

China TianYF Holdings Group Limited

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

INTERIM REPORT **2023**



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “**Directors**”) of China TianYF Holdings Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this report misleading.*



FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2023

- Based on the unaudited condensed consolidated results of the Group for the six months ended 30 June 2023 (the “**Period**”), the Group’s revenue for the Period amounted to approximately RMB65,362,000, representing an increase of approximately 5.9% as compared to approximately RMB61,734,000 for the corresponding period in 2022.
- During the Period, the Group’s total gross profit was approximately RMB18,737,000, representing an increase of approximately 64.9% as compared to approximately RMB11,362,000 for the corresponding period in 2022.
- Profit attributable to owners of the Company was approximately RMB8,485,000 as compared to loss attributable to owners of the Company of approximately RMB3,580,000 for the corresponding period in 2022.
- The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company does not recommend the payment of an interim dividend for the Period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

UNAUDITED INTERIM RESULTS

The Board announces the unaudited consolidated interim results of the Company and its subsidiaries for the six months ended 30 June 2023 together with the comparative unaudited figures for the corresponding period in 2022 as follows:

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|---|-------|---------------------------------------|------------------------------|-------------------------------------|------------------------------|
| | | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| REVENUE | 4 | 36,647 | 42,138 | 65,362 | 61,734 |
| Cost of Sales | | (23,350) | (31,977) | (46,625) | (50,372) |
| Gross profit | | 13,297 | 10,161 | 18,737 | 11,362 |
| Other income and gains | 4 | 2,419 | 1,381 | 3,281 | 1,885 |
| Selling and distribution expenses | | (348) | (518) | (673) | (985) |
| Administrative expenses | | (4,340) | (7,876) | (11,046) | (14,838) |
| Finance costs | 6 | – | (623) | (118) | (1,188) |
| PROFIT/(LOSS) BEFORE TAX | | 11,028 | 2,525 | 10,181 | (3,764) |
| Income tax credit/(expense) | 8 | (1,756) | (477) | (1,696) | 184 |
| PROFIT/(LOSS) FOR THE PERIOD | | 9,272 | 2,048 | 8,485 | (3,580) |
| Other comprehensive loss for the Period, net of tax: | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange difference on translation of foreign operations | | 48 | 140 | (192) | (22) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | | 48 | 140 | (192) | (22) |
| TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD | | 9,320 | 2,188 | 8,293 | (3,602) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|--|-------|------------------------------------|------------------------------|----------------------------------|------------------------------|
| | | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO: | | | | | |
| Owners of the Company | | 9,272 | 2,048 | 8,485 | (3,580) |
| Non-controlling interests | | – | – | – | – |
| | | 9,272 | 2,048 | 8,485 | (3,580) |
| TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO: | | | | | |
| Owners of the Company | | 9,320 | 2,188 | 8,293 | (3,602) |
| Non-controlling interests | | – | – | – | – |
| | | 9,320 | 2,188 | 8,293 | (3,602) |
| PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | | |
| Basic and diluted (RMB) | 10 | 0.031 | 0.007 | 0.028 | (0.012) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

| | <i>Notes</i> | 30 June 2023 RMB'000 Unaudited | 31 December 2022 RMB'000 Audited |
|--|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 7,176 | 7,433 |
| Investment properties | | 30,200 | 30,200 |
| Right-of-use assets | | 362 | 352 |
| Other intangible asset | | 312 | 312 |
| Prepayments, other receivables and other assets | | 47 | 42 |
| Receivables under a service concession arrangement | | 36,052 | 39,438 |
| Equity investments designated at fair value through other comprehensive income | | 3,400 | 3,400 |
| | | 77,549 | 81,177 |
| CURRENT ASSETS | | | |
| Inventories | | 13,630 | 12,567 |
| Receivables under a service concession arrangement | | 7,041 | 7,041 |
| Trade and bills receivables | 11 | 130,822 | 127,427 |
| Contract assets | | 18,475 | 27,102 |
| Prepayments, deposits and other receivables | | 7,016 | 17,838 |
| Pledge deposits | | 1,209 | 2,888 |
| Cash and bank balances | | 28,316 | 55,260 |
| | | 206,509 | 250,123 |
| CURRENT LIABILITIES | | | |
| Trade payables | 12 | 150,483 | 181,652 |
| Other payables and accruals | | 44,969 | 45,614 |
| Interest-bearing bank borrowing | | 102 | 25,097 |
| Tax payable | | 1,660 | 2,046 |
| | | 197,214 | 254,409 |
| NET CURRENT ASSETS/(LIABILITIES) | | 9,295 | (4,286) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 86,844 | 76,891 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

| <i>Notes</i> | 30 June 2023 RMB'000 Unaudited | 31 December 2022 RMB'000 Audited |
|--|---|---|
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowing | 103 | 98 |
| Deferred tax liabilities | 5,740 | 5,740 |
| Total non-current liabilities | 5,843 | 5,838 |
| NET ASSETS | 81,001 | 71,053 |
| CAPITAL AND RESERVES | | |
| Equity attributable to owner of the Company | | |
| Share capital | 2,397 | 2,397 |
| Reserves | 78,604 | 68,656 |
| TOTAL EQUITY | 81,001 | 71,053 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

