KPMG
8th Floor, Prince's Building
Central, Hong Kong
G P O Box 50, Hong Kong
Telephone +852 2522 6022
Fax +852 2845 2588
Internet kpmg.com/cn

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF JILIN MODERN ZHONGQING CITY CONSTRUCTION CO. LTD. TO THE DIRECTORS OF ZONQING ENVIRONMENTAL LIMITED

Introduction

We report on the historical financial information of Jilin Modern Zhongqing City Construction Co. Ltd. (吉林現代中慶城市建設有限公司) (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II - 3 to II - 57, which comprises the combined statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and the combined statements of profit or loss, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements, for each of the years ended 31 December 2020, 2021 and 2022 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II - 3 to II - 57 forms an integral part of this report, which has been prepared for inclusion in the circular of ZONQING Environmental Limited (the "Company") dated 9 June 2023 (the "Circular") in connection with the proposed acquisition of 87.50% equity interests in the Target Company (the "Proposed Acquisition").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page II - 3, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

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Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200"Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2020, 2021 and 2022 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II - 3 have been made.

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Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
9 June 2023

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

Combined statements of profit or loss
(Expressed in Renminbi ("RMB"))

		Year ended 31 December		
		2020	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	538,170	665,598	463,001
Cost of sales		(440,154)	(590,237)	(403,253)
Gross profit		98,016	75,361	59,748
Other net income	*5*	3,323	2,451	1,481
Selling expenses		(3,777)	(4,943)	(5,601)
Administrative expenses		(16,807)	(22,730)	(27,295)
(Impairment losses)/reversal of impairment losses on trade and other receivables and contract assets	*6*	(19,649)	(14,581)	11,043
Profit from operations		61,106	35,558	39,376
Finance costs	*7(a)*	(54,664)	(35,206)	(29,570)
Profit before taxation	*7*	6,442	352	9,806
Income tax	*8(a)*	(396)	661	(495)
Profit for the year		6,046	1,013	9,311
Attributable to:				
Equity shareholders of the Target Company		5,188	1,121	9,032
Non-controlling interests		858	(108)	279
Profit for the year		6,046	1,013	9,311

The accompanying notes form part of the Historical Financial Information.

Combined statements of profit or loss and other comprehensive income
(Expressed in RMB)

		Year ended 31 December		
	Note	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*
Profit for the year		6,046	1,013	9,311
Other comprehensive income for the year				
Item that will not be reclassified to profit or loss:				
Equity investments at fair value through other comprehensive income – net movement in fair value reserve	9	(3,811)	(1,215)	6,056
Other comprehensive income for the year		(3,811)	(1,215)	6,056
Total comprehensive income for the year		2,235	(202)	15,367
Attributable to:				
Equity shareholders of the Target Company		1,763	29	14,521
Non-controlling interests		472	(231)	846
Total comprehensive income for the year		2,235	(202)	15,367

The accompanying notes form part of the Historical Financial Information.

Combined statements of financial position
(Expressed in RMB)

		At 31 December		
		2020	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*10*	19,789	21,435	29,175
Right-of-use assets	*11*	9,834	7,531	5,287
Other equity investments	*12*	14,041	43,050	58,337
Deferred tax assets	*22(b)*	8,256	10,388	9,004
		51,920	82,404	101,803
Current assets				
Inventories and other contract costs	*13*	22,661	5,011	6,090
Contract assets	*14(a)*	503,044	449,192	345,303
Trade and bills receivables	*15*	252,618	337,616	472,637
Prepayments, deposits and other receivables	*16*	400,901	527,192	719,608
Restricted bank and other deposits	*17*	40,000	5,000	10
Cash and cash equivalents	*17*	26,236	41,375	90,334
		1,245,460	1,365,386	1,633,982
Current liabilities				
Trade and bills payables	*18*	395,335	443,632	452,474
Accrued expenses and other payables	*19*	23,609	99,917	87,145
Contract liabilities	*14(b)*	49,083	70,930	352,565
Bank and other loans	*20*	292,205	365,797	311,581
Lease liabilities	*21*	2,914	966	370
Income tax payable	*22(a)*	28,379	27,546	19,776
		791,525	1,008,788	1,223,911

Combined statements of financial position (continued)
(Expressed in RMB)

		At 31 December		
		2020	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Net current assets		453,935	356,598	410,071
Total assets less current liabilities		505,855	439,002	511,874
Non-current liabilities				
Bank and other loans	*20*	85,061	19,145	78,932
Lease liabilities	*21*	1,336	370	–
Deferred tax liabilities	*22(b)*	1,470	1,701	1,882
		87,867	21,216	80,814
NET ASSETS		417,988	417,786	431,060
CAPITAL AND RESERVES	*23*			
Paid-in capital		–	–	–
Reserves		376,044	376,073	391,455
Total equity attributable to equity shareholders of the Target Company		376,044	376,073	391,455
Non-controlling interests		41,944	41,713	39,605
TOTAL EQUITY		417,988	417,786	431,060

The accompanying notes form part of the Historical Financial Information.

