
Salaries, allowances and benefits in kind	<b>1,916</b>	2,456
Retirement benefit scheme contribution	<b>254</b>	183
	<b>2,170</b>	2,639
	<b>2,380</b>	2,849

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

### (a) Directors' and Chief Executive's Emoluments

		For the year ended 31 December 2021				
		Fees	Salaries, allowances and benefits	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Total
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
Mr. Fan Shaozhou		—	623	—	70	693
Mr. Peng Weizhou	(i)	—	318	—	37	355
Mr. Kong Guojing	(xi)	—	—	—	—	—
Mr. Wan Neng	(ix)	—	560	—	67	627
		—	1,501	—	174	1,675
Non-executive directors:						
Mr. Chen Li		—	90	—	14	104
Mr. Shen Peng	(vi)	—	—	—	—	—
Mr. Li Hongxing	(vii)	—	—	—	—	—
Mr. Deng Guanghui	(viii)	—	325	—	66	391
		—	415	—	80	495
Independent non-executive directors:						
Mr. Ma Kin Ling	(xii)	—	—	—	—	—
Mr. Huang Wei	(xiii)	—	—	—	—	—
Ms. Lau Chui Ping Soey	(xiii)	—	—	—	—	—
Mr. Gao Rongshun	(iii)	—	—	—	—	—
Mr. Yi Xiaopei	(iv)	—	—	—	—	—
Ms. Huang Guiqing	(v)	70	—	—	—	70
Mr. Liu Ziping	(v)	70	—	—	—	70
Mr. Liu Xiaoyi	(x)	70	—	—	—	70
		210	—	—	—	210
		210	1,916	—	254	2,380

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

### (a) Directors' and Chief Executive's Emoluments *(continued)*

For the year ended 31 December 2020						
	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive directors:						
Mr. Fan Shaozhou		—	645	—	41	686
Mr. Peng Weizhou	(i)	—	281	—	26	307
Ms. Huang Jin	(ii)	—	181	—	7	188
Mr. Wan Neng	(ix)	—	520	—	28	548
		—	1,627	—	102	1,729
Non-executive directors:						
Mr. Chen Li		—	90	—	14	104
Mr. Deng Guanghui	(viii)	—	325	—	28	353
Mr. Lin Yongqi	(ii)	—	414	—	39	453
		—	829	—	81	910
Independent non-executive directors:						
Ms. Huang Guiqing	(v)	70	—	—	—	70
Mr. Liu Ziping	(v)	70	—	—	—	70
Mr. Liu Xiaoyi	(x)	70	—	—	—	70
		210	—	—	—	210
		210	2,456	—	183	2,849

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

### (a) Directors' and Chief Executive's Emoluments *(continued)*

Notes:

- (i) Appointed on 2 July 2020 and resigned on 20 November 2023.
- (ii) Resigned on 30 June 2020.
- (iii) Appointed on 14 June 2022 and resigned on 20 July 2023.
- (iv) Appointed on 14 June 2022 and resigned on 7 August 2023.
- (v) Resigned on 14 June 2022.
- (vi) Appointed on 18 January 2023.
- (vii) Appointed on 13 February 2023.
- (viii) Resigned on 13 February 2023.
- (ix) Resigned on 14 March 2023.
- (x) Resigned on 19 April 2023.
- (xi) Appointed on 6 June 2023.
- (xii) Appointed on 22 July 2023.
- (xiii) Appointed on 13 October 2023.

The remuneration shown above represented remuneration received from the Group by these directors in their capacity as employees to the Group and no directors waived any emolument during the years ended 31 December 2021 and 2020.

No director fees were paid to these directors in their capacity as directors of the Company or the Group and no emoluments were paid by the Company or the Group to the directors as an inducement to join the Company or the Group, or as compensation for loss of office during the years ended 31 December 2021 and 2020.

### (b) Directors' retirement and termination benefits

None of the directors received any other retirement benefits or termination benefits during the year ended 31 December 2021 (2020: Nil).

### (c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2021, no consideration was provided to or receivable by third parties for making available directors' services (2020: Nil).