| | Share capital RMB'000 | Share premium account RMB'000 | Merger reserve RMB'000 | Asset revaluation reserve RMB'000 | Statutory surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses 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 | – | – | – | – | – | – | – | (3,580) | (3,580) | – | (3,580) |
| Other comprehensive income for the Period: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (22) | – | (22) | – | (22) |
| Total comprehensive income for the Period | – | – | – | – | – | – | (22) | (3,580) | (3,602) | – | (3,602) |
| At 30 June 2022 (unaudited) | 2,397 | 98,818 | (13,830) | 9,134 | 15,029 | – | 3,879 | (44,206) | 71,221 | – | 71,221 |

| | Share capital RMB'000 | Share premium account RMB'000 | Merger reserve RMB'000 | Asset revaluation reserve RMB'000 | Statutory surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interest RMB'000 | Total equity RMB'000 |
|---|--------------------------|----------------------------------|---------------------------|--------------------------------------|--------------------------------------|--|---|-------------------------------|------------------|-------------------------------------|-------------------------|
| At 1 January 2023 (audited) | 2,397 | 98,818 | (13,830) | 15,252 | 15,029 | 1,647 | 3,913 | (52,173) | 71,053 | – | 71,053 |
| Loss for the Period | – | – | – | – | – | – | – | 8,485 | 8,485 | – | 8,485 |
| Other comprehensive income for the Period: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (192) | – | (192) | – | (192) |
| Total comprehensive income for the Period | – | – | – | – | – | – | (192) | 8,485 | 8,293 | – | 8,293 |
| Share-based payment | – | – | – | – | – | 1,655 | – | – | 1,655 | – | 1,655 |
| At 30 June 2023 (unaudited) | 2,397 | 98,818 | (13,830) | 9,134 | 15,029 | 3,302 | 3,721 | (43,688) | 81,001 | – | 81,001 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2023

| | Six months ended 30 June | |
|--|------------------------------|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Net cash (used in)/from operating activities | (1,609) | 6,444 |
| Net cash used in investing activities | (25) | (125) |
| Net cash (used in)/from financing activities | (25,118) | 5,315 |
| Net (decrease)/increase in cash and cash equivalents | (26,752) | 11,634 |
| Cash and cash equivalents at beginning of the Period | 55,260 | 46,009 |
| Effect of foreign exchanges, net | (192) | (22) |
| Cash and cash equivalents at end of the Period | 28,316 | 57,621 |
| Analysis of the balances of cash and cash equivalents: | | |
| Cash and bank balances as stated in the condensed consolidated statement of financial position | 28,316 | 57,621 |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | 28,316 | 57,621 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

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 Group's interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of the GEM Listing Rules.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

The interim 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 ("**EPC Projects**") segment comprises of 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 is responsible for the quality, safety, time control and pricing of the project;
- (b) the construction projects ("**Construction Projects**") segment represents construction projects other than EPC Projects;
- (c) the equipment projects ("**Equipment Projects**") segment comprises of 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 ("**Service Concession Arrangement**") segment comprises of projects which provides the construction of sludge treatment and operation of the sludge station(s) upon 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 term of such arrangement, the Group is responsible for all of the costs in construction, operation and maintenance as well as restoration of the infrastructure; and
- (e) the other projects ("**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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

3. OPERATING SEGMENT INFORMATION *(continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources 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 measured 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 measurement.

Segment assets exclude tax recoverables, cash and cash equivalents, property, plant and equipment, investment properties, prepaid land lease payments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payables, deferred tax liabilities, interest-bearing bank borrowing and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The unaudited segment results for the six months ended 30 June 2023 are as follows:

| | EPC Projects <i>RMB'000</i> | Construction Projects <i>RMB'000</i> | Equipment Projects <i>RMB'000</i> | Services Concession Arrangement <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|-----------------------------------|--|---|---|--------------------------|-------------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 53,269 | – | – | 10,297 | 1,769 | 65,362 |
| Segment results | 18,232 | – | – | 541 | (36) | 18,737 |
| <i>Reconciliation:</i> | | | | | | |
| Interest income | | | | | | 49 |
| Unallocated gains | | | | | | 3,232 |
| Corporate and other unallocated expenses | | | | | | (11,719) |
| Finance costs | | | | | | (118) |
| Loss before tax | | | | | | 10,181 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

3. OPERATING SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2022 are as follows:

| | EPC Projects RMB'000 | Construction Projects RMB'000 | Equipment Projects RMB'000 | Services Concession Arrangement RMB'000 | Others RMB'000 | Total RMB'000 |
|---|----------------------------|-------------------------------------|----------------------------------|--|-------------------|------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 14,416 | 1,268 | 32,916 | 10,731 | 2,403 | 61,734 |
| Segment results | 4,157 | 108 | 6,307 | 182 | 608 | 11,362 |
| <i>Reconciliation:</i> | | | | | | |
| Interest income | | | | | | 109 |
| Unallocated gains | | | | | | 1,776 |
| Corporate and other unallocated expenses | | | | | | (15,823) |
| Finance costs | | | | | | (1,188) |
| Loss before tax | | | | | | (3,764) |