Combined statements of changes in equity

(Expressed in RMB)

	Attributable to equity shareholders of the Target Company								
	Paid-in capital	Other reserve	Statutory reserve	Fair value reserve	Special reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 23(a))	*(Note 23(c))*	*(Note 23(d))*	*(Note 23(e))*	*(Note 23(f))*				
At 1 January 2020	–	174,328	15,791	22	4,602	179,538	374,281	41,472	415,753
Changes in equity for 2020:									
Profit for the year	–	–	–	–	–	5,188	5,188	858	6,046
Other comprehensive income	–	–	–	(3,425)	–	–	(3,425)	(386)	(3,811)
Total comprehensive income	–	–	–	(3,425)	–	5,188	1,763	472	2,235
Appropriation to reserves	–	–	446	–	1,534	(1,980)	–	–	–
At 31 December 2020 and at 1 January 2021	–	174,328	16,237	(3,403)	6,136	182,746	376,044	41,944	417,988
Changes in equity for 2021:									
Profit for the year	–	–	–	–	–	1,121	1,121	(108)	1,013
Other comprehensive income	–	–	–	(1,092)	–	–	(1,092)	(123)	(1,215)
Total comprehensive income	–	–	–	(1,092)	–	1,121	29	(231)	(202)
Appropriation to reserves	–	–	–	–	4,091	(4,091)	–	–	–
At 31 December 2021	–	174,328	16,237	(4,495)	10,227	179,776	376,073	41,713	417,786

Combined statements of changes in equity (continued)

(Expressed in RMB)

	Attributable to equity shareholders of the Target Company								
	Paid-in capital	Other reserve	Statutory reserve	Fair value reserve	Special reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 23(a))	*(Note 23(c))*	*(Note 23(d))*	*(Note 23(e))*	*(Note 23(f))*				
At 1 January 2022	–	174,328	16,237	(4,495)	10,227	179,776	376,073	41,713	417,786
Changes in equity for 2022:									
Profit for the year	–	–	–	–	–	9,032	9,032	279	9,311
Other comprehensive income	–	–	–	5,489	–	–	5,489	567	6,056
Total comprehensive income	–	–	–	5,489	–	9,032	14,521	846	15,367
Transfer to share capital of Changchun Chengwei *(Note 1)*	–	133,210	–	–	–	(133,210)	–	(3,043)	(3,043)
Appropriation to reserves	–	–	860	–	1,664	(2,524)	–	–	–
Deemed contribution arising from Reorganisation *(Note 1)*	–	861	–	–	–	–	861	89	950
	–	134,071	860	–	1,664	(135,734)	861	(2,954)	(2,093)
At 31 December 2022	–	308,399	17,097	994	11,891	53,074	391,455	39,605	431,060

The accompanying notes form part of the Historical Financial Information.

Combined cash flow statements
(Expressed in RMB)

		Year ended 31 December		
		2020	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Profit before taxation		6,442	352	9,806
Adjustments for:				
Depreciation	*7(c)*	5,887	6,929	7,504
Net (gain)/loss on disposal of property, plant and equipment	*5*	(196)	47	208
Impairment losses/(reversal of impairment losses) on trade and other receivables and contract assets	*6*	19,649	14,581	(11,043)
Finance costs	*7(a)*	54,664	35,206	29,570
Interest income	*5*	(711)	(184)	(238)
Changes in working capital:				
Decrease/(increase) in restricted bank deposits		12,211	(5,000)	4,990
(Increase)/decrease in inventories and other contract costs		(17,458)	17,650	(1,079)
(Increase)/decrease in contract assets		(340,061)	42,464	122,425
Decrease/(increase) in trade and bills receivables		399,105	(88,193)	(142,761)
(Increase)/decrease in prepayments, deposits and other receivables		(2,373)	42	(107,157)
(Decrease)/increase in trade and bills payables		(22,756)	48,297	(41,158)
Increase in accrued expenses and other payables		8,825	14,528	30,419
(Decrease)/increase in contract liabilities		(57,732)	21,847	281,635
Cash generated from operations		65,496	108,566	183,121
Income tax paid	*22(a)*	(4,889)	(1,859)	(7,770)
Net cash generated from operating activities		60,607	106,707	175,351

Combined cash flow statements (continued)
(Expressed in RMB)

	Note	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Cash flows from investing activities				
Payment for purchase of property, plant and equipment		(6,488)	(8,036)	(11,843)
Capital contributions to other equity investments		(2,220)	(30,438)	(8,161)
Proceeds from disposal of property, plant and equipment		1,189	364	680
Payments for advances granted to related parties		(1,963,016)	(1,179,018)	(1,560,355)
Payments for advances granted to third parties		(22,097)	(18,380)	(22,450)
Proceeds from repayment of advances granted to related parties		2,124,491	1,055,962	1,540,093
Proceeds from repayment of advances granted to third parties		4,879	17,855	1,250
Interest received		711	184	238
Net cash generated from/(used in) investing activities		137,449	(161,507)	(60,548)
Cash flows from financing activities				
Proceeds from bank and other loans	*17(b)*	1,116,249	943,632	426,229
Proceeds from advances from related parties	*17(b)*	67,940	39,162	18,854
Proceeds from advances from third parties	*17(b)*	64,037	65,367	66,519
Repayment of bank and other loans	*17(b)*	(1,297,983)	(936,113)	(423,888)
Repayment of advances from related parties	*17(b)*	(67,940)	(795)	(50,948)
Repayment of advances from third parties	*17(b)*	(83,956)	(40,601)	(82,704)
Capital element of lease rentals paid	*17(b)*	(2,967)	(2,914)	(966)
Interest element of lease rentals paid	*17(b)*	(399)	(213)	(49)
Decrease in restricted deposits		75,000	40,000	–
(Increase)/decrease in deposits paid to secure guarantees granted by third parties		(500)	(2,750)	6,450
Deemed contribution arising from the Reorganisation		–	–	950
Interest paid	*17(b)*	(54,265)	(34,836)	(26,291)
Net cash (used in)/generated from financing activities		(184,784)	69,939	(65,844)
Net increase in cash and cash equivalents		13,272	15,139	48,959
Cash and cash equivalents at 1 January	*17(a)*	12,964	26,236	41,375
Cash and cash equivalents at 31 December	*17(a)*	26,236	41,375	90,334

The accompanying notes form part of the Historical Financial Information.

