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GUANGDONG ADWAY CONSTRUCTION (GROUP) HOLDINGS COMPANY LIMITED*

廣東愛得威建設(集團)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6189)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	For the six months ended 30 June		
	2022 (Unaudited)	2021 (Unaudited)	Change
Total Operating Revenue	105.1	254.6	-58.7%
Gross Profit	24.3	43.6	-44.2%
Gross Profit Margin	23.2%	17.1%	6.1%
(Net Loss) Net Profit	-91.8	4.1	—
(Loss) Net Profit Margin	-87.3%	1.6%	-88.9%
Basic and Diluted (Loss) Earnings per share (RMB)	-38 cents	2 cents	—

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Guangdong Adway Construction (Group) Holdings Company Limited* (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Current Period**”), together with the comparative figures for the six months ended 30 June 2021 (the “**Preceding Period**”), which have been reviewed by the Board and the audit committee of the Company (the “**Audit Committee**”), as follows:

(a) Interim Condensed Consolidated Income Statement

For the six months ended on 30 June 2022

(All amounts in RMB Yuan unless otherwise stated)

Items	Notes	Amount of the Current Period (Unaudited)	Amount of the Preceding Period (Unaudited)
1. Total operating revenue		105,067,299.21	254,635,619.10
Including: Operating revenue	5	105,067,299.21	254,635,619.10
Interest income			
Premiums earned			
Fee and commission income			
2. Total operating cost		105,029,938.10	249,865,845.47
Including: Operating costs	5	80,735,862.24	211,062,001.92
Interest expenses			
Fee and commission expense			
Surrenders			
Net payment from indemnity			
Net provisions for insurance contract			
Insurance policy dividend paid			
Reinsurance cost			
Tax and surcharges		74,071.28	1,052,780.68
Selling expenses		1,365,888.57	3,755,984.14
Administrative expenses		8,376,586.80	13,604,548.79
Research and development costs		6,168,515.95	9,539,901.34
Financial expenses		8,309,013.26	10,850,628.60
Including: Interest expense		8,350,588.21	11,178,695.99
Interest income		64,799.19	658,882.58
Add: Other gains		98,479.44	609,318.02
Investment income (losses are represented by “-”)			
Including: Gains from investment in associates and joint ventures			
Gains from derecognition of financial assets at amortised cost			
Exchange gains (losses are represented by “-”)			

(a) Interim Condensed Consolidated Income Statement (Continued)

For the six months ended 30 June 2022

(All amounts in RMB Yuan unless otherwise stated)

Items	Notes	Amount of the Current Period (Unaudited)	Amount of the Preceding Period (Unaudited)
Income on hedging the net exposure (losses are represented by “-”)			
Gains from changes in fair value (losses are represented by “-”)			
Credit impairment loss (losses are represented by “-”)		-118,576,465.96	-41,782,614.42
Asset impairment loss (losses are represented by “-”)		34,951,537.09	41,518,907.39
Gains on disposal of assets (losses are represented by “-”)		-904.04	860,304.57
3. Operating profit (losses are represented by “-”)		-83,489,992.36	5,975,689.19
Add: Non-operating income		148,165.12	30,827.70
Less: Non-operating expenses		8,422,423.56	813,639.75
4. Total profit (total losses are represented by “-”)		-91,764,250.80	5,192,877.14
Less: Income tax expense	6		1,126,577.08
5. Net profit (net losses are represented by “-”)		-91,764,250.80	4,066,300.06
(1) Classified by the business continuity			
1. Net profit from continuing operations (net losses are represented by “-”)		-91,764,250.80	4,066,300.06
2. Net profit from discontinued operation (net losses are represented by “-”)			
(2) Classified by the attribution of the ownership			
1. Net profit attributable to the shareholders of the Company (net losses are represented by “-”)		-91,764,250.80	4,066,300.06
2. Minority interests (net losses are represented by “-”)			

(a) Interim Condensed Consolidated Income Statement (Continued)

For the six months ended 30 June 2022

(All amounts in RMB Yuan unless otherwise stated)