The unaudited segment assets and liabilities as at 30 June 2023 are as follows:

| | EPC Projects RMB'000 | Construction Projects RMB'000 | Equipment Projects RMB'000 | Services Concession Arrangement RMB'000 | Others RMB'000 | Total RMB'000 |
|----------------------------|----------------------------|-------------------------------------|----------------------------------|--|-------------------|------------------|
| Segment assets | 39,490 | 4,804 | 112,509 | 50,573 | 114 | 207,490 |
| Segment liabilities | 42,154 | 5,941 | 101,007 | 17,621 | 1,614 | 168,337 |

The audited segment assets and liabilities as at 31 December 2022 are as follows:

| | EPC Projects RMB'000 | Construction Projects RMB'000 | Equipment Projects RMB'000 | Services Concession Arrangement RMB'000 | Others RMB'000 | Total RMB'000 |
|----------------------------|----------------------------|-------------------------------------|----------------------------------|--|-------------------|------------------|
| Segment assets | 29,310 | 14,996 | 122,011 | 59,569 | 3,055 | 228,941 |
| Segment liabilities | 42,861 | 16,646 | 100,193 | 36,195 | 754 | 196,649 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

4. REVENUE, OTHER INCOME AND GAINS

Revenue 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 six months ended 30 June | |
|--------------------------------|-------------------------------------|-------------------------------------|
| | 2023 <i>RMB'000</i> Unaudited | 2022 <i>RMB'000</i> Unaudited |
| Revenue | | |
| EPC Projects | 53,269 | 14,416 |
| Construction Projects | – | 1,268 |
| Equipment Projects | – | 32,916 |
| Service Concession Arrangement | 10,297 | 10,731 |
| Others | 1,796 | 2,403 |
| | 65,362 | 61,734 |
| Other income | | |
| Bank interest income | 49 | 109 |
| Rental income | 1,393 | 1,008 |
| Government grants | 300 | 43 |
| Exchange gain | 1,539 | 725 |
| | 3,281 | 1,885 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | For the six months ended 30 June | |
|--|-------------------------------------|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Cost of inventories sold | 23,802 | 33,803 |
| Cost of construction contracting | 12,906 | 9,347 |
| Cost of services provided | 9,917 | 7,222 |
| Depreciation of property, plant and equipment | 481 | 625 |
| Auditors' remuneration | 500 | 498 |
| Employee benefit expense (including Directors' and chief executive's remuneration): | | |
| Wages and salaries | 6,922 | 8,391 |
| Pension scheme contributions | 610 | 926 |
| Equity-settled share based payments | 1,655 | 27 |
| Other welfare | 221 | 315 |
| | 9,408 | 9,659 |
| Foreign exchange differences, net | (1,539) | (725) |
| Bank interest income | (49) | (109) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

6. FINANCE COSTS

An analysis of finance costs is as follows:

| | For the six months ended 30 June | |
|------------------------|-------------------------------------|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Interest on bank loans | 118 | 1,188 |

7. 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, executives or officers 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 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 of the Company (the “**Shares**”) which may be issued pursuant to the Scheme is 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 10 days from the grant date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

7. 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 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:

- (a) the first financial year immediately following the year of the grant date, 40% of the total number of share options granted to the grantee;
- (b) 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
- (c) 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.

The following share options were outstanding under the Scheme during the Period:

| | Weighted average exercise price <i>HK\$ per share</i> | Number of options |
|---------------------------|---|------------------------------|
| At 1 January 2023 | 1.19 | 18,000,000 |
| Granted during the Period | – | – |
| At 30 June 2023 | 1.19 | 18,000,000 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

7. SHARE OPTION SCHEME (continued)

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* HK\$ per share | 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\$1,914,000 (equivalent to RMB1,693,000) during the six months ended 30 June 2023.

The fair value of equity-settled share options granted during the Period 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 June 2023 |
|---|--------------|
| Dividend yield (%) | 0% |
| Expected volatility (%) | 44.186% |
| Risk-free interest rate (%) | 3.36% |
| Weighted average share price (HK\$ per share) | 1.19 |

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

At the end of the Period, the Company had 18,000,000 share options outstanding under the 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\$21,420,000 (before issue expense).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

8. INCOME TAX

The statutory rate of Hong Kong profits tax was 16.5%, (2022: 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 six months ended 30 June 2023 (2022: 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 income tax laws of the People's Republic of China (the "PRC" or "China") and the relevant regulations, the subsidiary which operates in 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 the PRC and a lower PRC corporate income tax rate of 15% had been applied during the period ended 30 June 2023 and the corresponding period in 2022.

Pursuant to the income tax laws of Vietnam and the relevant regulations, the subsidiary which operates in Vietnam is subject to corporate income tax at a rate of 20% on the taxable income.

| | For the six months ended 30 June | |
|---|-------------------------------------|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Current — Elsewhere other than Hong Kong | 1,696 | – |
| Deferred | – | (184) |
| Total tax (recover)/charge for the Period | 1,696 | (184) |

9. DIVIDENDS

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2023 (2022: Nil).

10. PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic profit per share for the six months ended 30 June 2023 is based on the profit attributable to ordinary equity holders of approximately RMB8,485,000 (2022: loss attributable to ordinary equity holders of approximately RMB3,554,000), and the weighted average number of ordinary Shares in issue of 300,000,000 (2022: 300,000,000).