Notes to the Historical Financial Information

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Jilin Modern Zhongqing City Construction Co. Ltd. (the "Target Company") was established in the People's Republic of China (the "PRC") on 12 December 2022 as a limited liability company under the laws of the PRC.

The Target Company is an investment holding company and has not carried on any business since the date of its establishment save for the group reorganisation mentioned below (the "Reorganisation"). The Target Company and its subsidiaries (together, the "Target Group") are principally involved in the provision of environmental hygiene services and construction and maintenance services for public work projects.

Prior to the establishment of the Target Company, the principal business of the Target Group has been operated under Changchun Chengjianweihu Group Co., Ltd. ("Changchun Chengwei") and its subsidiary, which are held by the Zhongqing Investment Holding Group Limited Liability Company (中慶投資控股(集團)有限責任公司) ("ZIHG"), and ultimately controlled by Mr. Sun Juqing and Ms. Zhao Hongyu (the "Controlling Parties").

Prior to June 2022, Changchun Chengwei held the entire interests in Changchun City Expressway Management and Maintenance Co., Ltd, which is engaged in expressway maintenance business (the "Carve-Out Entity"). The Carve-Out Entity is maintained by separate management personnel. As part of the Reorganisation, Changchun Chengwei's equity interest in the Carve-Out Entity was transferred to third parties in June 2022 at a consideration of RMB950,000. The Historical Financial Information excludes the assets, liabilities and results of operations of the Carve-Out Entity whose business are, in the opinion of the directors of the Company, clearly delineated from the business of the Target Group and whose assets, liabilities, revenue and expenses are clearly identifiable. The consideration of RMB950,000 received from the disposal of the Carve-Out Entity is recorded as a deemed contribution within equity in June 2022.

On 26 December 2022, Changchun Chengwei increased its share capital by transferring retain profits of RMB150,000,000 to share capital of RMB146,957,000, and the remaining portion of RMB3,043,000 was paid as individual income tax for the shareholders, and recorded as a deemed distribution arising from Reorganisation.

On 31 March 2023, the Target Company paid cash consideration of RMB340,700,000 to ZIHG to acquire the 90.65% equity interests of Changchun Chengwei held by ZIHG. As the Target Company and Changchun Chengwei were both controlled by ZIHG before and after this transaction, the transaction has been accounted for as a restructuring of entities under common control in accordance with the principles of merger basis of accounting. For the purpose of presentation of the Historical Financial Information of the Target Group, the net assets of the combining entities are combined using the existing book values. The consideration of RMB340,700,000 in connection with the acquisition of Changchun Chengwei will be recorded within equity of the Target Group as deemed distribution arising from the Reorganisation in March 2023.

The combined statements of profit or loss, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Group for the Relevant Periods as set out in the Historical Financial Information include the financial performance and cash flows of the companies now comprising the Target Group as if the current group structure had been in existence and remained unchanged throughout the Relevant Periods.

The combined statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 as set out in the Historical Financial Information have been prepared to present the financial position of the companies now comprising the Target Group as at the respective dates as if the current group structure had been in existence as at the respective dates, taking into account the respective dates of establishment, where applicable.

Intra-group balances, transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information.

No audited statutory financial statements of the Target Company for the year ended 31 December 2022 have been prepared.

Upon completion of the Reorganisation and as at the date of this report, the Target Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Company name	Place and date of establishment and business	Particulars of registered and share capital/paid-in capital	Held by the Target Company	Principal activities
Changchun Chengwei (長春市城建維護集團股份有限公司) (Notes(i) and (ii))	The PRC 17 September 1998	Registered and share capital of RMB346,957,000	90.65%	construction and maintenance services for public work projects
Jilin Zhonghuan Weilan Environmental Protection Technology Co., Ltd. (吉林省中環蔚藍環保科技有限公司) (Notes(i) and (iii))	The PRC 3 September 2018	Registered and paid-in capital of RMB5,000,000	67.99%	provision of environmental hygiene services

Notes:

(i) These entities were registered as joint stock limited liability company or limited liability company under the laws and regulations in the PRC. The official names of these entities are in Chinese. The English translations are for identification only.

(ii) The statutory financial statements of this entity for the years ended 31 December 2020, 2021 and 2022 prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC were audited by Jilin Zhongcheng Certified Public Limited Liability Corporation (吉林眾誠會計師事務所有限責任公司).

(iii) No audited statutory financial statements of this entity for the years ended 31 December 2020, 2021 and 2022 have been prepared.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has consistently applied all applicable new and revised IFRSs throughout the Relevant Periods.