### (d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2020: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

### (e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the year end or at any time during the year (2020: Nil).

### (f) Five highest paid individual emoluments

The five highest paid individuals of the Group included two (2020: three) directors, details of whose remuneration are set out above. The emoluments of the remaining three (2020: two) highest paid employees are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, wages and bonuses	1,770	1,058
Housing funds, medical insurances and other social insurances	54	27
	<b>1,824</b>	1,085

Emoluments of these employees were within the following bands:

	Number of employees	
	2021	2020
<b>Emolument band:</b>		
HK\$Nil to HK\$1,000,000	3	2

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the year (2020: Nil).

## 14. DIVIDENDS

The directors do not recommend the payment of any dividend for each of the years ended 31 December 2021 and 2020.

## 15. (LOSS)/EARNINGS PER SHARE

### Basic (loss)/earnings per share

The calculation of basic loss (2020: earnings) per share attributable to owners of the Company is based on the loss (2020: profit) for the year attributable to owners of the Company of approximately RMB1,207,868,000 (2020: RMB21,069,000) and the weighted average number of ordinary shares of 593,940,017 (2020: 588,699,905, as adjusted to reflect the capitalisation of 444,510,000 shares (Note 30(ii)) which took place on 14 January 2020), and excluded shares held under the restricted share unit scheme ("**RSU scheme**") in issue during the year ended 31 December 2021 (2020: same).

### Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2021 and 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost</b>					
At 1 January 2020	9,032	28,871	4,784	3,763	46,450
Additions	—	2,364	11	341	2,716
Disposals	—	(27,857)	(87)	(1,016)	(28,960)
At 31 December 2020 and 1 January 2021	<b>9,032</b>	<b>3,378</b>	<b>4,708</b>	<b>3,088</b>	<b>20,206</b>
Additions	—	777	7	—	784
Disposals	—	—	(3,661)	—	(3,661)
At 31 December 2021	<b>9,032</b>	<b>4,155</b>	<b>1,054</b>	<b>3,088</b>	<b>17,329</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2020	688	15,469	4,206	3,046	23,409
Charge for the year (Note 12)	180	2,745	243	368	3,536
Disposals	—	(17,773)	(78)	(1,016)	(18,867)
At 31 December 2020 and 1 January 2021	<b>868</b>	<b>441</b>	<b>4,371</b>	<b>2,398</b>	<b>8,078</b>
Charge for the year (Note 12)	<b>180</b>	<b>1,670</b>	<b>188</b>	<b>414</b>	<b>2,452</b>
Disposals	—	—	(3,631)	—	(3,631)
Impairment loss	—	352	126	276	754
At 31 December 2021	<b>1,048</b>	<b>2,463</b>	<b>1,054</b>	<b>3,088</b>	<b>7,653</b>
<b>Carrying amount</b>					
At 31 December 2021	<b>7,984</b>	<b>1,692</b>	<b>—</b>	<b>—</b>	<b>9,676</b>
At 31 December 2020	8,164	2,937	337	690	12,128

As at 31 December 2021, the net book value of land and buildings which have not obtained the housing title certificates amounted to RMB3,192,000 (2020: RMB3,264,000).

As at 31 December 2021, land and buildings with net book value amounted to RMB4,792,000 (2020: RMB4,900,000), were pledged as collateral for the Group's bank borrowings (Note 27).

The Group carried out reviews of the recoverable amount of its plant and equipment in 2021 as a result of the deterioration of the markets of the Group's products and the performance of the Group. The reviews led to the recognition of an impairment loss of RMB754,000 (2020: RMBNil), that has been recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount of the plant and equipment has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 15%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 17. LEASES AND RIGHT-OF-USE ASSETS

### Disclosures of lease-related items:

	2021 RMB'000	2020 RMB'000
<b>At 31 December:</b>		
Right-of-use assets		
– Properties	6,007	13,534
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
– Less than 1 year	6,707	7,583
– Between 1 and 2 years	1,118	7,352
– Between 2 and 5 years	–	2,645
	7,825	17,580
<b>Year ended 31 December:</b>		
Depreciation charge of right-of-use assets		
– Properties (Note 12)	5,476	7,824
Lease interests	804	3,766
Expenses related to short-term leases	121	437
Total cash outflow for leases	7,204	4,109
Additions to right-of-use assets	1,181	15,447

Note:

On 1 January 2013, the Group entered into a lease agreement with an individual third party (the “landlord”) for the leasing of office premises in the PRC with a lease term of 12 years and certain of the office premises were sub-leased by the Group.

