

China TianYF Holdings Group Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 8196

Third Quarterly
Report
2022

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FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2022

- Based on the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2022 (the “**Period**”), the Group’s revenue for the Period was approximately RMB132,687,000, representing an increase of approximately 103.1% as compared to approximately RMB65,329,000 for the corresponding period in 2021.
- During the Period, the Group’s gross profit was approximately RMB21,455,000, representing an increase of approximately 145.5% as compared to approximately RMB8,738,000 for the corresponding period in 2021.
- Loss attributable to owners of the Company was approximately RMB1,075,000, representing a decrease of approximately 89.9% as compared to loss attributable to owners of the Company of approximately RMB10,639,000 for the corresponding period in 2021.
- The Board did not recommend the payment of an interim dividend for the Period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2022

UNAUDITED THIRD QUARTERLY RESULTS

The board of directors of the Company (the “Board”) announces the unaudited consolidated results of the Group for the nine months ended 30 September 2022 together with the comparative unaudited figures for the corresponding period in 2021 as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2022 RMB'000 Unaudited	2021 RMB'000 Unaudited	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited
REVENUE	4	70,953	39,568	132,687	65,329
Cost of Sales		(60,860)	(36,387)	(111,232)	(56,591)
Gross profit		10,093	3,181	21,455	8,738
Other income and gains	4	1,598	504	3,483	1,883
Selling and distribution expenses		(358)	(370)	(1,343)	(908)
Administrative expenses		(7,251)	(7,156)	(22,089)	(19,028)
Finance costs	5	(631)	(668)	(1,819)	(1,914)
PROFIT/(LOSS) BEFORE TAX		3,451	(4,509)	(313)	(11,229)
Income tax credit	7	(946)	62	(762)	590
PROFIT/(LOSS) FOR THE PERIOD		2,505	(4,447)	(1,075)	(10,639)
Other comprehensive loss for the Period, net to tax:					
Items that may be reclassified subsequently to profit or loss:					
Exchange difference on translation of foreign operations		(196)	(155)	(218)	(435)
OTHER COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD, NET OF TAX		(196)	(155)	(218)	(435)
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD		2,309	(4,602)	(1,293)	(11,074)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owners of the Company		2,505	(4,447)	(1,075)	(10,639)
Non-controlling interests		–	–	–	–
		2,505	(4,447)	(1,075)	(10,639)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2022

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2022 RMB'000 Unaudited	2021 RMB'000 Unaudited	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owners of the Company		(2,309)	(4,602)	(1,293)	(11,074)
Non-controlling interests		–	–	–	–
		(2,309)	(4,602)	(1,293)	(11,074)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Basic and diluted (RMB)	9	0.008	(0.015)	(0.004)	(0.035)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2022

	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interest RMB'000	Total equity RMB'000
At 1 January 2021 (audited)	2,397	98,818	(13,830)	9,134	15,029	3,937	(23,584)	91,901	(6)	91,895
Loss for the period	-	-	-	-	-	-	(10,639)	(10,639)	-	(10,639)
Other comprehensive income/(loss) for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(435)	-	(435)	-	(435)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(435)	(10,639)	(11,074)	-	(11,074)
At 30 September 2021 (Unaudited)	2,397	98,818	(13,830)	9,134	15,029	3,502	(34,233)	80,827	(6)	80,821

	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interest RMB'000	Total equity RMB'000
At 1 January 2022 (audited)	2,397	98,818	(13,830)	9,134	15,029	3,901	(40,626)	74,823	-	74,823
Loss for the period	-	-	-	-	-	-	(1,075)	(1,075)	-	(1,075)
Other comprehensive income/(loss) for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(218)	-	(218)	-	(218)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(218)	(1,075)	(1,293)	-	(1,293)
At 30 September 2022 (unaudited)	2,397	98,818	(13,830)	9,134	15,029	3,683	(41,701)	73,530	-	73,530

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite A, 20/F, Wah Hen Commercial Centre, 383 Hennessy Road, Hong Kong.