Items	<i>Notes</i>	Amount of the Current Period (Unaudited)	Amount of the Preceding Period (Unaudited)
6. Net other comprehensive income after tax			
Other comprehensive income (net of tax) attributable to the owners of the Company			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Re-measurement of changes in defined benefit plan			
2. Other comprehensive income that cannot be reclassified to profit or loss under equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of enterprise's own credit risk			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that may be reclassified to profit or loss under equity method			
2. Changes in fair value of other debt investments			
3. Amount included in other comprehensive income on reclassification of financial assets			
4. Provision for credit impairment of other debt investments			
5. Cash flows hedging reserve			
6. Exchange differences from translation of foreign currency financial statements			
7. Others			
Other comprehensive income (net of tax) attributable to minority shareholders			
7. Total comprehensive income		-91,764,250.80	4,066,300.06
Total comprehensive income attributable to the owners of the Company		-91,764,250.80	4,066,300.06
Total comprehensive income attributable to minority shareholders			
8. (Loss) earnings per share:			
(I) Basic (loss) earnings per share (RMB/share)	7	-0.38	0.02
(II) Diluted (loss) earnings per share (RMB/share)	7	-0.38	0.02

(b) Interim Condensed Consolidated Balance Sheet*As at 30 June 2022**(All amounts in RMB Yuan unless otherwise stated)*

ASSETS	Notes	Closing balance (Unaudited)	Balance at the end of last year (Audited)
Current assets:			
Monetary capital		14,105,777.87	33,212,976.49
Settlement provisions			
Placements with banks and other financial institutions			
Financial assets held for trading			
Derivative financial assets			
Notes receivable			100,000.00
Accounts receivable	9	495,318,281.38	647,005,736.93
Receivables financing			
Prepayments		124,168,713.09	106,488,851.62
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance contract reserve receivable			
Other receivables		31,404,752.70	26,520,344.90
Financial assets held under resale agreements			
Inventory			
Contract assets		331,175,369.02	415,662,534.04
Assets held for sale			
Non-current assets due within one year			
Other current assets			
Total current assets		996,172,894.06	1,228,990,443.98

(b) Interim Condensed Consolidated Balance Sheet (Continued)*As at 30 June 2022**(All amounts in RMB Yuan unless otherwise stated)*

ASSETS	<i>Notes</i>	Closing balance (Unaudited)	Balance at the end of last year (Audited)
Non-current assets:			
Loans and advances to customers			
Debt investment			
Other debt investment			
Long-term receivables			
Long-term equity investments			
Investment in other equity instruments			
Other non-current financial assets			
Investment properties		580,273.55	601,999.25
Fixed assets		47,944,639.11	49,163,420.12
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right-of-use assets		481,000.64	786,126.16
Intangible assets		8,646,755.20	8,809,908.22
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
		-----	-----
Other non-current assets		5,699,937.36	5,063,015.86
Total non-current assets		63,352,605.86	64,424,469.61
Total assets		1,059,525,499.92	1,293,414,913.59

(b) Interim Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2022

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNER'S EQUITY	<i>Notes</i>	Closing balance (Unaudited)	Balance at the end of last year (Audited)
Current liabilities :			
Short-term borrowings	11	229,390,380.24	245,801,658.03
Borrowings from central bank			
Placements from banks and other financial institutions			
Financial liabilities held for trading			
Derivative financial liabilities			
Note payables			
Accounts payable	10	309,393,655.09	353,108,490.10
Advance receipts from customers			
Contract liabilities		53,005,279.32	150,619,394.05
Financial assets sold under repurchase agreements			
Deposit taking and interbank deposit			
Brokerage for trading securities			
Brokerage for underwriting securities			
Staff salaries payable		5,240,301.82	5,838,190.99
Taxes payable		122,573,675.46	121,271,501.25
Other payables		60,741,820.86	49,347,594.92
Bank charges and commissions payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities due within one year			
Other current liabilities		2,720,907.86	6,577,072.84
Total current liabilities		<u>783,066,020.65</u>	<u>932,563,902.18</u>

(b) Interim Condensed Consolidated Balance Sheet (Continued)*As at 30 June 2022**(All amounts in RMB Yuan unless otherwise stated)*