The Target Group has not applied any new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2022, the details of which are set out in Note 30.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Target Company and the Target Group has its functional currency in RMB and the Historical Financial Information is presented in RMB.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the other equity investments are stated at their fair value as explained in the accounting policies set out below (see Note 2(e)).

(b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Business combinations under common control

The Target Group accounts for business combination not under common control using the acquisition method when control is transferred to the Target Group (see Note 2(d)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Business combinations of entities under common control are accounted for using the principle of merger accounting, under which, the Historical Financial Information incorporate the financial statement items of the acquired entities or businesses in which the common control combination occurs from the date when the acquired entities or businesses first come under the control of the controlling party. The net assets of the acquired entities or businesses are combined using the existing book values from the controlling party's perspective.

The differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded (net of any reserves of the acquired entities) have been recognised directly in equity as other reserve. Acquisition costs are expensed as incurred.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is include into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined statement of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the combined statement of profit or loss and the combined statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholders of the Target Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined statement of financial position in accordance with Notes 2(m) or 2(n) depending on the nature of the liability.

Changes in the Target Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(e) Other investments in equity securities

The Target Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments, see Note 24(e).

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Target Group makes an election to designate the investment at fair value through other comprehensive income ("FVOCI") — non-recycling, such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other net income in accordance with the policy set out in Note 2(r)(iii).

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Useful life
Buildings	20 years
Construction equipment	3-10 years
Motor vehicles	4-8 years
Other equipment	2-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(f) and 2(h)(iii)).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Target Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the combined statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Target Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the statement of financial position.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Target Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and
- contract assets as defined in IFRS 15 (see Note 2(j)).

Financial assets measured at fair value, including other investment in equity securities measured at FVOCI (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held). The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) ***Credit losses from financial guarantees issued***

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "accrued expenses and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Target Group's policies applicable to that category of asset.

Subsequent to initial recognition, the amount initially recognised as accrued expenses and other payables is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Target Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount, in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Target Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(h)(i) apply.

As the Target Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Target Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) ***Impairment of other non-current assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- right-of-use assets.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are assigned to specific construction contracts, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) ***Other contract costs***

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2(i)(i)) or property, plant and equipment (see Note 2(f)).

Incremental costs of obtaining a contract are those costs that the Target Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Target Group entered into the contract (for example, payments to subcontractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Target Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Target Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Target Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Target Group has an unconditional right to receive consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(k) Trade and other receivables

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see Note 2(h)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2(q)(i).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous contracts

An onerous contract exists when the Target Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

(r) Revenue and other income

Income is classified by the Target Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target Group's assets under leases in the ordinary course of the Target Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Target Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Target Group's revenue and other income recognition policies are as follows:

(i) Construction contracts

A contract with a customer is classified by the Target Group as a construction contract when the contract relates to work on construction and maintenance services for public work projects under the control of the customer and therefore the Target Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method. Under the cost-to-cost method, revenue is recognised based on the proportion of the actual costs incurred relative to the estimated total costs to provide a faithful depiction of the transfer of those services.

The Target Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. The Target Group also typically agrees to a retention period for certain of the contract value which the Target Group's entitlement to this final payment is conditional on the Target Group's work satisfactorily passing inspection. To the extent that the difference in timing arises for reasons other than the provision of finance, no financing component is deemed to exist.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in Note 2(q)(ii).

(ii) Contracts for services

For environmental hygiene services, the Target Group recognises revenue in the amount to which the Target Group has the right to invoice based on the value of performance completed on a monthly basis.

If contracts involve the provision of multiple services, the transaction prices are allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

(iii) ***Dividends***

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) ***Interest income***

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(v) ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

  (i) has control or joint control over the Target Group;

  (ii) has significant influence over the Target Group; or

  (iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

  (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 24(e) contains information about the assumptions and their risk factors relating to fair value of other equity investments. Other key sources of estimation uncertainty are as follows:

(a) Revenue recognition

As explained in policy Note 2(r), revenue from construction contracts and service contracts are recognised over time. Such revenue and profit recognition on incomplete projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Target Group's recent experience and the nature of the construction and maintenance activities undertaken by the Target Group, the Target Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets do not include profit which the Target Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment losses for receivables and contract assets

The management maintains a loss allowance for receivables and contract assets for estimated losses resulting from the inability of the customers and other debtors to make the required payments. The management bases the estimates on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

4 REVENUE

The Target Group is principally engaged in the provision of environmental hygiene services and construction and maintenance services for public work projects.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Disaggregated by major products or service lines			
– Revenue from construction services	407,187	518,895	316,493
– Revenue from maintenance services	79,504	92,731	100,554
– Revenue from environmental hygiene services	51,479	53,972	45,954
Revenue recognised over time	538,170	665,598	463,001

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The following table includes the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Target Group's existing construction and maintenance contracts. The transaction price does not include any estimated amounts of variable consideration, unless at the reporting date it is highly probable that the Target Group will satisfy the conditions of variable consideration. The Target Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 36 months.