The Company is an investment holding company. During the Period, the Group is principally engaged in the environmental protection business, such as wastewater treatment and soil remediation, through the design, construction, operation and maintenance service of related facilities and the trading of related equipment.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance (Cap. 622 of the laws of Hong Kong). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required under the GEM Listing Rules.

The condensed consolidated financial statements are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the engineering, procurement and construction projects (the “**EPC Projects**”) segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procurement and construction of water or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;
- (b) the construction projects (the “**Construction Projects**”) segment represents construction projects other than EPC Projects;
- (c) the equipment projects (the “**Equipment Projects**”) segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimise the design of the water or wastewater treatment facilities pursuant to the contract;
- (d) the service concession arrangement (the “**Service Concession Arrangement**”) segment comprises projects providing the construction of sludge treatment and operation of the sludge station upon the completion of construction for a long period, i.e. 10 years. The fee received under this arrangement for the provision of operation services includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff in excess of the minimum volume. Restoration of the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is necessary. According to the terms of such arrangements, the Group is responsible for all of the costs of construction, operation and maintenance as well as restoration of the infrastructure; and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

3. OPERATING SEGMENT INFORMATION *(continued)*

- (e) the other projects (the “**Others**”) segment comprises, principally, the Group’s operation and maintenance services in which an enterprise of the Group is retained to operate and maintain water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

The management of the Group monitors the results of the Group’s operating segments separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is assessed consistently with the Group’s profit/(loss) before tax except that interest income, finance costs, fair value gains from the Group’s investment properties as well as head office and corporate expenses are excluded from such assessment.

The unaudited segment results for the nine months ended 30 September 2022 are as follows:

	EPC Project RMB’000	Construction Project RMB’000	Equipment Project RMB’000	Services Concession Arrangement RMB’000	Others RMB’000	Total RMB’000
Segment revenue:						
Sales to external customers	15,351	1,715	95,447	16,827	3,347	132,687
Segment results	5,874	146	13,927	836	672	21,455
<i>Reconciliation:</i>						
Interest income						155
Unallocated gains						3,328
Corporate and other unallocated expenses						(23,432)
Finance costs						(1,819)
Loss before tax						(313)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

3. OPERATING SEGMENT INFORMATION *(continued)*

The unaudited segment results for the nine months ended 30 September 2021 are as follows:

	EPC Project RMB'000	Construction Project RMB'000	Equipment Project RMB'000	Services Concession Arrangement RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	428	3,031	36,284	18,401	7,185	65,329
Segment results	(33)	804	4,139	1,126	2,702	8,738
<i>Reconciliation:</i>						
Interest income						151
Unallocated gains						1,732
Corporate and other unallocated expenses						(19,936)
Finance costs						(1,914)
Loss before tax						(11,229)

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and rental income received and receivable from investment properties during the relevant periods. An analysis of revenue, other income and gains is as follows:

	For the nine months ended 30 September	
	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited
Revenue		
EPC Projects	15,351	428
Construction Projects	1,715	3,031
Equipment Projects	95,447	36,284
Services Concession Arrangement	16,827	18,401
Others	3,347	7,185
	132,687	65,329
Other income		
Bank interest income	155	151
Rental income	1,642	1,282
Government grants	80	450
Exchange gain	1,606	—
	3,483	1,883

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the nine months ended 30 September	
	2022 RMB'000 Unaudited	2021 RMB'000 Unaudited
Interest on bank loans	1,819	1,914

6. SHARE OPTION SCHEME

The Company operates a share option scheme (the “**Scheme**”) for the purpose of providing incentives and/or rewards to eligible persons thereunder for their contributions to the Group. Eligible persons of the Scheme include current employees, executive or officer of the Group or Directors (including non-executive and independent non-executive directors).

Subject to the conditions of the Scheme, the Scheme shall be valid and effective for a period of 10 years from the adoption date, i.e. 17 June 2022 (the “**Adoption Date**”), after which period no further share options may be offered or granted but the provisions of the Scheme shall remain in force to the extent necessary to give effect to the exercise of any share options which have been granted and remain outstanding.