LIABILITIES AND OWNER'S EQUITY	<i>Notes</i>	Closing balance (Unaudited)	Balance at the end of last year (Audited)
Non-current liabilities:			
Insurance contract reserve			
Long-term borrowings			
Bonds payables			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities		948,906.45	945,763.76
Long-term payables			
Long-term staff salaries payables			
Estimated liabilities		19,530,429.41	14,754,573.20
Deferred income		1,448,302.71	1,484,510.31
Deferred income tax liabilities			
Other non-current liabilities			
		<hr/>	<hr/>
Total non-current liabilities		21,927,638.57	17,184,847.27
		<hr/>	<hr/>
Total liabilities		804,993,659.22	949,748,749.45
		<hr/>	<hr/>
Owners' equity:			
Share capital		240,930,645.00	240,930,645.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		323,069,734.88	323,069,734.88
Less: Treasury shares			
Other comprehensive income			
Special reserve		1,723,274.79	131,626.07
Surplus reserve		80,126,247.00	80,126,247.00
General risk reserve			
Undistributed profit		-391,318,060.97	-300,592,088.81
Total equity attributable to the owners of the Company		254,531,840.70	343,666,164.14
Minority interests			
		<hr/>	<hr/>
Total owners' equity		254,531,840.70	343,666,164.14
		<hr/>	<hr/>
Total liabilities and owners' equity		1,059,525,499.92	1,293,414,913.59
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Guangdong Adway Construction (Group) Holdings Company Limited ((hereinafter referred to as “**Company**”) was established under the name of Guangdong Yahe Decoration Construction Company Limited (廣東雅和裝飾工程有限公司) in the People’s Republic of China (the “**PRC**”) on 18 December 1996. On 3 December 2007, upon the resolution of the meeting of the shareholders, the Company was fully converted into a joint stock company with limited liability in compliance with Company Law. The Company became listed on Main Board of The Stock Exchange of Hong Kong Limited on 25 November 2016. The registered capital of the Company was RMB240,930.6 thousand. As of 30 June 2022, the share capital is RMB240,930.6 thousand.

The principal activities of the Company are provision of interior and exterior building decoration and design services.

The controlling shareholders and actual controllers of the Company: Mr. Ye Yujing and Ms. Ye Xiujin.

Unified social credit code: 91440300617421139M.

The registered address of the Company is 3rd Floor, Pengyi Garden Building 1, Bagua No.1 Road, Futian District, Shenzhen.

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Board of the Company on 30 August 2022.

Scope of consolidated financial statements

As of 30 June 2022, the subsidiaries in the scope of consolidated financial statements of the Company are as follows:

Name of the subsidiaries

Huidong Shikuan Decorative Furniture Creative Culture Company Limited

Huidong Yip’s Development Company Limited

Jingdi Industrial (Shenzhen) Company Limited

Adway Construction (Hong Kong) Limited

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Preparation of basis

This interim condensed consolidated financial information in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (together referred to as the “Accounting Standards for Business Enterprises”), and the relevant requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

This interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the interim financial information should be read in conjunction with the annual financial report for the year ended 31 December 2021 and any public announcements made by the Company during the interim reporting period.

Going concern

Although the carrying amount of short-term borrowings was RMB229,390.4 thousand, of which RMB129,398.9 thousand has been overdue, and some bank accounts have been judicially frozen, while a number of litigations involved, as well as doubts about operational uncertainty existed, the Group has taken measures to reduce its liquidity pressure of the Group and improve cash flow, including but not limited to: maintaining communication with banks so as to not taking extreme measures; strengthening completion process of the unfinished projects and the collection of settlement due from acceptance by customers; disposal of a subsidiary and the land it owns; optimising the workforce to control and save costs and expenses; seeking and introducing strategic investors, and for the next 12 months, the Group has ability to continue as a going concern. The interim condensed consolidated financial information is based on going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE

(I) Statement on compliance with the Accounting Standards for Business Enterprises

This interim condensed consolidated financial information is in compliance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, reflecting the financial position of the Group as at 30 June 2022, and the operating results and cash flows of the Group for the six months ended 30 June 2022 on a true and complete basis.

(II) Accounting period

Accounting year is the calendar year from 1 January to 31 December.

(III) Operating cycle

The Company takes 12 months as its operating cycle.

(IV) Functional currency

The functional currency of the Company is Renminbi.

(V) Accounting treatment of business combinations under common control and not under common control

Business combinations under common control: The assets and liabilities acquired by acquirer through business combination shall be measured at the carrying value of the assets, liabilities (including goodwill arising from the acquisition of the acquiree by ultimate controlling party) of the acquiree in the consolidated financial statements of the ultimate controlling party at the date of combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Business combinations not under common control: The cost of combination is the assets paid, the liabilities incurred or committed and fair value of the equity securities issued by the acquirer for acquisition of control over the acquiree on the date of acquisition. Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquirer in business combination, such difference shall be recognized as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to current profit or loss. Each of the identifiable assets, liabilities and contingent liabilities of the acquiree, which are acquired in the combination and meet the criteria for recognition, shall be measured at fair value on the date of acquisition.

The direct relevant expenses incurred for the business combinations are recognised as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued for business combination shall be recognised as the initial recognition amount of equity securities or debt securities.