Pursuant to the termination of lease agreement entered between the Group and the landlord on 31 December 2020, the lease was early terminated on the same date and the landlord agreed to waive the rental payments for the period from 1 November 2019 to 31 December 2020 and pay a compensation of RMB10,000,000 to the Group and recognised as “other income” in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020.

A gain of RMB325,000 (2020: RMB20,020,000) was recognised as “other losses, net” (Note 9) in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 upon the derecognition of right-of-use assets of RMB3,232,000 (2020: RMB11,156,000), lease liabilities of RMB3,557,000 (2020: RMB41,046,000) and investment properties of RMBNil (2020: RMB9,870,000) as at 31 December 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 18. INVESTMENT PROPERTIES

	<b>Owned properties</b>	<b>Leased properties</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
<b>Cost</b>			
At 1 January 2020	3,675	22,206	25,881
Termination of a lease contract	—	(22,206)	(22,206)
At 31 December 2020, 1 January 2021 and 31 December 2021	<b>3,675</b>	<b>—</b>	<b>3,675</b>
<b>Accumulated depreciation</b>			
At 1 January 2020	1,393	9,869	11,262
Charge for the year (Note 12)	77	2,467	2,544
Termination of a lease contract	—	(12,336)	(12,336)
At 31 December 2020 and 1 January 2021	<b>1,470</b>	<b>—</b>	<b>1,470</b>
Charge for the year (Note 12)	<b>77</b>	<b>—</b>	<b>77</b>
At 31 December 2021	<b>1,547</b>	<b>—</b>	<b>1,547</b>
<b>Carrying amount</b>			
At 31 December 2021	<b>2,128</b>	<b>—</b>	<b>2,128</b>
At 31 December 2020	2,205	—	2,205

Rental income recognised during the years ended 31 December 2021 and 2020 are as below:

	<b>2021</b>	2020
	RMB'000	RMB'000
Rental income from investment properties	<b>626</b>	540
Rental income from subleasing	<b>10</b>	1,931
	<b>636</b>	2,471

The Group leases out its investment properties under operating leases. The average lease term is 2 to 3 years. All leases are on fixed rental basis and do not include variable lease payments.

As at 31 December 2021, the net book value of investment properties which have not obtained the housing title certificates amounted to RMB1,145,000 (2020: RMB1,186,000).

As at 31 December 2021, the fair values of the Group's owned investment properties were RMB5,960,000 as determined by an independent professional valuer (2020: RMB6,031,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 18. INVESTMENT PROPERTIES (continued)

As at 31 December 2021, the Group's owned investment properties with net book value amounted to RMB2,128,000 (2020: RMB2,205,000) were pledged as collateral for the Group's bank borrowings (Note 27).

The Group's owned investment properties were located in the PRC.

## 19. INTANGIBLE ASSETS

	<b>Computer software</b> RMB'000	<b>Patents</b> RMB'000	<b>Total</b> RMB'000
<b>Cost</b>			
At 1 January 2020	2,347	385	2,732
Additions	132	—	132
At 31 December 2020, 1 January 2021 and 31 December 2021	<b>2,479</b>	<b>385</b>	<b>2,864</b>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2020	<b>1,523</b>	<b>282</b>	<b>1,805</b>
Amortisation for the year (Note 12)	<b>387</b>	<b>77</b>	<b>464</b>
At 31 December 2020 and 1 January 2021	<b>1,910</b>	<b>359</b>	<b>2,269</b>
Amortisation for the year (Note 12)	<b>284</b>	<b>26</b>	<b>310</b>
Impairment loss	<b>285</b>	<b>—</b>	<b>285</b>
At 31 December 2021	<b>2,479</b>	<b>385</b>	<b>2,864</b>
<b>Carrying amount</b>			
At 31 December 2021	—	—	—
At 31 December 2020	569	26	595

The Group carried out reviews of the recoverable amount of its intangible assets in 2021 as a result of the deterioration of the markets of the Group's products and the performance of the Group. The reviews led to the recognition of an impairment loss of RMB285,000 (2020: RMBNil), that has been recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount of the intangible assets has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 15%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 20. SUBSIDIARIES

Particulars of the major subsidiaries are as follows:

Company name	Place of incorporation or registration	Registered/paid up share capital	Percentage of equity interests attributable to the Company		Principal activities
			2021	2020	
Shenzhen Wenye Decoration Design Engineering Co., Ltd.* ("Wenye Decoration") 深圳文業裝飾設計工程有限公司 ("文業裝飾")	PRC	RMB238,000,000/ RMB Nil	100%	100%	Provision of interior and exterior building decoration and design services
Shenzhen Futian District Wenye Decoration Design Engineering Co., Ltd.* ("Futian Wenye") 深圳市福田区文業裝飾設計工程有限責任公司 ("福田文業")	PRC	RMB1,000,000/RMBNil (Note (i))	100%	100%	Inactive
Shenzhen Wenye Decoration Design Institute Co., Ltd.* ("Wenye Design Institute") 深圳文業裝飾設計院有限責任公司 ("文業設計院")	PRC	RMB10,000,000/RMBNil (Note (ii))	100%	N/A	Provision of interior and exterior building decoration and design services

\* The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as these companies do not register any official English names.

Notes:

- (i) Futian Wenye was registered as domestic enterprises under the PRC law on 3 July 2020. As at 31 December 2021 and 2020, the registered capital of Futian Wenye is RMB1,000,000 of RMBNil has been paid by the Company. Subsequent to the end of the reporting period, the Company entered into a share transfer agreement with a third party to transfer 100% equity of Futian Wenye at a consideration of RMB600,000.
- (ii) Wenye Design Institute was registered as domestic enterprises under the PRC law on 24 March 2021. As at 31 December 2021, the registered capital of Wenye Design Institute is RMB10,000,000 of RMBNil has been paid by the Company.

## 21. DEFERRED INCOME TAX ASSETS

The movements in deferred tax assets are as follows:

	Net impairment losses on financial assets and contract assets RMB'000
At 1 January 2020	44,572
Charge to profit or loss for the year	(2,982)
At 31 December 2020 and 1 January 2021	41,590
Charge to profit or loss for the year	(41,590)
At 31 December 2021	—

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 21. DEFERRED INCOME TAX ASSETS *(continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB13,607,000 (2020: RMB591,000) in respect of losses amounting to RMB90,713,000 (2020: RMB2,365,000) at 31 December 2021 that can be carried forward against future taxable income for 5 years.

## 22. TRADE AND OTHER RECEIVABLES

	Notes	2021 RMB'000	2020 RMB'000
Trade receivables	(i)	739,930	1,019,769
Provision for loss allowance	6(c)(i)	(551,017)	(202,041)
Trade receivables, net		188,913	817,728
Retention receivables	(ii)	194,667	109,704
Provision for loss allowance	6(c)(i)	(178,924)	(2,047)
Retention receivables, net		15,743	107,657
Deposits	(iii)	21,545	25,385
Provision for loss allowance	6(c)(ii)	(8,105)	(1,400)
Deposits, net		13,440	23,985
Bills receivables	(iv)	7,035	3,340
Prepayments		1,644	9,579
Advances to staff		7,582	6,166
Compensation receivable from termination of a lease contract		—	10,000
Loan receivable	(v)	1,068	10,843
Other receivables		5,090	1,854
Total trade and other receivables		240,515	991,152
Analysed as:			
Current assets		229,286	951,297
Non-current assets		11,229	39,855
		240,515	991,152

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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 22. 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 aging analysis of the trade receivables based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Unbilled revenue ( <i>Note (a)</i> )	567,872	785,251
Within 30 days	11,289	25,485
31 days to 6 months	28,814	44,181
6 months to 1 year	13,697	45,587
1 to 2 years	51,129	25,606
2 to 3 years	8,716	30,251
Over 3 years	58,413	63,408
	<b>739,930</b>	1,019,769

Note:

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

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

As at 31 December 2021 and 2020, trade receivables were pledged as collateral for the Group's certain bank borrowings (*Note 27*).

- (ii) Retention receivables represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts for 1 to 2 years. As at 31 December 2021 and 2020, the aging analysis of the retention receivables, based on the retention period expiry date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	25,177	72,830
1 to 2 years	169,490	36,874
	<b>194,667</b>	109,704

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.