The maximum number of shares which may be issued pursuant to the Scheme will be 18,000,000 Shares, representing 6% of the total number of shares in issue as at the Adoption Date. Upon adoption of the Scheme or any other share option scheme by the Company, the maximum number of shares which may be issued upon exercise of share options to be granted under the Scheme, the new and other existing share option schemes of the Company shall not exceed 10% of the total number of issued shares. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

The eligibility of any of the eligible persons shall be determined by the Directors from time to time on the basis of the Directors’ opinion as to such eligible persons’ contribution to the development and growth of the Group. The Board will assess the eligibility of the eligible persons based on various factors such as performance conditions, targets to be achieved and potential and/or actual contribution to the business affairs of and benefits to the Group. The inclusion of the Directors and employees as eligible persons is in line with the objectives of the Scheme, which include attracting and retaining quality personnel and motivating them to contribute to the continued growth of the Group.

An offer shall be made to an eligible person in writing (and unless so made shall be invalid) in such form as the Directors may from time to time determine, either generally or on a case-by-case basis, specifying the name, address and position of the eligible person, the number of shares to be issued upon the exercise of the share options in respect of which the offer is made and the exercise price for such shares, the exercisable period of share options, the last date by which the offer must be accepted, the procedure for acceptance, the vesting conditions, the vesting period, the applicable vesting date and other terms and conditions of the offer as may be imposed by the Directors, and further requiring the eligible person to undertake to hold the share option on the terms on which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the eligible person for a period of up to ten (10) days from the grant date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

6. SHARE OPTION SCHEME *(continued)*

An offer shall have been accepted by an eligible person in respect of the shares which are offered to such eligible person when the duplicate letter comprising acceptance of the offer duly signed by the eligible person together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer (which shall not be later than ten (10) days from the grant date). Such remittance shall in no circumstances be refundable.

Upon an offer being accepted by an eligible person, the share options to which the offer relates will be deemed to have been granted by the Company to such eligible person on the grant date. To the extent that the Offer is not accepted within the time specified in the Offer, it will be deemed to have been irrevocably declined.

The exercise price of the share options granted under the Scheme shall be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on grant date, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date.

Subject to fulfilment of the vesting conditions to be imposed by the Board at its sole and absolute discretion, the share options granted to a grantee will be vested in the grantee at the following ratios on the date of issuance of the audited financial report of the Group for the relevant financial year:

- (i) the first financial year immediately following the year of the grant date, 40% of the total number of share options granted to the grantee;
- (ii) the second financial year immediately following the year of the grant date, 30% of the total number of share options granted to the grantee; and
- (iii) the third financial year immediately following the year of the grant date, 30% of the total number of share options granted to the grantee.

If the vesting conditions are not fulfilled for a relevant financial year, the corresponding portion of share options granted will lapse.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

6. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme as at 30 September 2022:

	Weighted average exercise price <i>HK\$ per share</i>	Number of options
At 1 January 2022	–	–
Granted during the Period	1.19	18,000,000
At 30 September 2022	1.19	18,000,000

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

Number of options	Exercise price* <i>HK\$ per share</i>	Exercise period
7,200,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032
5,400,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032
5,400,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032
18,000,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 29 June 2022 was approximately of HK\$9,154,000, of which the Group recognised a share option expense of approximately HK\$1,502,000 during the nine months ended 30 September 2022.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	30 September 2022
Dividend yield (%)	0%
Expected volatility (%)	44.186%
Risk-free interest rate (%)	3.36%
Weighted average exercise price (HK\$ per share)	1.19

No other feature of the options granted was incorporated into the measurement of fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

6. SHARE OPTION SCHEME *(continued)*

At the end of the reporting period, the Company had 18,000,000 share options outstanding under Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK\$20,160,000 (before issue expense).

At the date of approval of these financial statements, the Company had 18,000,000 share options outstanding under Share Option Scheme, which represented approximately 6% of the Company's shares in issue as at that date.