(VI) Preparation method of consolidated financial statements

— *Scope of consolidation*

The scope of consolidation of the consolidated financial statements is determined on the basis of control, and the scope of consolidation comprises the Company and all of its subsidiaries. Control refers to the power of a company over the investee, the rights to enjoy variable returns from its involvement in relevant activities of the investee, and the ability to use its power over the investee to affect the amount of its returns.

4. SEGMENT INFORMATION

The Group will determine operation segment on the basis of the internal organizational structure, management requirements and internal report system, and determine reporting segment on the basis of operation segment, and disclose such segment information.

An operating segment is a component of the Group that meets the following conditions simultaneously:

- (1) the component is able to generate revenues and incur expenses from its ordinary activities;
- (2) whose operating results are regularly evaluated by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance;
- (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and meet specified conditions.

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the Board of the Company regards that there is only one segment which is used to make strategic decisions.

All of the operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue is derived in the PRC during the six months ended 30 June 2022 (six months ended 30 June 2021: same).

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

5. OPERATING REVENUE AND OPERATING COST

Details of operating revenue and operating cost

Items	Amount for the Current Period		Amount for the Preceding Period	
	Revenue <i>RMB</i> (Unaudited)	Cost <i>RMB</i> (Unaudited)	Revenue <i>RMB</i> (Unaudited)	Cost <i>RMB</i> (Unaudited)
Primary business	104,830,221.39	80,553,471.72	254,184,190.56	210,879,611.40
Other business	237,077.82	182,390.52	451,428.54	182,390.52
Total	<u>105,067,299.21</u>	<u>80,735,862.24</u>	<u>254,635,619.10</u>	<u>211,062,001.92</u>

Details of operating revenue

Items	Amount for the Current Period RMB (Unaudited)	Amount for the Preceding Period RMB (Unaudited)
Building decoration projects	104,404,677.38	244,583,174.38
Design revenue	81,681.50	6,658,230.02
Merchandise sales revenue		2,423,802.64
Others	580,940.33	970,412.06
Total	<u>105,067,299.21</u>	<u>254,635,619.10</u>

6. INCOME TAX EXPENSE

Items	Amount of the Current Period RMB (Unaudited)	Amount of the Preceding Period RMB (Unaudited)
Current income tax		872,549.08
Deferred income tax		254,028.00
Total		<u>1,126,577.08</u>

(1) Companies subject to different income tax rates are disclosed as follows:

Name of taxpayer	Income tax rate
Jingdi Industrial (Shenzhen) Company Limited	25%
Huidong Shikuan Decorative Furniture Creative Culture Company Limited	25%
Huidong Yip's Development Company Limited	25%
Adway Construction (Hong Kong) Limited	8.25%, 16.5%

(2) Tax Preference

Shenzhen Science and Technology Innovation Committee, Shenzhen Finance Bureau, Shenzhen Local Taxation Bureau under State Administration of Taxation granted the Company its High and New Technology Enterprise Certificate issued on 9 December 2019 with certificate number GR201944206234, effective for three years. In accordance with the national preferential tax policies related to the hi-tech enterprise, if being certified as a hi-tech enterprise, an enterprise will enjoy the national preferential policies for hi-tech enterprises, namely, being levied enterprise income tax at 15% within three years from the year of the certification.

9. ACCOUNT RECEIVABLES

(1) Ageing analysis of accounts receivables based on invoice date is as follow:

Aging	30 June 2022 <i>RMB</i> (Unaudited)	31 December 2021 <i>RMB</i> (Audited)
Within 1 year (including 1 year)	360,767,457.04	513,804,647.04
1–2 years	272,631,381.45	78,199,284.39
2–3 years	263,008,778.57	448,249,260.28
3–4 years	164,670,798.89	38,081,647.12
4–5 years	29,031,130.05	40,698,955.58
Over 5 years	32,749,416.40	29,312,500.72
Subtotal	<u>1,122,858,962.40</u>	<u>1,148,346,295.13</u>
Less: bad debt provision	<u>627,540,681.02</u>	<u>501,340,558.20</u>
Total	<u><u>495,318,281.38</u></u>	<u><u>647,005,736.93</u></u>