No adjustment has been made to the basic profit/loss per share amounts presented for the period ended 30 June 2023 and the corresponding period in 2022 in respect of a dilution as the Group had no potentially dilutive ordinary Shares in issue during these periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

10. PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(continued)

The calculation of basic and diluted profit/loss per Share is based on:

| | For the six months ended 30 June | |
|--|-------------------------------------|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Profit/(Loss) | | |
| Profit/(Loss) attributable to ordinary equity holders of the Company, used in the basic/diluted profit/loss per Share calculation: | 8,485 | (3,554) |
| | | |
| | Number of Shares | |
| | 2023 | 2022 |
| Shares | | |
| Weighted average number of ordinary Shares in issue during the Period used in the basic/diluted profit/loss per Share calculation | 300,000,000 | 300,000,000 |

11. TRADE AND BILLS RECEIVABLES

| | As at 30 June 2023 RMB'000 Unaudited | As at 31 December 2022 RMB'000 Audited |
|------------------------------|--|--|
| Trade receivables | 153,084 | 149,689 |
| Provision for loss allowance | (22,262) | (22,262) |
| | 130,822 | 127,427 |

Trade receivables represented the outstanding contracted value for the sale of goods, construction contracts and rendering of services receivable from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly on credit. Tax invoices are issued to the customers based on agreed schedules and the Group's trade receivables are subject to various credit terms. The credit period granted to the customers is 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole project for certain customers. For retention monies receivable in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risks. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

11. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the trade receivables as at the end of the Period, based on the invoice date and net of loss allowance, is as follows:

| | As at 30 June 2023 RMB'000 Unaudited | As at 31 December 2022 RMB'000 Audited |
|--------------|---|--|
| 0–30 days | 32,550 | 42,210 |
| 31–90 days | 3,580 | 3,188 |
| 91–365 days | 27,143 | 11,360 |
| 1–2 years | 16,965 | 26,765 |
| 2–3 years | 2,390 | 2,403 |
| Over 3 years | 48,194 | 41,501 |
| | 130,822 | 127,427 |

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the Period, based on the date of receipt of goods, is as follows:

| | As at 30 June 2023 RMB'000 Unaudited | As at 31 December 2022 RMB'000 Audited |
|-------------|---|--|
| 0–30 days | 11,041 | 57,447 |
| 31–90 days | 6,261 | 5,613 |
| 91–365 days | 30,341 | 26,319 |
| Over 1 year | 102,840 | 92,273 |
| | 150,483 | 181,652 |

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days.

13. COMMITMENTS

As at 30 June 2023, the Group contracted commitments of approximately RMB3,018,000 (31 December 2022: RMB4,175,000) on EPC Projects and Construction Projects. It mainly represents the procurement of plant and machinery and construction materials.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2023

14. RELATED PARTY TRANSACTIONS

- (a) The Group's balances with the Directors are included in other payables. All the balances are unsecured, interest-free and repayable on demand. Details are as follows:

| | As at 30 June 2023 RMB'000 Unaudited | As at 31 December 2022 RMB'000 Audited |
|-------------------|---|--|
| Mr. Xie Yang | 60 | 340 |
| Mr. He Xuan Xi | 29 | 109 |
| Ms. Gong Lan Lan | 27 | 53 |
| Mr. Tse Chi Wai | 54 | 53 |
| Mr. Ha Cheng Yong | 54 | 53 |
| Ms. Bai Shuang | 54 | 53 |
| | 278 | 661 |

- (b) Compensation of key management personnel of the Group:

| | For the six months ended 30 June | |
|------------------------------|---|------------------------------|
| | 2023 RMB'000 Unaudited | 2022 RMB'000 Unaudited |
| Short term employee benefits | 1,867 | 1,948 |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a wastewater and drinking water treatment engineering services provider in the PRC. 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, which is responsible for the whole project from launch to final operational management (the “**EPC Projects**”), or as the equipment contractor, which 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 PRC. 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 RMB3,628,000, or 5.9% to approximately RMB65,362,000 as compared to the corresponding period in 2022. During the Period, the Group recognised approximately RMB53,269,000 in revenue from the EPC Projects, approximately RMB10,297,000 in revenue from the Service Concession Arrangement and approximately RMB1,796,000 in revenue from the O&M Projects. In comparison, approximately RMB14,416,000 in revenue from the EPC Projects, approximately RMB1,268,000 in revenue from construction projects other than the EPC Projects (“**Construction Projects**”), approximately RMB32,916,000 in revenue from the Equipment Projects, approximately RMB10,731,000 in revenue from the Service Concession Arrangement and approximately RMB2,403,000 in revenue from the O&M Projects were recognised in the corresponding period in 2022.

Profit attributable to owners of the Company for the Period amounted to approximately RMB8,485,000 which compared to loss attributable to owners of the Company of approximately RMB3,580,000 in the corresponding period in 2022. The increase in revenue and the generation of profit attributable to owners of the Company is mainly due to the recognition of the progress income of approximately RMB52 million for a large-sized EPC project in Vietnam which contributed to the increase in the overall revenue, gross profit and the generation of net profit after tax.

OUTLOOK

As the three-year pandemic has subsided in China as well as the rest of the world in 2022, comprehensive re-opening had begun in China at the end of 2022. According to the National Institute of Statistics, China’s GDP recorded a 6.3% year-on-year growth in the second quarter of 2023, which was slightly lower than market expectations. As such, while the domestic market expectations in China for the future are gradually improving, in view of the actual situation, gaining market stability is still the main attitude.