7. INCOME TAX

The statutory rate of Hong Kong profits tax was 16.5%, (2021: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group has no assessable profits arising in Hong Kong for the nine months ended 30 September 2022 (2021: Nil).

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiary which operates in the People's Republic of China (the "Mainland China" or the "PRC") is subject to Corporate Income Tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Guangzhou Great Water Environmental Protection Co., Ltd., since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% had been applied during the nine months ended 30 September 2022 and 2021.

Pursuant to the Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to Corporate Income Tax at a rate of 22% on the taxable income.

	For the nine months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
Current — Elsewhere other than Hong Kong	762	—
Deferred	—	(590)
Total tax recover for the period	762	(590)

8. DIVIDENDS

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2022 (2021: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2022

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share for the nine months ended 30 September 2022 is based on the loss for the period attributable to ordinary equity holders of RMB1,075,000 (2021: loss attributable to ordinary equity holders of RMB10,639,000), and the weighted average number of ordinary shares in issue of 300,000,000 (2021: 300,000,000).

No adjustment was made to the basic earnings per share amounts presented for the nine months ended 30 September 2022 and 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a wastewater and drinking water treatment engineering services provider in the People's Republic of China (the "PRC" or "China"). The Group is principally engaged in the provision of engineering services for wastewater and drinking water treatment facilities. The Group acts either as the contractor, who is responsible for the whole project from launch to final operational management (the "EPC Projects"), or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the project (the "Equipment Projects"). Since mid-2020, the Group started operating a sludge treatment service concession arrangement (the "Service Concession Arrangement") in a wastewater treatment plant located in Guangzhou. The Group is also engaged in other environmental protection projects, the provision of operating and maintenance services (the "O&M Projects") for customers in connection with the management of wastewater treatment and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

During the Period, the revenue of the Group increased by approximately RMB67,358,000 or 103.1% to approximately RMB132,687,000 as compared to the corresponding period in 2021. During the Period, the Group recognised approximately RMB15,351,000 in revenue from the EPC Projects, approximately RMB1,715,000 in revenue from construction projects other than the EPC Projects ("Construction Projects"), approximately RMB95,447,000 in revenue from Equipment Projects, approximately RMB16,827,000 in revenue from Service Concession Arrangement and approximately RMB3,347,000 in revenue from O&M Projects. In comparison, approximately RMB428,000 in revenue from the EPC Projects, approximately RMB3,031,000 in revenue from the Construction Projects, approximately RMB36,284,000 in revenue from Equipment Projects, approximately RMB18,401,000 in revenue from Service Concession Arrangement and approximately RMB7,185,000 in revenue from O&M Projects were recognised in the corresponding period in 2021.

Loss attributable to owners of the Company for the Period amounted to approximately RMB1,075,000, representing a decrease of approximately 89.9% as compared to loss attributable to owners of the Company of approximately RMB10,639,000 in the corresponding period last year. The significant increase in turnover and decrease in loss attributable to owners of the Company is mainly due to the recognition of the progress income of approximately RMB90 million for a large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment which contributed to the increase in the overall turnover, gross profit and the decrease in loss attributable to owners of the Company.

OUTLOOK

The National Bureau of Statistics announced in October that the year-on-year GDP growth during the first three quarters calculated at constant price was 3%. Despite gradual recovery of the national economy, there was still a gap as compared with 4.9% for the same period in 2021. On the other hand, the pandemic remains volatile. Recurrence of the pandemic was observed in major cities such as Shenzhen and Guangzhou recently. It takes time for the national economy to fully recover.