(2) Accounts receivable shown by classification of bad debt provisions

Category	30 June 2022 <i>RMB</i> (Unaudited)					31 December 2021 <i>RMB</i> (Audited)				
	Book balance		Bad debt provision			Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Percent of Provision (%)	Carrying amount	Amount	Proportion (%)	Amount	Percent of Provision (%)	Carrying amount
Provision for bad debts on an individual basis	528,901,345.85	47.10	528,901,345.85	100.00	-	352,377,202.04	30.69	352,377,202.04	100.00	-
Provision for bad debts on a collective basis	593,957,616.55	52.90	98,639,335.17	16.61	495,318,281.38	795,969,093.09	69.31	148,963,356.15	18.71	647,005,736.94
Inc: aging portfolio	593,957,616.55	52.90	98,639,335.17	16.61	495,318,281.38	795,969,093.09	69.31	148,963,356.15	18.71	647,005,736.94
Total	<u>1,122,858,962.40</u>	<u>100.00</u>	<u>627,540,681.02</u>		<u>495,318,281.38</u>	<u>1,148,346,295.13</u>	<u>100.00</u>	<u>501,340,558.19</u>		<u>647,005,736.94</u>

(3) Provision, transfer and recovery of bad debts in the Current Period

Category	31 December 2021 <i>RMB</i> (Audited)	Movements during the Current Period			30 June 2022 <i>RMB</i> (Unaudited)
		Provision	Recovered or reversed	Charged off or written off	
Provision for bad debts on an individual basis	352,377,202.04	176,524,143.81		—	528,901,345.85
Provision for bad debts on a collective basis	148,963,356.15		50,324,020.98	—	98,639,335.17
Total	<u>501,340,558.19</u>	<u>176,524,143.81</u>	<u>50,324,020.98</u>	<u>—</u>	<u>627,540,681.02</u>

10. ACCOUNT PAYABLES

(1) List of accounts payable

Items	30 June 2022 RMB (Unaudited)	31 December 2021 RMB (Audited)
Material expenses payable	242,646,768.80	289,931,646.16
Payment for labour fee payable	66,493,341.41	62,937,755.37
Others	253,544.88	239,088.57
Total	<u>309,393,655.09</u>	<u>353,108,490.10</u>

(2) Ageing analysis of accounts payables based on invoice date is as follow:

Aging	30 June 2022 RMB (Unaudited)	31 December 2021 RMB (Audited)
Within 1 year (including 1 year)	145,795,843.41	62,607,826.06
1 year to 2 years	67,469,052.00	101,581,004.43
2 years to 3 years	43,652,913.78	121,050,462.06
Over 3 years	52,475,845.90	67,869,197.55
Total	<u>309,393,655.09</u>	<u>353,108,490.10</u>

11. SHORT-TERM BORROWINGS

Items	30 June 2022 RMB (Unaudited)	31 December 2021 RMB (Audited)
Borrowings — secured, pledged and guaranteed	175,760,344.78	189,302,821.44
Borrowings — pledged and guaranteed	53,630,035.46	56,498,836.59
Total	<u>229,390,380.24</u>	<u>245,801,658.03</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The first half of 2022 is a period full of challenges and changes. While the PRC economic growth has slowed down, especially in the first half of 2022, the Coronavirus (COVID-19) pandemic, the state's macro-control on the real estate industry resulting the pressure on the building decoration industry continued to have major impacts on the operating and financial performance of the Group and the building decoration industry as a whole.

On the other hand, although the PRC economy is facing tremendous challenges, the building decoration industry still has huge market space. The Group insists on transforming to serve more industrial and commercial, infrastructure and public building customers, while improving its competitiveness and management standards in terms of operation and management, and transforming into a company that pursues soundness and healthy cash flows.

BUSINESS REVIEW

The Group provides professional and comprehensive building decorative services for public and private clients (including state-owned enterprises, government departments and institutions, listed companies, foreign-funded enterprises, property developers and property management companies), mainly covering four areas (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. The Group's projects cover a wide range of buildings and properties, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure as well as hotels.

With over 25 years of operating history, the Group has gained substantial experience and established a solid reputation in the building decoration industry in the PRC, with a broad range of the highest level of qualifications and licenses in the building decoration industry.

The Chinese government has been committed to establishing a unified and open construction market. With the liberalization of conditions for accessing to regional markets of the PRC, the Group's branches are no longer required for the development of the industry. Under the condition that the operating network remains unchanged, the Group closed the branches successively in 2021, and businesses were managed directly by headquarters of the Group, which would help strengthen the Group's ability to manage and control projects and save costs.

In the first half of 2022, the Group has signed 11 new contracts with the total contract value of RMB33.95 million.

In the first half of 2022, the Group carried out 42 projects.