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Remaining performance obligations expected to be satisfied	508,027	504,905	977,238

5 OTHER NET INCOME

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest income on bank deposits	711	184	238
Government grants	2,307	2,614	928
Net gain/(loss) on disposal of property, plant and equipment	196	(47)	(208)
Others	109	(300)	523
	3,323	2,451	1,481

6 IMPAIRMENT LOSSES/(REVERSAL OF IMPAIRMENT LOSSES) ON TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
(Reversal impairment losses)/impairment losses on trade receivables	(1,222)	3,195	7,740
Impairment losses/(reversal of impairment losses) on contract assets	20,877	11,388	(18,536)
Reversal of impairment losses on prepayments, deposits and other receivables	(6)	(2)	(247)
	19,649	14,581	(11,043)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank and other loans	54,265	34,836	26,291
Net foreign exchange loss of bank loans	–	157	3,230
Interest on lease liabilities	399	213	49
	54,664	35,206	29,570

No borrowing costs have been capitalised for each of the years ended 31 December 2020, 2021 and 2022.

(b) Staff costs

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	28,660	44,268	45,870
Contributions to defined contribution retirement schemes *(note)*	904	4,281	5,687
	29,564	48,549	51,557

Note: The employees of the Target Company and its subsidiaries in the PRC are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Target Group's subsidiaries in the PRC contribute funds which are calculated based on certain percentages of the prevailing average salary as agreed by the local municipal government to the schemes to fund the retirement benefits of the employees. Contributions to the schemes vest immediately, there is no forfeited contributions that may be used by the Target Group to reduce existing level of contributions. The Target Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

The Target Group received a partial exemption of social insurance expenses according to social insurance relief policy of the local municipal governments during the COVID-19 outbreak for the year ended 31 December 2020. Such exemption was not granted for the years ended 31 December 2021 and 2022.

(c) Other items

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation of property, plant and equipment *(Note 10)*	3,540	4,626	5,260
Depreciation of right-of-use assets *(Note 11)*	2,347	2,303	2,244
Leases charges relating to short-term leases and leases of low-value assets	6,640	4,221	3,194
Research and development costs	19,952	17,816	15,554
Cost of inventories *(Note 13(a))*	158,837	187,276	152,528

8 INCOME TAX

(a) Taxation in the combined statements of profit or loss represents:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Current tax (Note 22(a))			
Provision for the year	1,362	1,026	–
Deferred tax (Note 22(b))			
Origination and reversal of temporary differences	(966)	(1,687)	495
	396	(661)	495

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	6,442	352	9,806
Notional tax on profit before taxation, calculated at the rates applicable to profits in the respective tax jurisdictions concerned *(Notes (i))*	1,610	88	2,452
Tax concessions and effect of changes of tax rate *(Note (ii))*	(2,300)	(1,748)	(3,068)
Tax effect of unused tax losses and deductible temporary differences not recognised	700	272	–
Tax effect of non-deductible expenses	386	727	1,111
Income tax	396	(661)	495

Notes:

(i) The Target Company and its subsidiaries established in the PRC are subject to PRC Corporate Income Tax rate at 25% during the Relevant Periods.

(ii) One of the subsidiaries of the Target Group established in the PRC has obtained approval from the tax bureau to be taxed as an enterprise with advanced and new technologies for the calendar years from 2018 to 2023 and therefore enjoys a preferential PRC Corporate Income Tax rate of 15% for the years ended 31 December 2020, 2021 and 2022. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary entitles an additional tax deductible allowance amounted to 75% of the qualified research and development costs incurred in the PRC by this subsidiary for the years ended 31 December 2020, 2021 and 2022.

9 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Net movement in the fair value reserve			
– Before tax amount	(4,483)	(1,429)	7,126
– Tax	672	214	(1,070)
Other comprehensive income	(3,811)	(1,215)	6,056

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction equipment	Motor vehicles	Other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2020	4,423	5,488	9,088	6,189	25,188
Additions	–	1,074	6,245	911	8,230
Disposals	–	(1,178)	(635)	(352)	(2,165)
At 31 December 2020 and 1 January 2021	4,423	5,384	14,698	6,748	31,253
Additions	–	2,413	3,780	490	6,683
Disposals	–	(816)	–	(122)	(938)
At 31 December 2021 and 1 January 2022	4,423	6,981	18,478	7,116	36,998
Additions	–	1,000	12,622	266	13,888
Disposals	–	(233)	(2,827)	(199)	(3,259)
At 31 December 2022	4,423	7,748	28,273	7,183	47,627
Accumulated depreciation:					
At 1 January 2020	(597)	(3,045)	(4,382)	(1,893)	(9,917)
Charge for the year	(219)	(601)	(1,602)	(1,118)	(3,540)
Written back on disposals	–	1,119	550	324	1,993
At 31 December 2020 and 1 January 2021	(816)	(2,527)	(5,434)	(2,687)	(11,464)
Charge for the year	(219)	(704)	(2,539)	(1,164)	(4,626)
Written back on disposals	–	411	–	116	527
At 31 December 2021 and 1 January 2022	(1,035)	(2,820)	(7,973)	(3,735)	(15,563)
Charge for the year	(219)	(790)	(3,090)	(1,161)	(5,260)
Written back on disposals	–	221	1,970	180	2,371
At 31 December 2022	(1,254)	(3,389)	(9,093)	(4,716)	(18,452)
Net book value:					
At 31 December 2022	3,169	4,359	19,180	2,467	29,175
At 31 December 2021	3,388	4,161	10,505	3,381	21,435
At 31 December 2020	3,607	2,857	9,264	4,061	19,789

At 31 December 2020, 2021 and 2022, property certificates of certain properties with an aggregate net book value of RMB3.6 million, RMB3.4 million and RMB3.2 million are yet to be obtained. ZIHG has undertaken to procure the obtaining of the title documents for the above mentioned properties. If title documents could not be obtained, ZIHG agreed to indemnify the Target Group for all the losses and damages arising therefrom.