In this environment, the Group has to adapt to the "new situation". On the basis of careful selection of customers, stabilization of income, cost control and paying attention to cash flow, the Group has been paying attention to ever-changing market conditions to seek business development opportunities while considering the capacity and increment of various local markets.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of business operation, considering the difference in pandemic situation of various countries and cities, the Group has adjusted the allocation of resources for business expansion. In the first place, based on the restart of the Vietnam project that was delayed under the influence of the pandemic, the Group firmly believes that the overall Vietnam market is recovering considerably. The Group's successful construction experience in Vietnam over the years has attracted long-term customers and new customers. Currently, the Group has been discussing possible co-operation with several long-term customers and potential new customers and hopefully positive outcome can be achieved. In the next place, in terms of the local market, the Group continues to adopt the business strategy proposed since 2021 and focuses in the Greater Bay Area. The Group has invested more resources to follow up and establish relationship with long-term customers of the Greater Bay Area. The Group believes that good customer relationship and recognition will create favorable condition for business development in the future. In terms of project implementation, the Group has certain achievements. For a large project in the Greater Bay Area, during the third quarter in 2022, it has reached the final stage of delivery, installation and adjustment, contributing revenue of approximately RMB60 million for the Group during the quarter. As for the abovementioned restart of the Vietnam project, procurement before delivery is currently in progress. It is likely that there will be an improvement in the revenue of the Group for the year ending 2022 as compared with that of 2021. In terms of internal management of the Group, the Group has adjusted management fees correspondingly to lower costs and further optimize staff structure, thereby effectively lowering operating costs for the Group to cope with the increasing pressure on business operation.

Having that said, the operating environment of the Group is still not favorable due to various challenges. The Group also believes that there will unlikely be any improvement in the near term and the situation may even deteriorate. For instance, (i) there are still occasional pandemic outbreaks in various regions of the country, especially under the uncertainties of the new variants of the virus; (ii) the anti-epidemic measures of the PRC is unpredictable. The situation varies in various regions of the country and irregular adjustment may bring along impacts; (iii) it takes time for national economic recovery. The decrease in demand for new projects brings along impacts and challenges to the competitors of the same industry and even inter-industry competitors ;(iv) RMB faces depreciation pressure while operating revenue and operation costs faces "double reduction" pressure; (v) exploration of new business segments such as the big health industry is difficult. There has been no progress at the moment, and it is hard to predict its future development; and (vi) tension in global political situation arising from various events brings unknown negative impacts on the global economy, national economy as well as PRC enterprises.

The pandemic has not yet come to an end. Global political situation remains complex and local wars are still continuing. Various countries are still working on economic recovery. Under these circumstances, the Group is of the view that operating and management style should be more prudent and practical. Meanwhile, the Group's operating goal would be continuous development of its main business, protection of cash flow and stabilization of group operations. Accordingly, the Directors and management of the Group remains prudent towards the business operations throughout 2022 and 2023.

FINANCIAL REVIEW

Operating revenue

For the Period, the Group's operating revenue amounted to approximately RMB132,687,000, representing an increase of approximately 103.1% or RMB67,358,000 as compared to the corresponding period in 2021.

EPC Projects and Construction Projects

For the EPC Projects, the Group assumes the role of main contractor in charge of overall project management of constructing a treatment plant from launch to operation for a predetermined contract amount. As an engineering, procurement and construction contractor, the Group provides engineering design of the treatment facilities, procure necessary raw materials and appoint sub-contractors to construct the facilities. The Group also engages in construction projects related to other environmental protection sectors (such as soil remediation project and flue gas treatment project, involving the provision of engineering and procurement services for the project owner).

MANAGEMENT DISCUSSION AND ANALYSIS

— *Revenue relating to EPC Projects*

For the Period, the revenue generated from the EPC Projects was approximately RMB15,351,000 (2021: approximately RMB428,000), representing an increase of approximately 3,486.7% or RMB14,923,000 over the corresponding period in 2021. The increase in the revenue was primarily attributable to the revenue for the Period which was derived from four EPC Projects, as compared to the revenue in the corresponding period of 2021 which was derived from one small size EPC Project.

— *Revenue relating to Construction Projects*

For the Period, the revenue generated from Construction Projects was approximately RMB1,715,000 (2021: approximately RMB3,031,000), representing a decrease of approximately 43.4% or RMB1,316,000 over the corresponding period in 2021. The decrease in the revenue was primarily attributable to the revenue for the Period which was derived from one Construction Project, as compared to the revenue in the corresponding period of 2021 which was derived from three Construction Projects.