Since 2013, the Company has been awarded the certificate of “High and New Technology Enterprise (高新技術企業)” (“HNTe”) by relevant PRC governmental authorities and has been enjoying a preferential enterprise income tax rate of 15%. In 2022, the HNTe Certificate of the Company has been renewed and is valid for three years from 2022 to 2024.

FUTURE DEVELOPMENT PROSPECTS AND STRATEGIES

The Group will keep focusing on its main business in 2022. The Group believes that the following strategies will help improve the operating results and promote the steady development of our business:

1. To pay attention to industrial and commercial industry, infrastructure and public building market as well as seek for high quality development

As the Chinese government invests in new infrastructure construction, in 2022, the Group will attach more importance on the industrial and commercial, infrastructure and public building construction sectors in Pearl River Delta, Yangtze River Delta, Chengdu-Chongqing-Xi’an Region, seeking optimal customers and pursuing high-quality development in view of the Group’s strengths in the fields of the building decoration, curtain wall and electrical and mechanical installation.

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

The Group will continue to optimize the project management process and improve the efficiency of the project management. We will maximize the utilization of the Group’s collective purchasing platform and enhance the economy of scale on procurement; save engineering projects costs and enhance the efficiency of engineering projects.

3. Optimize projects and talent team

The Group will vigorously promote the upgrading and transformation of its marketing efforts, and will change the pursuit of scale to quality in terms of marketing strategy. In the selection of customers and projects, the Group will more carefully evaluate the payment capacity of customers, reduce projects of risky customers, and cultivate stable high-quality large customers with an aim to promoting the steady development of the Group's business. According to the actual situation of business and management transformation, the Group will optimize the talent team and talent training, control marketing and administrative costs, and save expenses.

4. Deepen the comprehensive governance and seek the way of developing

The Group focuses on maintaining and improving the qualification, improving the research and development skills, maintaining and promoting the brand, integrated development in corporate finance and managing with standardized approach in refined segments, so as to maintain our competitiveness and influential power. At the same time, the Group will actively seek to introduce strategic investors to solve the Group's financial challenges, striving to achieve high-quality development as soon as possible.

FINANCIAL REVIEW

Operating revenue and gross profit margin

The operating revenue of the Group comprised of primary business revenue and other business revenue. The operating revenue decreased by 58.7% from approximately RMB254.6 million for the six months ended 30 June 2021 to approximately RMB105.1 million for the six months ended 30 June 2022. The Group's primary business revenue decreased by 58.8% from approximately RMB254.2 million for the six months ended 30 June 2021 to approximately RMB104.8 million for the six months ended 30 June 2022. The decrease in primary business revenue was mainly due to the fact that financial constraints have caused the Group's business to shrink.

The Group's gross profit decreased by 44.2% from approximately RMB43.6 million for the six months ended 30 June 2021 to approximately RMB24.3 million for the six months ended 30 June 2022. The gross profit margin increased from 17.1% for the six months ended 30 June 2021 to 23.2% for the six months ended 30 June 2022.

(Net loss) net profit for the period

Net loss for the six months ended 30 June 2022 was approximately RMB91.8 million (for the six months ended 30 June 2021: net profit of approximately RMB4.1 million). The main reasons for the loss of the Group were: (i) the Group's business shrinks due to financial constraints; and (ii) during the corresponding period in 2022, the significant impairment provision was made by the Group in relation to certain large projects of which the settlement and payment process had been delayed.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2022 and 31 December 2021, the Group had monetary capital (cash and cash equivalents and restricted capital, etc.) of approximately RMB14.1 million and approximately RMB33.2 million, respectively. The decrease in the monetary capital of the Group was primarily due to shrinking business and inability to obtain external financing for the six months ended 30 June 2022.

The Group monitors the cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business development. In the future, the Group intends to finance its operations through cash generated from operating activities. Other than that the Group will actively seek strategic investors, the Group does not expect to have any material external debt financing plan in the near future.

1. Account receivables and contract assets

The account receivables decreased from approximately RMB647.0 million as at 31 December 2021 to approximately RMB495.3 million as at 30 June 2022. The account receivables are the amounts due from customers in the ordinary course of business. Such decrease was primarily due to the fact that the Group endeavored to accelerate the collection of the account receivables, and bad debt provision were increased during the six months ended 30 June 2022.