- (iv) As at 31 December 2021 and 2020, the aging analysis of the bills receivables, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	—	1,207
31 days to 6 months	3,612	1,883
6 months to 1 year	3,051	200
1 to 2 years	322	50
2 to 3 years	50	—
	<b>7,035</b>	3,340

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. As at 31 December 2021, the outstanding amount of the loan RMB1,068,000 (2020: RMB10,843,000). Up to the date of this annual report, the loan receivable was fully settled.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 23. CONTRACT ASSETS AND LIABILITIES

### Disclosures of revenue-related items:

	<b>As at 31 December 2021 RMB'000</b>	As at 31 December 2020 RMB'000	As at 1 January 2020 RMB'000
Contract assets – construction services	<b>829,182</b>	807,056	564,463
Contract assets – design services	<b>1,024</b>	1,089	4,237
	<b>830,206</b>	808,145	568,700
Less: Provision for loss allowance (Note 6(c)(i))	<b>(610,031)</b>	(17,423)	(6,428)
Total contract assets	<b>220,175</b>	790,722	562,272
Contract liabilities – construction services	<b>44,116</b>	28,850	29,315
Contract liabilities – design services	<b>12,956</b>	10,770	13,223
Total contract liabilities	<b>57,072</b>	39,620	42,538
Contract receivables (include in trade receivables)	<b>188,913</b>	817,728	952,837
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognized as revenue in:			
– 2021	–	729,084	
– 2022	<b>378,119</b>	110,360	
– 2023	<b>468,049</b>	–	
	<b>846,168</b>	839,444	
Year ended 31 December	<b>2021 RMB'000</b>	2020 RMB'000	
Revenue recognized in the year that was included in contract liabilities at beginning of year:			
– Construction services	<b>508</b>	18,974	
– Design services	<b>1,456</b>	7,274	
	<b>1,964</b>	26,248	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 23. CONTRACT ASSETS AND LIABILITIES *(continued)*

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

	<b>2021</b>	<b>2021</b>	2020	2020
	<b>Contract</b>	<b>Contract</b>	Contract	Contract
	<b>assets</b>	<b>liabilities</b>	assets	liabilities
	<b>RMB'000</b>	<b>RMB'000</b>	RMB'000	RMB'000
Increase due to operations in the year	<b>212,206</b>	<b>836,607</b>	416,689	827,954
Transfer of contract assets to trade receivables	<b>(190,145)</b>	—	(177,244)	—
Transfer of contract liabilities to revenue	—	<b>(819,155)</b>	—	(830,872)

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.

## 24. RESTRICTED CASH

As at 31 December 2021 and 2020, restricted cash comprises (i) deposits held at banks as collateral for the issuance of the bills payable, (ii) deposits held at banks under litigation claims, and (iii) guaranteed deposit of RMB25,100,000 (2020: RMB25,249,000) for bank borrowings (Note 27).

As at 31 December 2021 and 2020, the carrying amounts of restricted cash approximate their fair values and denominated in the following currencies:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
RMB	<b>41,511</b>	18,646
HK\$	<b>25,100</b>	25,249
	<b>66,611</b>	43,895

The Group's restricted cash balances 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 25. BANK AND CASH BALANCES

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Cash at bank	<b>22,689</b>	56,856
Denominated in:		
RMB	<b>22,369</b>	54,250
HK\$	<b>320</b>	2,606
	<b>22,689</b>	56,856

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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 26. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	722,308	844,552
Bills payables	18,880	12,738
	<b>741,188</b>	857,290
Accruals and other payables		
Accrued staff benefits	24,327	10,524
Accruals for listing expenses	—	3,106
Other payables and accruals	56,709	149,087
Provision for litigations penalty	43,709	14,767
	<b>124,745</b>	177,484
	<b>865,933</b>	1,034,774

As at 31 December 2021 and 2020, the carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
RMB	865,790	1,031,524
HK\$	143	3,250
	<b>865,933</b>	1,034,774

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

	2021 RMB'000	2020 RMB'000
Within 30 days	65,302	665,965
31 days to 6 months	140,330	100,137
6 months to 1 year	154,351	21,757
1 to 2 years	345,822	51,046
2 to 3 years	17,810	12,897
Over 3 years	17,573	5,488
	<b>741,188</b>	857,290

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 27. BANK BORROWINGS

	2021 RMB'000	2020 RMB'000
Bank borrowings	<b>102,261</b>	161,311
The borrowings are repayable as follows:		
On demand or within one year	<b>102,261</b>	155,311
Between 1 and 2 years	—	6,000
	<b>102,261</b>	161,311
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(102,261)</b>	(155,311)
Amount due for settlement after 12 months	—	6,000