During the pandemic in the past three years, the Group was able to make investments in market fields and regions which were relatively mature and stable and to which the Group was relatively familiar with and relied on a relatively conservative business strategy to monitor the Group’s cash flow, allowing the Group to maintain its operations. In the post-pandemic era, although the sudden pandemic-related influences in the market have generally disappeared, the Group will also continue utilising its strategies from the previous three years to operate steadily and pragmatically to regain its strength first. After strengthening the foundation, the Group expects to achieve better results in the gradually recovering market environment.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of business, the Group has adjusted the allocation of resources for business development as mentioned previously. First of all, the Group would increase its investment in the Vietnamese market. The Group believes that the recovery of the Vietnamese market as a whole is relatively significant, and the Group has many years of successful experience in doing business in Vietnam which is also attractive to long-term customers and new customers to a certain extent. In 2022, the Vietnam project, which was delayed due to the pandemic, was resumed and is currently under successful construction. At the beginning of 2023, a new business contract worth tens of millions of RMB was signed between the Group and the project client. The project construction is expected to start in 2024. Meanwhile, the Group has also increased investment in human resources in the Vietnamese market. The Group believes that Vietnam will gradually become one of the key markets developed by the Group. As to the local customers, the Group does not demand for quick results after the end of the pandemic. For the customers in long-term cooperation, the Group has invested relatively more resources. Even if new business connections cannot be generated immediately yet, the Group believes that good relationship with customers and their high recognition of the Group will be favourable to the Group's future business development. On the other hand, the Group continues to focus on the Greater Bay Area and will keep an eye on the customers' own operation in the process of communicating with new customers. The Group believes that it will perform better in more familiar markets and with more stable customers.

In addition to increasing income, the Group has also endeavoured to reduce its costs. Various costs, such as administrative expenses, were lower in the first half of 2023 than in the corresponding period in 2022. It is estimated that there will be certain improvement in the annual figures for 2023 as compared with the past. Although the abovementioned costs may subsequently re-escalate due to business developments, the cost-reducing effect is still clear for this year.

In spite of the economic recovery in China, it would not be optimistic immediately for the business environment that the Group faces as based on the judgment of the Board, various challenges remain. For instance, the global political situation has negatively affected the global economy, China's economy and Chinese companies. Furthermore, (i) it is still uncertain when China will be fully integrated into the globalised trading system as it was before the pandemic; (ii) of the domestic GDP figures, the tertiary sector showed the most significant growth, while the GDP growth of the secondary sector, which is closely related to the Group's operations, was not very outstanding; and (iii) whilst the spending power of customers has returned to a rational level after retaliatory consumption, employment in the post-pandemic era also requires time to overcome the challenges in the market.

Therefore, even after delivering profitable results in the first half of 2023, the Group remains prudent and pragmatic. The Group believes that prudent selection of customers, stable income, costs control and attention on cash flow should be maintained as the business strategies of the Group in 2023 and 2024. The Group considers that (i) for traditional main business, investment should be increased, but not blindly aggressive, and cash flow risk should be controlled; (ii) for operating activities that can realise cash flow, it may seize opportunities to consolidate the Company's business foundation; (iii) cost-reducing work should be maintained; and (iv) new business should be handled with caution.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Operating revenue

For the Period, the Group's operating revenue amounted to approximately RMB65,362,000, representing an increase of approximately 5.9% or RMB3,628,000 as compared to the corresponding period in 2022.

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 projects and flue gas treatment projects, involving the provision of engineering and procurement services for the project owner).

— Revenue relating to EPC Projects

For the Period, the revenue generated from the EPC Projects was approximately RMB53,269,000 (2022: approximately RMB14,416,000), representing an increase of approximately 269.5% or RMB38,853,000 over the corresponding period in 2022. The increase in the revenue was primarily attributable to the revenue in the first half of 2023 which was derived from the recognition of the progress income of approximately RMB52,466,000 for a large-sized EPC project in Vietnam and other four small size EPC Projects of approximately RMB803,000, as compared to the corresponding revenue in the first half of 2022 which was derived from three EPC Projects.

— Revenue relating to Construction Projects

For the Period, there was no revenue generated from the Construction Projects (2022: approximately RMB1,268,000). The revenue in the corresponding revenue in the first half of 2022 was derived from one Construction Project.

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, there was no revenue generated from the Equipment Projects (2022: approximately RMB32,916,000). The corresponding revenue in the first half of 2022 was derived from one large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment and two other 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 RMB10,297,000 (2022: approximately RMB10,731,000), representing a decrease of approximately 4.0% or RMB434,000 as compared to the corresponding period in 2022. The decrease in revenue was primarily attributable to the recognition of revenue of approximately RMB10,297,000 in service income for the Service Concession Arrangement in the first half of 2023, while the corresponding revenue in the first half of 2022 was the revenue of approximately RMB10,731,000 for the recognition of service income for the Service Concession Arrangement in the corresponding period in 2022.