The contract assets decreased from approximately RMB415.7 million as at 31 December 2021 to approximately RMB331.2 million as at 30 June 2022. The level of the contract assets due from customers for contract work as at a given reporting date is mainly affected by the duration between our request of interim progress payment and the endorsement on the project progress report. Such decrease was mainly due to the fact that the Group endeavored to accelerate customers' endorsement of project progress report and business shrinking during the six months ended 30 June 2022.

2. Account payables

Account payables decreased from approximately RMB353.1 million as at 31 December 2021 to approximately RMB309.4 million as at 30 June 2022. Such decrease was due to the fact that during the first half of this year the more rigorously implemented national labor law shortened the settlement term of labor fee payable.

3. Short-term borrowings

As at 30 June 2022, the Group had interest-bearing borrowings in the amount of approximately RMB229.4 million (31 December 2021: approximately RMB245.8 million), majority of which are interest-bearing bank borrowings subject to repayment within one year. As of 30 June 2022, the Group have borrowings of RMB12 million from non-related parties.

4. Pledged assets

As at 30 June 2022, the Group's short-term borrowing was secured and pledged by fixed asset of approximately RMB40.9 million in total (31 December 2021: RMB41.8 million), investment property of approximately RMB0.6 million in total (31 December 2021: RMB0.6 million) and account receivables of approximately RMB216.8 million in total (31 December 2021: RMB216.8 million) and guaranteed by certain related parties.

5. Gearing ratio

The gearing ratio was 76% as at 30 June 2022 (31 December 2021: 73%). The increase in gearing ratio was mainly due to the fact that the Group made significant provision for credit impairment loss and asset impairment loss, which led to decrease in assets. Gearing ratio represents liabilities divided by total assets.

6. Capital expenditure

Capital expenditures decreased from approximately RMB62,000 for the year ended 31 December 2021 to approximately RMB16,000 during the six months ended 30 June 2022, which was mainly attributable to financial constraints and shrinking business.

7. Capital commitments

As at 30 June 2022, the Group had no capital commitments (31 December 2021: nil).

8. Contingent liabilities

As at 30 June 2022, due to financial constraints, overdue bank borrowings and involvement in a number of litigations, the bank deposits of the Group with the total value of RMB12.1 million has been frozen by the courts in the PRC. According to the Group's in-house legal adviser, the Directors estimated that the Group may therefore be liable for payables, interest and default of approximately RMB19.5 million in total and such amount was made provision.

9. Fluctuation of exchange rate and foreign exchange risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect that the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group. The Group currently has no hedging policy with respect to the foreign exchange risks. Therefore, the Group has not entered into any hedging.

10. Significant investments in, acquisitions or disposal of subsidiaries, affiliated companies or assets and the future plans

The Group had no significant investments in, acquisitions or disposal of subsidiaries, affiliated companies or assets during the six months ended 30 June 2022.

As of the date of this announcement, there were no any other significant investments or acquisitions of capital assets authorised by the Board. Meanwhile, the Group will continue to identify new opportunities for business development.

11. Employees and remuneration policy

The Group had 175 employees as at 30 June 2022 (31 December 2021: 214). During the six months ended 30 June 2022, the Group incurred employee costs of approximately RMB8.7 million (the six months ended 30 June 2021: approximately RMB13.9 million). The Company's Directors, supervisors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Company. The Company also reimburses its Directors, supervisors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Company or executing their functions in relation to the operations of the Company. The Company regularly reviews and determines the remuneration and compensation packages (including incentive plans) of the Directors, supervisors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors, supervisors and senior management of the Company and the performance of the Company.

In addition, the Group has regularly implemented systematic and specialized vocational training programs for employees of different levels to meet different requirements, with emphasis on individual initiative and responsibility. The Group believes that these measures help to enhance the efficiency of its employees.

12. Segment information

The management of the Company has determined the operating segments based on the reports reviewed by chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, have 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 management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the Board regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive Directors for the purpose of resources allocation and performance assessment.

All of the operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue is derived in the PRC during the six months ended 30 June 2022 (the six months ended 30 June 2021: same). As at 30 June 2022, all of the non-current assets were located in the PRC (31 December 2021: same).

EVENTS AFTER THE REPORTING PERIOD

Breaches of the terms of the loan agreements

From 30 June 2022 up to the date of this announcement, the loans amounted to approximately RMB129.4 million in total from 5 bank were due, and the Group failed to repay or renew the due loan. As of the date of this announcement, the accumulated due and outstanding bank loans of the Group involved 6 banks, amounting to approximately RMB177.4 million in total.