11 RIGHT-OF-USE ASSETS

	Prepayment for land use right for own use *Note (i)* *RMB'000*	**Properties leased for own use** *Note (ii)* *RMB'000*	**Motor vehicles and equipment leased for own use** *RMB'000*	**Total** *RMB'000*
Cost:				
At 1 January 2020	2,346	1,836	10,454	14,636
Additions	–	250	–	250
Early termination of lease term	–	–	(974)	(974)
At 31 December 2020, 1 January 2021 and 31 December 2021	2,346	2,086	9,480	13,912
Expiration of lease term	–	(151)	(2,780)	(2,931)
At 31 December 2022	2,346	1,935	6,700	10,981
Accumulated depreciation:				
At 1 January 2020	(866)	(215)	(803)	(1,884)
Charge for the year	(67)	(423)	(1,857)	(2,347)
Early termination of lease term	–	–	153	153
At 31 December 2020 and 1 January 2021	(933)	(638)	(2,507)	(4,078)
Charge for the year	(67)	(472)	(1,764)	(2,303)
At 31 December 2021 and 1 January 2022	(1,000)	(1,110)	(4,271)	(6,381)
Charge for the year	(67)	(463)	(1,714)	(2,244)
Expiration of lease term	–	151	2,780	2,931
At 31 December 2022	(1,067)	(1,422)	(3,205)	(5,694)
Net book value:				
At 31 December 2022	1,279	513	3,495	5,287
At 31 December 2021	1,346	976	5,209	7,531
At 31 December 2020	1,413	1,448	6,973	9,834

Notes:

(i) Land use right premiums was paid by the Target Group for land situated in the PRC. At 31 December 2020, 2021 and 2022, certificates of certain land use rights with an aggregate net book value of RMB1.4 million, RMB1.3 million and RMB1.3 million are yet to be obtained. ZIHG has undertaken to procure the obtaining of the title documents for the above-mentioned land use rights. If title documents could not be obtained, ZIHG agreed to indemnify the Target Group for all the losses and damages arising therefrom. Lump sum payments were made upfront to acquire these land use rights, and there are no ongoing payments to be made under the terms of the land lease.

(ii) The Target Group has obtained the right to use the properties as its offices or dormitory for staff through tenancy agreements. The leases typically run for an initial period of 2 to 8 years.

The Target Group does not have the option to renew and early terminate the lease and there are no significant restrictions or covenants imposed to the lease. None of the leases includes variable lease payments.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 17(c) and 21, respectively.

The analyses of expense items in relation to leases recognised in the Target Group's profit or loss is as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest on lease liabilities	399	213	49
Depreciation of right-of-use assets *(Note 11)*	2,347	2,303	2,244
Leases charges relating to short-term leases and leases of low-value assets	6,640	4,221	3,194

12 OTHER EQUITY INVESTMENTS

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity investments, at FVOCI (non-recycling)			
– 長春潤德建設項目管理有限公司 (Changchun Runde Construction Project Management Co., Ltd.) ("Runde Construction") *(Note (i))*	13,300	41,822	56,816
– 長春市綠園區城泰建設工程有限公司 (Changchun Lvyuan Chengtai Construction Engineering Co., Ltd.) ("Lvyuan Chengtai") *(Note (ii))*	741	1,228	1,521
	14,041	43,050	58,337

The Target Group designated its unlisted equity investments in Runde Construction and Lvyuan Chengtai at FVOCI (non-recycling), as the investments are held for strategic purposes. The directors of the Company consider that Target Group does not have significant influence over any of these investments. No dividends were received from the above investments during the Relevant Periods. The investments are classified as Level 3 fair value measurement, and the fair value was determined by the directors with reference to a valuation report issued by a third party valuer using the market approach or income approach. Further details are disclosed in Note 24(e).

Notes:

(i) Runde Construction is a private company engaged in project management, which is responsible for financing, developing, operating and maintaining the PPP projects in the PRC.

(ii) Lvyuan Chengtai is a private company engaged in project management, which is responsible for financing, developing, operating and maintaining the PPP project in the PRC.

13 INVENTORIES AND OTHER CONTRACT COSTS

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Construction materials	22,661	5,011	6,090

(a) **The analyses of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

	Year ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories used in construction contracts	158,837	187,276	152,528

14 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) **Contract assets**

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Contract assets			
– due from ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d))*	309	43	–
– due from third parties	537,557	495,359	372,977
	537,866	495,402	372,977
Less: loss allowance	(34,822)	(46,210)	(27,674)
	503,044	449,192	345,303
Trade receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade receivables" ***(Note 15)***	252,618	336,505	472,637

The Target Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The contract assets that could be billed and settled within one year according to terms of the contracts with customers are classified as current assets. Otherwise, the contract assets are classified as non-current assets.

The amounts of revenue recognised during the periods from performance obligations satisfied (or partially satisfied) in previous periods during each of the years ended 31 December 2020, 2021 and 2022, are RMBNil, RMB11,808,000 and RMBNil, respectively, mainly due to the changes in estimate of the stage of completion.

Notwithstanding the terms of the contracts with customers, the directors consider that all of the amounts are expected to be billed within one year as at 31 December 2020, 2021 and 2022, except for the amounts of RMB172,628,000, RMB226,410,000 and RMB145,760,000, respectively, which are expected to be billed after more than one year.