Equipment Projects

For Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customer in identifying, evaluating and selecting different equipment before the procurement team comes into play.

For the Period, the revenue generated from Equipment Projects was approximately RMB95,447,000 (2021: approximately RMB36,284,000), representing an increase of approximately 163.1% or RMB59,163,000 over the corresponding period in 2021. The increase in the revenue was primarily attributable to the revenue for the Period which was derived from one large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment and another three Equipment Projects, as compared to the revenue in the corresponding period of 2021 which was derived from six Equipment Projects.

Service Concession Arrangement

For the Service Concession Arrangement, the Group acquired a sludge treatment project in a wastewater treatment plant located in Dashadi from Guangzhou Sewage in the third quarter of 2018. The Group, as a contractor, is responsible for the development, construction and operation of the sludge treatment project for a term of 10 years. The construction of the project was completed and the plant passed the official examination in mid-2020 and since then, the Group has commenced its operation.

For the Period, the revenue generated from the Service Concession Arrangement segment amounted to approximately RMB16,827,000 (2021: approximately RMB18,401,000), representing a decrease of approximately 8.6% or RMB1,574,000 as compared to the corresponding period in 2021. The decrease in revenue was primarily attributable to the recognition of revenue of approximately RMB16,827,000 in service income for the Service Concession Arrangement for the Period, while the revenue in the corresponding period of 2021 was the revenue of approximately RMB18,401,000 for the recognition of service income for the Service Concession Arrangement.

MANAGEMENT DISCUSSION AND ANALYSIS

Others

The revenue under the other segment included revenue attributable to O&M Projects and technical advisory services. As at 30 September 2022, the Group had one sludge treatment O&M project, two wastewater treatment O&M Projects and three drinking water treatment O&M Projects on hand.

For the Period, the revenue generated from rendering of maintenance services amounted to approximately RMB3,347,000 (2021: approximately RMB7,185,000), representing a decrease of approximately 53.4% or RMB3,838,000 as compared to the corresponding period in 2021. The decrease was primarily attributable to (i) two technical advisory projects for the Period with revenue contribution of approximately RMB1,155,000 as compared to five technical advisory project with revenue contribution of approximately RMB4,823,000 in the corresponding period in 2021; and (ii) O&M Projects which contributed approximately RMB2,192,000 in revenue for the Period from one sludge treatment O&M project, two wastewater treatment O&M Projects and three drinking water treatment O&M Projects as compared to approximately RMB2,362,000 in revenue in the corresponding period of 2021 from one wastewater treatment O&M Project, one one-off short-term water treatment O&M Project and three drinking water treatment O&M Projects.

Cost of sales

For the Period, the cost of sales of the Group amounted to approximately RMB11,232,000 (2021: approximately RMB56,591,000), representing an increase of approximately 96.6% or approximately RMB54,641,000 as compared to the corresponding period in 2021.

The increase in cost of sales was generally in line with the increase in revenue during the Period. The cost of inventories sold increased to approximately RMB88,484,000 for the Period from approximately RMB34,976,000 for the corresponding period in 2021. The cost of contracting decreased to approximately RMB7,662,000 for the Period from approximately RMB9,922,000 for the corresponding period in 2021. The cost of services provided increased to approximately RMB15,086,000 for the Period from approximately RMB11,693,000 for the corresponding period in 2021.

Gross profit

For the Period, the Group recorded gross profit of approximately RMB21,455,000 (2021: approximately RMB8,738,000), representing an increase of approximately 145.5% or approximately RMB12,717,000 as compared to the corresponding period in 2021. The increase in gross profit of the Group was mainly due to the recognition of the progress income of approximately RMB90 million for a large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment and thus contributed to the increase in the overall turnover and gross profit.

Other income and gains

For the Period, other income and gains amounted to approximately RMB3,483,000 (2021: approximately RMB1,883,000), representing an increase of approximately 85.0% or approximately RMB1,600,000 as compared to the corresponding period in 2021. The increase was primarily attributable to increase in exchange gain of approximately RMB1,606,000.