The average interest rates at 31 December were as follows:

	2021	2020
Bank borrowings	<b>6.2%</b>	5.5%

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

As at 31 December 2021, the Group had aggregate banking facilities of RMB136,261,000 (2020: RMB363,000,000). The Group's banking facilities are subject to annual review and are secured and guaranteed by:

- (i) The Group's land and buildings of RMB4,792,000 (2020: RMB4,900,000) as at 31 December 2021 (Note 16);
- (ii) The Group's owned investment properties of RMB2,128,000 (2020: RMB2,205,000) as at 31 December 2021 (Note 18);
- (iii) The Group's trade receivables (Note 22);
- (iv) The Group's restricted cash of HK\$30,700,000 (equivalent to approximately RMB25,100,000) (2020: HK\$30,000,000 (equivalent to approximately RMB25,249,000)) as at 31 December 2021 (Note 24);
- (v) Certain properties owned by certain shareholders and related parties of the Group (Note 35 (v)); and
- (vi) Limited personal guarantee executed by the shareholders, Mr. Fan Shaozhou, 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 (2020: Same) (Note: 35 (v)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 28. OTHER BORROWINGS

	<b>2021</b> <b>RMB'000</b>	2020 RMB'000
Other borrowings	<b>71,730</b>	24,384

The borrowings are repayable as follows:

On demand or within one year	<b>70,864</b>	24,384
In the third to fifth years, inclusive	<b>866</b>	—
	<b>71,730</b>	24,384
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(70,864)</b>	(24,384)
Amount due for settlement after 12 months	<b>866</b>	—

Notes:

- (i) As at 31 December 2021 and 2020, 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% (2020: 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 RMB654,000 (2020: RMB854,000) as at 31 December 2021.
- (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% (2020: 15.4%) per annum, respectively. The loan facilities are guaranteed by the shareholder, Mr. Fan Shaozhou. As at 31 December 2021, the carrying amounts of such loans were approximately RMB12,910,000 and RMB10,000,000 (2020: RMB13,530,000 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 31 December 2021, the carrying amount of such loan were RMB2,500,000, RMB2,000,000, RMB35,000,000 and RMB2,800,000, 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 31 December 2021, the carrying amount of such loan was 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 31 December 2021, the carrying amount of such loan was approximately RMB866,000.

An imputed interest income of approximately RMB424,000 and an imputed interest expense of approximately RMB43,000 were recognised as "finance costs, net" (Note 10) in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

## 29. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Within 1 year	6,707	7,583	6,400	6,710
Between 1 and 2 years	1,118	7,352	1,109	6,932
Between 2 and 5 years	—	2,645	—	2,522
	<b>7,825</b>	17,580		
Less: Future finance charges	<b>(316)</b>	(1,416)		
Present value of lease liabilities	<b>7,509</b>	16,164	<b>7,509</b>	16,164
Less: Amount due for settlement within 12 months (shown under current liabilities)			<b>(6,400)</b>	(6,710)
Amount due for settlement after 12 months			<b>1,109</b>	9,454

The Group leases office premises for operation. Property leases are typically made for fixed period of 3 to 12 years. Lease terms are negotiated on an individual basis and contain various different terms and conditions.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 30. SHARE CAPITAL

	<i>Notes</i>	<b>Number of shares</b>	<b>Equivalent nominal value of shares</b> RMB'000
<b>Authorized:</b>			
3,800,000,000 shares of HK\$0.0001 each	<i>(i)</i>	3,800,000,000	327
<b>Issued and fully paid:</b>			
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 and 31 December 2021		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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 31. RESERVES

### (i) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (ii) Company

	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	—	16,211	(18,955)	(2,744)
Loss for the year	—	—	(11,342)	(11,342)
Capitalisation issue	(38)	—	—	(38)
Shares issued pursuant to the initial public offering (the "IPO")	142,770	—	—	142,770
Transaction costs attributable to the IPO	(12,307)	—	—	(12,307)
Currency translation differences	—	(484)	—	(484)
At 31 December 2020 and 1 January 2021	130,425	15,727	(30,297)	115,855
Loss for the year	—	—	(119,371)	(119,371)
At 31 December 2021	130,425	15,727	(149,668)	(3,516)

### (iii) Nature and purpose of reserves

#### (a) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

#### (b) Capital reserve

Capital reserve of the Company represented the difference between the net assets value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.