(b) **Contract liabilities**

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
– due to ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d))*	728	3,231	728
– due to third parties	48,355	67,699	351,837
	49,083	70,930	352,565

When the Target Group receives a deposit before the construction activity commences will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit.

Movements in contract liabilities

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	106,815	49,083	70,930
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(74,935)	(11,223)	(27,337)
Increase in contract liabilities as a result of billing in advance of construction activities	17,203	33,070	308,972
Balance at 31 December	49,083	70,930	352,565

All of the contract liabilities are expected to be recognised as revenue within one year, according to the contract terms and working progress estimation.

15 TRADE AND BILLS RECEIVABLES

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– due from ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d))*	11,506	17,594	10,014
– due from third parties	257,741	338,342	489,720
	269,247	355,936	499,734
Bills receivable	–	1,111	–
Less: loss allowance	(16,629)	(19,431)	(27,097)
	252,618	337,616	472,637

All of the current trade and bills receivables, net of loss allowance, are expected to be recovered within one year.

Ageing analysis

As of the end of each of the reporting period, the ageing analyses of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	165,099	278,060	337,042
1 to 2 years	67,419	42,312	116,618
2 to 3 years	9,911	10,818	14,173
3 to 4 years	5,815	2,972	4,619
4 to 5 years	4,374	3,454	185
	252,618	337,616	472,637

The Target Group generally requires customers to settle progress billings in accordance with contract terms. Further details on the Target Group's credit policy and credit risk arising from trade and bills receivable are set out in Note 24(a).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d) and Note (i))*	386,138	509,194	579,456
Amounts due from one of the shareholders of Changchun Chengwei *(Note 27(d) and Note (i))*	1,047	1,047	1,047
Advances to third parties	2,035	2,560	23,760
Prepayments for purchase of raw materials	2,310	2,296	109,608
Deposits of bidding and performance for construction contracts	1,005	792	576
Deposits to secure the guarantees by third parties *(Note 20(d))*	9,600	12,350	5,900
Others	327	512	573
	402,462	528,751	720,920
Less: loss allowance	(1,561)	(1,559)	(1,312)
	400,901	527,192	719,608

All of the prepayments, deposits, and other receivables are expected to be recovered or recognised as expenses within one year.

Note:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and on hand	66,236	46,375	90,344
Less: restricted bank deposits	40,000	5,000	10
Cash and cash equivalents in the combined statements of financial position and combined cash flow statements	26,236	41,375	90,334

The Target Group's business operations in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Restricted bank deposits mainly represent deposits placed at bank to secure the bank loans and issuance of bills by the Target Group. The restriction on deposits would release after the payment of bills or repayment of loans.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Group's combined cash flow statements as cash flows from financing activities.

	Note	Bank and other loans *RMB'000* *(Note 20)*	Amounts due to third parties *RMB'000* *(Note 19)*	Amounts due to related parties *RMB'000* *(Note 19)*	Lease liabilities *RMB'000* *(Note 21)*	Total *RMB'000*
At 1 January 2020		559,000	25,930	–	6,967	591,897
Changes from financing cash flows:						
Proceeds from new loans		1,116,249	64,037	67,940	–	1,248,226
Repayment of loans		(1,297,983)	(83,956)	(67,940)	(2,967)	(1,452,846)
Interest paid		(54,265)	–	–	(399)	(54,664)
Total changes from financing cash flows		(235,999)	(19,919)	–	(3,366)	(259,284)
Other changes:						
Increase in lease liabilities		–	–	–	250	250
Interest expenses	*7(a)*	54,265	–	–	399	54,664
Total other changes		54,265	–	–	649	54,914
At 31 December 2020 and 1 January 2021		377,266	6,011	–	4,250	387,527
Changes from financing cash flows:						
Proceeds from new loans		943,632	65,367	39,162	–	1,048,161
Repayment of loans		(936,113)	(40,601)	(795)	(2,914)	(980,423)
Interest paid		(34,836)	–	–	(213)	(35,049)
Total changes from financing cash flows		(27,317)	24,766	38,367	(3,127)	32,689
Exchange adjustments	*7(a)*	157	–	–	–	157
Other changes:						
Interest expenses	*7(a)*	34,836	–	–	213	35,049
Total other changes		34,836	–	–	213	35,049
At 31 December 2021		384,942	30,777	38,367	1,336	455,422

	Note	Bank and other loans RMB'000 (Note 20)	Amounts due to third parties RMB'000 (Note 19)	Amounts due to related parties RMB'000 (Note 19)	Lease liabilities RMB'000 (Note 21)	Total RMB'000
At 1 January 2022		384,942	30,777	38,367	1,336	455,422
Changes from financing cash flows:						
Proceeds from new loans		426,229	66,519	18,854	–	511,602
Repayment of loans		(423,888)	(82,704)	(50,948)	(966)	(558,506)
Interest paid		(26,291)	–	–	(49)	(26,340)
Total changes from financing cash flows		(23,950)	(16,185)	(32,094)	(1,015)	(73,244)
Exchange adjustments		3,230	–	–	–	3,230
Other changes:						
Interest expenses	7(a)	26,291	–	–	49	26,340
Total other changes		26,291	–	–	49	26,340
At 31 December 2022		390,513	14,592	6,273	370	411,748