Selling and distribution expenses

For the Period, the selling and distribution expenses of the Group amounted to approximately RMB1,343,000 (2021: approximately RMB908,000), representing an increase of approximately 47.9% or approximately RMB435,000 compared to the corresponding period in 2021. The increase in the selling and distribution expenses was mainly attributed to (i) the increase in salaries and employee benefit of approximately RMB175,000; (ii) the increase in repair and maintenance expense of approximately RMB160,000; and (iii) the increase in business entertainment fee of approximately RMB115,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

For the Period, the administrative expenses of the Group amounted to approximately RMB22,089,000 (2021: approximately RMB19,028,000), representing an increase of approximately 16.1% or approximately RMB3,061,000 compared to the corresponding period in 2021. The increase in the administrative expenses was mainly attributed to (i) the increase in the research and development expenses of approximately RMB2,076,000; and (ii) the recognition of share based payment of approximately RMB1,270,000 for the share options granted on 29 June 2022.

Loss for the Period

Loss for the Period amounted to approximately RMB1,075,000 as compared to the loss of approximately RMB10,639,000 for the corresponding period in 2021, representing a decrease of approximately 89.9% or approximately RMB9,564,000 as compared to the corresponding period in 2021. The decrease was mainly attributed to the recognition of the progress income of approximately RMB90 million for a large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment and thus contributed to the increase in the overall turnover, gross profit and decrease in loss for the period.

Dividend

The Board did not recommend the payment of any dividend for the nine months ended 30 September 2022 (2021: nil).

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman of the Board being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to the shareholders and creditors of the Group. Therefore, the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Part 2 of Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for code provision C.2.1 of the CG Code, which provides that the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company has complied with the code provisions set out in the CG Code for the Period. Mr. Xie Yang (“Mr. Xie”) is the chairman of the Board and the chief executive officer of the Company. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting both the roles of chairman of the Board and chief executive officer of the Company in Mr. Xie is beneficial to the business prospects and management of the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised four executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the Period and therefore had sufficient independent elements in its composition.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 September 2022, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the “**Shares**”), underlying Shares and debentures of the Company or any of its associated corporation (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong) (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 Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(i) Long positions in Shares

Name of director	Capacity	Number of Shares <i>(Note 1)</i>	Approximate percentage of the total number of Shares in issue <i>(Note 2)</i>
Mr. Xie Yang ^{<i>(Note 3)</i>}	Interest in controlled corporation	91,350,000 (L)	30.45%
Mr. Zhou Yanwei	Beneficial Owner	15,000,000 (L)	5.00%

Notes:

- The letter “L” denotes a long position.
- The percentage were calculated based on 300,000,000 Shares in issue as at 30 September 2022.
- These Shares are owned by Oceanic Expert Investments Limited which is wholly owned by Perfect Wave Holdings Limited, which is in turn 100% beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Long positions in the underlying Shares

Name of Director	Capacity	Number of the underlying Shares <i>(Note 1)</i>	Approximate percentage of shareholding of the issued share capital of the Company <i>(Note 2)</i>
Mr. XIE Yang	Beneficial Owner	3,000,000	1.00%
Mr. GAO Xue Feng	Beneficial Owner	3,000,000	1.00%
Mr. ZHAO Yan Wei	Beneficial Owner	3,000,000	1.00%
Mr. HE Xuan Xi	Beneficial Owner	1,000,000	0.33%

Notes:

1. The number of underlying Shares represent the Shares in which the Directors are deemed to be interested for holding share options.
2. The percentage were calculated based on 300,000,000 Shares in issue as at 30 September 2022.