According to Rule 13.19 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Group has breached the terms of its loan agreement with the aforementioned banks while the Group has yet to obtain a waiver from these banks in respect of the defaults and such these banks may demand the immediate repayment from the Group. Currently, the Group is actively negotiating with these banks for feasible resolutions and repayment arrangement and is striving to prevent the banks from taking any extreme measures against the Group. The Group will continue to monitor its financial position and will inform and update its shareholders and other investors of any material development in relation to the above by way of announcement as and when appropriate.

CONTINUED SUSPENSION OF TRADING

Under Rules 13.50A of the Listing Rules, in view of the disclaimer of opinion of auditor’s report for year 2021 (other than the going concern disclaimer), trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2022 and will remain suspended until further notice.

On 8 July 2022, the Company received a letter from the Stock Exchange referring to the disclaimer of opinion expressed by the Company’s auditor, BDO China Shu Lun Pan Certified Public Accountants LLP on the Company’s financial statements for the year ended 31 December 2021 in relation to (a) material uncertainties on going concern; and (b) the Company’s account receivables, prepayment and contracts assets (the “**Disclaimer of Opinion**”) and the letter set out the following guidance for the resumption of trading in the shares of the Company (the “**Resumption Guidance**”):

- (i) address the issues giving rise to the Disclaimer of Opinion, provide comfort that the Disclaimer of Opinion would no longer be required and disclose sufficient information to enable investors to make an informed assessment of its financial positions as required under Rule 13.50A of the Listing Rules; and
- (ii) inform the market of all material information for the Company’s shareholders and investors to appraise the Company’s position.

The Company must remedy the issues causing its trading suspension and fully comply with the Listing Rules to the Stock Exchange's satisfaction before trading in its securities is allowed to resume. For this purpose, the Company has primary responsibility to devise its action plan for resumption. The Stock Exchange may modify or supplement the Resumption Guidance if the Company's situation changes.

Under Rule 6.01A of the Listing Rules, the Stock Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, the 18-month period expires on 30 September 2023. If the Company fails to remedy the issues causing its trading suspension, fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in its shares by 30 September 2023, the Listing Division of the Stock Exchange will recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing.

Under Rules 6.01 and 6.10 of the Listing Rules, the Stock Exchange also has the right to impose a shorter specific remedial period, where appropriate. The Company is taking appropriate steps to comply with the Resumption Guidance and the relevant Listing Rules set out therein and will keep the market informed of the latest developments of the Group by making further announcement(s) as and when appropriate.

Save as disclosed above, the Group does not have any material matters that are required to be disclosed after 30 June 2022.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors and supervisor's securities transactions. Upon specific enquiries, all Directors and supervisors of the Company confirmed that they had complied with the relevant provisions of the Model Code for the six months ended 30 June 2022.

Relevant employees who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company for the six months ended 30 June 2022.

CODE ON CORPORATE GOVERNANCE

The Company has always committed to fulfilling its responsibilities to its shareholders by ensuring that appropriate processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established for the six months ended 30 June 2022.

The Company has adopted the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**CG Code**”).

During the six months ended 30 June 2022, the Company has always complied with all applicable code provisions set out in the CG Code, except for the following deviations.

Pursuant to the requirements in the code provision C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and general manager (which is equivalent to chief executive officer) and Mr. Ye Yujing currently performs these two roles. The Board believes that the performance of the roles of both chairman and general manager by the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority in the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman and general manager of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Save as disclosed below, the Company is expected to comply with all the applicable code provisions set out in the CG Code. The Board will review the Company's policies on corporate governance and the Company's compliance with the CG code in each financial year.

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors, Mr. Cai Huiming (as chairman), Mr. Lin Zhiyang and Mr. Sun Changqing. The Audit Committee has reviewed the unaudited interim results and interim report of the Group for the six months ended 30 June 2022 and has no disagreement with the accounting policies adopted by the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aidewei.cn). The interim report of the Company for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
Guangdong Adway Construction (Group) Holdings Company Limited*
Mr. Ye Yujing
Chairman, Executive Director and Chief Executive Officer

Shenzhen, the PRC, 30 August 2022

As at the date of this announcement, the Board comprises Mr. Ye Yujing, Mr. Ye Jiajun, Ms. Ye Xiujin and Mr. Ye Guofeng as Executive Directors; Mr. Zhuang Liangbin as Non-executive Director; and Mr. Cai Huiming, Mr. Sun Changqing, Mr. Lin Zhiyang and Mr. Zhou Wanxiong as Independent Non-executive Directors.

* *For identification purpose only*