#### (c) Statutory reserves

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

#### (d) Translation reserves

The translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 4 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	<b>Borrowings and interest paid</b>	<b>Lease liabilities</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
At 1 January 2020	188,162	40,360	228,522
Change in cash flows	(15,326)	(3,672)	(18,998)
Non-cash changes:			
– Interest expenses	12,859	3,766	16,625
– Additions	–	16,756	16,756
– Termination of a lease contract	–	(41,046)	(41,046)
At 31 December 2020 and 1 January 2021	185,695	16,164	201,859
Change in cash flows	(12,471)	(7,083)	(19,554)
Non-cash changes:			
– Interest expenses	12,656	804	13,460
– Imputed interest expense on other borrowings	43	–	43
– Imputed interest income on other borrowings	(424)	–	(424)
– Additions	–	1,181	1,181
– Termination of a lease contract	–	(3,557)	(3,557)
– Transfer to other payables	(11,508)	–	(11,508)
At 31 December 2021	173,991	7,509	181,500

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 33. CONTINGENT LIABILITIES

As at 31 December 2021, the Group and the Company did not have any significant contingent liabilities (2020: Nil).

## 34. COMMITMENTS

### (i) Lease commitments

The Group leases various office premise under non-cancellable operating lease. The leases terms are between 2 to 4 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:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Within 1 year	<b>825</b>	669
In more than 1 year but not more than 5 years	—	952
	<b>825</b>	1,621

### (ii) Capital commitments

As at 31 December 2021 and 2020, the Group and the Company did not have any significant capital commitments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 35. 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 31 December 2021:

- (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
Wenye Jiangtun (Shenzhen) Information Technology Co., Ltd. (文業江豚(深圳)信息技術有限公司) (“Wenye Jiangtun”); deregistered on 13 April 2020	Controlled by Mr. Fan Shaozhou, the substantial shareholder

### (ii) Transactions with a related party

	2021 RMB'000	2020 RMB'000
Rental income from subleasing to Wenye Jiangtuan	—	14

The transactions were conducted in the normal course of business at prices and terms as agreed between the Group and the related parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 35. RELATED PARTY TRANSACTIONS *(continued)*

### (iii) Key management compensation

Key management includes the directors of the Group. The compensation paid or payable to key management for employee services is disclosed in Note 13 to the consolidated financial statements.

### (iv) Amounts due to related parties

	2021 RMB'000	2020 RMB'000
<b>Non-trade payables to</b>		
Mr. Chen Li	—	586
Mr. Han Kailong	—	135
Mr. Peng Weizhou <i>(Note)</i>	<b>4,100</b>	—
	<b>4,100</b>	721

As at 31 December 2021 and 2020, non-trade payables balances to related parties were 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.

On 12 December 2022, the independent third party B formally filed a lawsuit in the PRC court, suing Mr. Peng Weizhou and the independent third party A for defaulting on the principal of RMB7,600,000 and its interest accrued. On 11 May 2023, the PRC court ruled that Mr. Peng Weizhou and an independent third party A are obligated to repay RMB7,600,000 to the independent third party B. Since a subsidiary of the Group has joint guarantee liability, it also have an obligation amounting to RMB3,800,000.

### (v) 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 31 December 2021 and 2020 as disclosed in Note 27 to the consolidated financial statements.

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 31 December 2021 and 2020 as disclosed in Note 27 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2021

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSET</b>		
Investment in a subsidiary	—	16,212
<b>CURRENT ASSETS</b>		
Prepayment and other receivables	1,067	10,843
Amounts due from subsidiaries	—	88,503
Restricted cash	25,100	25,249
Bank and cash balances	114	2,395
	<b>26,281</b>	126,990
<b>CURRENT LIABILITIES</b>		
Other payables	2,450	—
Amounts due to subsidiaries	27,296	27,296
	<b>29,746</b>	27,296
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<b>(3,465)</b>	99,694
<b>NET (LIABILITIES)/ASSETS</b>	<b>(3,465)</b>	115,906
<b>EQUITY</b>		
Share capital	51	51
Reserves	(3,516)	115,855
<b>TOTAL EQUITY</b>	<b>(3,465)</b>	115,906

## 37. EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed elsewhere in the notes to the consolidated financial statements, there was no material events that after the report period to be disclosed.

## 38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 3 December 2023.