Save as disclosed above, as at 30 September 2022, 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 Rules 5.46 to 5.67 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES

As at 30 September 2022, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name of shareholder(s)	Capacity	Number of Ordinary Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Oceanic Expert Investments Limited ^(Note 2)	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited ^(Note 2)	Interest in controlled corporation	91,350,000 (L)	30.45%
Great Time Ventures Limited ^(Note 3)	Beneficial owner	44,032,500 (L)	14.68%
Topman Ventures Limited ^(Note 3)	Interest in controlled corporation	44,032,500 (L)	14.68%
Mr. Song Xiao Xing ^(Note 3)	Interest in controlled corporation	44,032,500 (L)	14.68%

Notes:

- The letter "L" denotes a long position.
- Mr. Xie Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.
- Mr. Song Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.

Save as disclosed above, as at 30 September 2022, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

On 17 June 2022, the Company adopted a share option scheme (the “Share Option Scheme”) in accordance with Chapter 23 of the GEM Listing Rules. For principal terms of the Share Option Scheme, please refer to the circular of the Company dated 25 May 2022. On 29 June 2022, the Company granted 18,000,000 share options (the “Options”) to certain Directors and employees of the Company to subscribe for an aggregate of 18,000,000 Shares pursuant to the terms of the Share Option Scheme. Set forth below the details of the Options granted as at 30 September 2022:

Grantee	Date of grant	Closing price of the Shares immediately before the date on which the Options were granted (HKD per share)	Exercise period	Exercise price (HKD)	Balance as at 1 January 2022	Grant during the Period	Exercised during the Period	Cancelled/ forfeited/ lapsed during the Period	Balance as at 30 September 2022
Directors									
Mr. XIE Yang	29 June 2022	1.12	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	1.19	–	1,200,000	–	–	1,200,000
			Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	1.19	–	900,000	–	–	900,000
			Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	1.19	–	900,000	–	–	900,000
Mr. GAO Xue Feng	29 June 2022	1.12	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	1.19	–	900,000	–	–	900,000
			Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	1.19	–	900,000	–	–	900,000
			Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	1.19	–	900,000	–	–	900,000
Mr. ZHAO Yan Wei	29 June 2022	1.12	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	1.19	–	1,200,000	–	–	1,200,000
			Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	1.19	–	900,000	–	–	900,000
			Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	1.19	–	900,000	–	–	900,000

MANAGEMENT DISCUSSION AND ANALYSIS

Grantee	Date of grant	Closing price of the Shares immediately before the date on which the Options were granted (HKD per share)	Exercise period	Exercise price (HKD)	Balance as at 1 January 2022	Grant during the Period	Exercised during the Period	Cancelled/ forfeited/ lapsed during the Period	Balance as at 30 September 2022
Mr. HE Xuan Xi	29 June 2022	1.12	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	1.19	–	400,000	–	–	400,000
			Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	1.19	–	300,000	–	–	300,000
			Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	1.19	–	300,000	–	–	300,000
Others									
Employees	29 June 2022	1.12	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	1.19	–	3,200,000	–	–	3,200,000
			Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	1.19	–	2,400,000	–	–	2,400,000
			Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	1.19	–	2,400,000	–	–	2,400,000

COMPLIANCE WITH THE CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of Dealings**”). The Company had also made specific enquiry to all the Directors, and each of them has confirmed that he/she was in compliance with the Required Standard of Dealings during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL STATEMENT

During the Period, the Audit Committee comprised three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

The Audit Committee has reviewed the accounting policies and practices adopted by the Group and has discussed with the management of the Company on the financial reporting matters including the review of the unaudited condensed consolidated financial statements of the Group for the Period.

By order of the Board
China TianYF Holdings Group Limited
XIE YANG
Chairman

Guangzhou, the PRC, 9 November 2022

As at the date of this report, the executive Directors are Mr. XIE Yang, Mr. GAO Xue Feng, Mr. ZHAO Yan Wei and Mr. HE Xuan Xi; the non-executive Director is Ms. GONG Lan Lan and the independent non-executive Directors are Ms. BAI Shuang, Mr. HA Cheng Yong and Mr. TSE Chi Wai.

This report will remain on the "Latest Listed Company Announcements" page of the Stock Exchange website at www.hkexnews.hk for at least 7 days from the date of its posting and be posted on the website of the Company at www.greatwater.com.cn.