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 June 2023, the Group had three 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 RMB1,796,000 (2022: approximately RMB2,403,000), representing a decrease of approximately 25.3% or RMB607,000 as compared to the corresponding period in 2022. The decrease was primarily attributable to (i) two technical advisory projects in the first half of 2023 with revenue contribution of approximately RMB443,000 as compared to one technical advisory project with revenue contribution of approximately RMB946,000 in the corresponding period in 2022; and (ii) O&M Projects which contributed approximately RMB1,353,000 in revenue in the first half of 2023 from one sludge treatment O&M project, three wastewater treatment O&M Projects and two drinking water treatment O&M Projects as compared to approximately RMB1,439,000 in revenue in the corresponding period in 2022 from one sludge treatment O&M project, two wastewater treatment O&M Projects and three drinking water treatment O&M Projects.

Other income and gains

For the Period, other income and gains amounted to approximately RMB3,281,000 (2022: approximately RMB1,885,000), representing an increase of approximately 74.1% or approximately RMB1,396,000 as compared to the corresponding period in 2022. The increase was primarily attributable to (i) increase in exchange gain of approximately RMB814,000; (ii) increase in rental income of approximately RMB385,000; and (iii) increase in government grant of approximately RMB257,000.

Cost of sales

For the Period, the cost of sales of the Group amounted to approximately RMB46,625,000 (2022: approximately RMB50,372,000), representing a decrease of approximately 7.4% or approximately RMB3,747,000 as compared to the corresponding period in 2022.

The increase in revenue but decrease in cost of sales was primarily due to the gross margin of the large-sized EPC project in Vietnam during this Period is higher than the large size municipal Equipment Project in the Greater Bay Area for wastewater treatment equipment in the corresponding period in 2022. The cost of inventories sold decreased to approximately RMB23,802,000 for the Period from approximately RMB33,803,000 for the corresponding period in 2022. The cost of contracting increased to approximately RMB12,906,000 for the Period from approximately RMB9,347,000 for the corresponding period in 2022. The cost of services provided increased to approximately RMB9,971,000 for the Period from approximately RMB7,222,000 for the corresponding period in 2022.

Gross profit

For the Period, the Group recorded gross profit of approximately RMB18,737,000 (2022: approximately RMB11,362,000), representing an increase of approximately 64.9% or approximately RMB7,375,000 as compared to the corresponding period in 2022. The increase in gross profit of the Group was mainly due to the recognition of the progress income of approximately RMB52 million for a large-sized EPC project in Vietnam which contributed to the increase in the overall revenue and gross profit.

Selling and distribution expenses

For the Period, the selling and distribution expenses of the Group amounted to approximately RMB673,000 (2022: approximately RMB985,000), representing a decrease of approximately 31.7% or approximately RMB312,000 compared to the corresponding period in 2022. The decrease in the selling and distribution expenses was mainly attributed to (i) the decrease in salaries and employee benefit of approximately RMB171,000; and (ii) the decrease in business entertainment fee of approximately RMB124,000.

Administrative expenses

For the Period, the administrative expenses of the Group amounted to approximately RMB11,046,000 (2022: approximately RMB14,838,000), representing a decrease of approximately 25.6% or approximately RMB3,792,000 compared to the corresponding period in 2022. The decrease in the administrative expenses was mainly attributed to the decrease in the research and development expenses of approximately RMB3,708,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Period

For the Period, the profit for the Period amounted to approximately RMB8,485,000 as compared to the loss of approximately RMB3,580,000 for the corresponding period in 2022. The generation of profit for the Period is mainly due to the recognition of the progress income of approximately RMB52 million for a large-sized EPC project in Vietnam which contributed to the increase in the overall revenue, gross profit and generating of net profit after tax.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (2022: nil).

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Shares were listed (the “**Listing**”) on the GEM of the Stock Exchange on 9 December 2015. Since then, there has been no change in the capital structure of the Group. The capital of the Group comprises ordinary Shares only.

As at 30 June 2023, the total equity attributable to the Company’s shareholders (the “**Shareholders**”) was approximately RMB81,001,000 (31 December 2022: approximately RMB71,053,000). The Group’s cash and bank balances amounted to approximately RMB28,316,000 (31 December 2022: approximately RMB55,260,000). The Group’s net current assets was approximately RMB9,295,000 (31 December 2022: net current liabilities of approximately RMB4,286,000). Based on the Group’s existing cash and cash equivalents on hand and bank facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its operation in the coming year. There was no hedging through any financial instruments.

During the Period, the Group’s cash and cash equivalents were mainly denominated in RMB, Hong Kong dollars and United States dollars and were placed in reputable financial institutions as deposits with maturity dates falling within one year. This is in line with the Group’s treasury policy to maintain liquidity of its funds whilst contributing to the stable income to the Group.

As at 30 June 2023, the Group had general banking facilities amounting to approximately RMB25,000,000. The total borrowing from the banking facilities of the Group as at 30 June 2023 amounted to approximately RMB102,000 (31 December 2022: RMB25,000,000). The borrowing is due within one year and the interest rate is variable with reference to the People’s Bank of China benchmark interest rate. The banking facilities were pledged by the Group’s buildings. For details of the pledged assets, please refer to the section headed “Charges on the Group’s Assets” below.

GEARING RATIO

As at 30 June 2023, the Group’s gearing ratio (being the net debt of the Group divided by its total capital plus net debt) was 65% (31 December 2022: 72%). Net debt of the Group includes interest-bearing bank borrowing, trade payables and other payables and accruals, less cash and bank balances. Capital represents equity attributable to owners of the Company.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

There were no significant investments held by the Group as at 30 June 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURES

The Group did not have any material acquisitions or disposals of subsidiaries and joint ventures during the Period.

COMMITMENTS

The contractual operating commitments of the Group were primarily related to the purchases of items of equipment for projects. As at 30 June 2023, the Group’s contractual operating commitments amounted to approximately RMB3,018,000 (31 December 2022: approximately RMB4,175,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any plans for material investments or additions of capital assets as at the date of this report.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2023 and 31 December 2022, the Group's buildings, with net carrying amount of RMB4,590,000 and RMB4,651,000, respectively, were pledged to secure certain general banking facilities granted to the Group.

As at 30 June 2023 and 31 December 2022, the Group's investment properties, with net carrying amount of RMB30,200,000 and RMB30,200,000, respectively, were pledged to secure certain general banking facilities granted to the Group.

As at 30 June 2023 and 31 December 2022, the Group's leasehold land, with net carrying amount of RMB128,000 and RMB167,000, respectively, were pledged to secure certain general banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the Period, the Group did not hedge its exposure to foreign exchange risk.

ADVANCES TO AN ENTITY

As at 30 June 2023, the Group did not provide any advances to any entity outside the Group.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

As at 30 June 2023, there was no pledging of Shares by the controlling Shareholders.

LOAN AGREEMENTS OF THE GROUP

As at 30 June 2023, the Group did not enter into any loan agreement with covenants relating to specific performance of the controlling Shareholders.

During the Period, the Group did not breach any terms of agreement in respect of any loan that is significant to the Group's operations.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 30 June 2023, the Group did not provide any financial assistance or guarantee to affiliated companies of the Group.

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 “**Option(s)**”) 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.

No employees have been granted and will be granted in excess of the 1% individual limit.

Details of the Share Option Scheme

(1) *Purposes*

The purposes of the Share Option Scheme are to (i) motivate the eligible persons to work hard for the Group’s future development by providing them with an opportunity to acquire the Shares, thereby promoting long-term stable development of the Group; (ii) provide the eligible persons with incentives and/or rewards for their contributions to the Group; and (iii) enhance the Group’s ability to attract and retain individuals with outstanding skills and extensive experience.

(2) *Participants*

The eligible persons to be granted Options under the Share Option Scheme include (i) any current employee, executive or officer of the Group; or (ii) any Director (including non-executive Director and independent non-executive Director) of the Company whom the Board or its authorized person considers at its sole discretion has made or will make contributions to the Group. The Board will have the sole discretion to consider and determine which eligible persons are to be granted Options based on the Directors’ opinion as to such eligible persons’ contribution to the development and growth of the Group.

(3) *The maximum number of Shares available for issue*

The total number of Shares which may be issued upon exercise of all Options granted or to be granted under the Share Option Scheme shall not in aggregate exceed 18,000,000 Shares, representing 6% of the total number of Shares in issue as at the date of the adoption of the Share Option Scheme and as at 30 June 2023.

(4) *The maximum entitlement of each participant*

Grant of Options to non-connected persons

Subject to the paragraph below in relation to the grant of Options to connected persons, the total number of Shares issued and which may fall to be issued upon exercise of Options under the Share Option Scheme and the share options granted under any other share option schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of Options to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all Options granted and proposed to be granted to such person (including exercised, cancelled and outstanding Options) under the Share Option Scheme and any other share option scheme of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such grantees and their close associates (or his associates if the participant is a connected person) abstaining from voting.

MANAGEMENT DISCUSSION AND ANALYSIS

Grant of Options to core connected persons

The granting of any Option to any Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option).

In addition, where any grant of Options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (1) representing in aggregate over 0.1% of the Shares in issue as at the date of grant; and
- (2) having an aggregate value, based on the closing price of the Shares on the offer date of each grant, in excess of HK\$5 million;

such further grant of Options must be approved by the Shareholders in general meeting. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

(5) *Time of acceptance and exercise of Options*

An Option may, subject to the terms and conditions upon which such Option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board may from time to time determine stating that the Option is there by exercised and the number of Shares in respect of which it is exercised. An Option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted. The period during which an Option may be exercised will be determined by the Board in its absolute discretion, save that no Option may be exercised more than 10 years after the date of grant.

(6) *Vesting Period*

The vesting period under the Share Option Scheme is 3 years at the following ratios on the date of issuance of the audited financial report of the Group for the relevant financial year:

- (a) the first financial year immediately following the year of the grant date, 40% of the total number of share options granted to the grantee;
- (b) 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
- (c) 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.

(7) *Exercise price for the Shares*

The exercise price of the Options granted under the Share Option Scheme shall be the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, 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 date of grant.

MANAGEMENT DISCUSSION AND ANALYSIS

(8) Grant offer letter and notification of grant of Options

An offer shall be deemed to have been accepted and the Option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of the offer duly signed by the grantee with a remittance in favor 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 must be received by the Company within ten business days from the date of grant. Such remittance shall in no circumstances be refundable.

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.

(9) The duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for the period of 10 years from the date of adoption of the Share Option Scheme (after which, no further Options shall be offered or granted under the Share Option Scheme), but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options granted prior thereto and remain outstanding. As at the date of this report, the remaining life of the Share Option Scheme is approximately 9 years.

| Name of grantee | Date of grant | Exercise period | Vesting period | Exercise price (HKD) | Balance as at 1 January 2023 | Granted during the Period | Exercised during the Period | Cancelled/ forfeited/ lapsed during the Period | Balance as at 30 June 2023 |
|------------------|---------------|--|---|----------------------|------------------------------|---------------------------|-----------------------------|--|----------------------------|
| Directors | | | | | | | | | |
| Mr. XIE Yang | 29 June 2022 | Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2023 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2024 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2025 | 1.19 | 900,000 | – | – | – | 900,000 |

MANAGEMENT DISCUSSION AND ANALYSIS

| Name of grantee | Date of grant | Exercise period | Vesting period | Exercise price (HKD) | Balance as at 1 January 2023 | Granted during the Period | Exercised during the Period | Cancelled/ forfeited/ lapsed during the Period | Balance as at 30 June 2023 |
|------------------|---------------|--|---|----------------------|------------------------------|---------------------------|-----------------------------|--|----------------------------|
| Mr. GAO Xue Feng | 29 June 2022 | Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2023 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2024 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2025 | 1.19 | 900,000 | – | – | – | 900,000 |
| Mr. ZHAO Yan Wei | 29 June 2022 | Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2023 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2024 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2025 | 1.19 | 900,000 | – | – | – | 900,000 |

MANAGEMENT DISCUSSION AND ANALYSIS

| Name of grantee | Date of grant | Exercise period | Vesting period | Exercise price (HKD) | Balance as at 1 January 2023 | Granted during the Period | Exercised during the Period | Cancelled/ forfeited/ lapsed during the Period | Balance as at 30 June 2023 |
|-----------------|---------------|--|---|----------------------|------------------------------|---------------------------|-----------------------------|--|----------------------------|
| Mr. HE Xuan Xi | 29 June 2022 | Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2023 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2024 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2025 | 1.19 | 300,000 | – | – | – | 300,000 |
| Others | | | | | | | | | |
| Other Employees | 29 June 2022 | Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2023 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2024 | 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 | From the date of grant to the date preceding the date of issuance of the audited financial report for the year ended 31 December 2025 | 1.19 | 2,400,000 | – | – | – | 2,400,000 |

Note: For further details of the grant of Options, please refer to the announcement of the Company dated 29 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Given that the maximum number of Shares which may be issued pursuant to the Share Option Scheme is 18,000,000 Shares, and the Company granted 18,000,000 Options (representing equal number of Shares issuable) under the Share Option Scheme on 29 June 2022, no more Options are available for grant under the Share Option Scheme as at 1 January 2023 and 30 June 2023, respectively.

Given no Options were exercised during the Period, it is not applicable for the Company to set out the number of Options exercised during the Period with the exercise price and the weighted average closing price of the Shares immediately before the dates on which the Options were exercised as required under Rule 23.07(1)(d) GEM Listing Rules.

Given no Options were granted during the Period, it is not applicable for the Company to set out the number of Shares that may be issued in respect of Options granted under the Share Option Scheme during the Period divided by the weighted average number of Shares of the Shares in issue for the Period as required under Rule 23.07(3) GEM Listing Rules.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group employed 50 employees (31 December 2022: 69 employees). Employee costs amounted to approximately RMB9.4 million for the six months ended 30 June 2023 (2022: approximately RMB9.7 million). The Group endeavours to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is determined based on their performance.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There was no important events affecting the Group which have occurred since the end of the Period.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that 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 shareholders and creditors. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the code provisions set out in 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, 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 had complied with the CG Code for the Period. Mr. Xie Yang ("Mr. Xie") is chairman 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 the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group given Mr. Xie's expertise in wastewater and water treatment engineering and thus will allow Mr. Xie to provide strong and consistent leadership capabilities to the Group. Furthermore, the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals, in overseeing different aspects of the Company's affairs and thereby provides adequate safeguards to ensure the balance of power and authority. The Board is comprised of four executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the Period and therefore has sufficient independent elements in its composition.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the Period, none of the Directors had material interests, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling Shareholders nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the Period.

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.

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 June 2023, the interests and short positions of the Directors and chief executive of the Company in the ordinary 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 (Note 1) | Approximate percentage of the total number of Shares in issue (Note 2) |
|----------------------------------|------------------------------------|------------------------------|---|
| Mr. Xie Yang ^(Note 3) | Interest in controlled corporation | 91,350,000 (L) | 30.45% |
| Mr. Zhou Yanwei | Beneficial Owner | 15,000,000 (L) | 5.00% |

Notes:

1. The letter "L" denotes a long position.
2. The percentage is calculated based on 300,000,000 Shares in issue as at 30 June 2023.
3. 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 | Approximate percentage of shareholding of the issued share capital of the Company <i>(Note)</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% |

Note:

The percentage is calculated based on 300,000,000 Shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, 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 June 2023, 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% |

Notes:

1. The letter "L" denotes a long position.
2. 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.

Save as disclosed above, as at 30 June 2023, 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, 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 made specific enquiry of 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 review of the unaudited condensed consolidated financial statements of the Group for the Period and the interim results of the Group for the Period, and is of the view that the interim results have complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

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

Guangzhou, the PRC, 9 August 2023

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 and the independent non-executive Directors are Ms. BAI Shuang, Mr. HA Cheng Yong and Mr. TSE Chi Wai.