(c) **Total cash outflow for leases**

Amounts included in the combined cash flow statements represent leases rental paid and comprise the following:

	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Within operating cash flows	6,640	4,221	3,194
Within financing cash flows	3,366	3,127	1,015
	10,006	7,348	4,209

18 TRADE AND BILLS PAYABLES

	At 31 December 2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
– due to ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d))*	14,479	23,011	6,043
– due to a company managed by key management personnel of ZIHG *(Note 27(d))*	39,986	19,456	13,007
– due to ZONQING Environmental Limited ("ZONQING Environmental") and its subsidiaries *(Note 27(d))*	102	435	534
– due to third parties	330,768	390,730	382,890
Bills payables	10,000	10,000	50,000
	395,335	443,632	452,474

As of the end of each of the reporting period, the ageing analyses of trade and bills payables, based on the invoice date, is as follows:

	At 31 December 2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	261,081	292,658	258,301
1 to 3 years	118,367	131,993	175,376
Over 3 years	15,887	18,981	18,797
	395,335	443,632	452,474

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

19 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December 2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to ZIHG and its subsidiaries, joint ventures and associates *(Note 27(d) and Note(i))*	–	38,367	3,693
Amounts due to ZONQING Environmental and its subsidiaries *(Note 27(d) and Note(i))*	–	–	2,580
Amounts due to third parties *(Note(i))*	6,011	30,777	14,592
Payables for staff related costs	6,280	8,421	12,304
Payables for purchase of property, plant and equipment	2,763	1,410	3,455
Others	931	372	185
Financial liabilities measured amortised cost	15,985	79,347	36,809
Payables for miscellaneous taxes	7,624	20,570	50,336
	23,609	99,917	87,145

Note:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

20 BANK AND OTHER LOANS

(a) The Target Group's bank and other loans comprise:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans:			
Guaranteed by related parties	–	19,034	–
Guaranteed by third parties *(Note 20(d))*	34,987	146,464	115,797
Guaranteed by related parties and third parties *(Note 20(d))*	262,582	200,299	226,823
Secured by bank deposits of the Target Group *(Note 20(c))*	39,639	–	–
Guaranteed by related parties and secured by trade and bills receivables and contract assets of the Target Group *(Note 20(c))*	40,058	–	29,748
	377,266	365,797	372,368
Other loans:			
Unguaranteed and unsecured loans from third parties	–	19,145	17,145
Unguaranteed and unsecured loans from ZIHG and its subsidiaries, joint ventures and associates *(Note 27(c))*	–	–	1,000
	–	19,145	18,145
	377,266	384,942	390,513

(b) The Target Group's bank and other loans are repayable as follows:

At 31 December 2020, 2021 and 2022, the bank and other loans were repayable as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand	292,205	365,797	311,581
After 1 year but within 2 years	85,061	19,145	2,000
After 2 years but within 5 years	–	–	76,932
	85,061	19,145	78,932
	377,266	384,942	390,513

(c) Certain of the Target Group's bank loans are secured by the following assets of the Target Group:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables and contract assets	38,604	–	60,032
Bank deposits	40,000	–	–

(d) Certain of the Target Group's bank loans are guaranteed by third parties, where related parties provide counter-guarantee and/or the Target Group pledges its assets to these third parties:

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Loans counter-guaranteed by related parties	297,569	299,465	342,620
Secured by assets of the Target Group			
– Trade and bills receivables and contract assets	61,550	239,285	227,080
– Deposits	9,600	12,350	5,900

(e) At 31 December 2020, 2021 and 2022, all of the Target Group's banking facilities were utilised.

(f) Certain of the Target Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Target Group were to breach the covenants, the loans would become repayable on demand. The Target Group regularly monitors its compliance with these covenants. Further details of the Target Group's management of liquidity risk are set out in Note 24(b). At 31 December 2020, 2021 and 2022, none of the covenants relating to the bank loans had been breached.

21 LEASE LIABILITIES

The lease liabilities were repayable as follows as of the end of the reporting period:

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	2,914	966	370
After 1 year but within 2 years	966	370	–
After 2 years but within 5 years	370	–	–
	1,336	370	–
	4,250	1,336	370

22 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the combined statements of financial position represents:

	Year ended 31 December 2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Net balance of income tax payable at 1 January	31,906	28,379	27,546
Provision for the year *(Note 8(a))*	1,362	1,026	–
Income tax paid	(4,889)	(1,859)	(7,770)
Income tax payable at 31 December	28,379	27,546	19,776

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the combined statements of financial position and the movements during the year are as follows:

Deferred tax arising from:	Accrued payables	Credit loss allowance	Unused tax losses	Depreciation allowances in excess of the related depreciation	Fair value adjustments in connection with other equity investments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	150	5,001	–	–	(3)	5,148
(Charged)/credited to profit or loss *(Note 8(a))*	(150)	2,947	–	(1,831)	–	966
Credited to reserve *(Note 9)*	–	–	–	–	672	672
At 31 December 2020 and 1 January 2021	–	7,948	–	(1,831)	669	6,786
Credited/(charged) to profit or loss *(Note 8(a))*	–	2,121	–	(434)	–	1,687
Credited to reserve *(Note 9)*	–	–	–	–	214	214
At 31 December 2021 and 1 January 2022	–	10,069	–	(2,265)	883	8,687
(Charged)/credited to profit or loss *(Note 8(a))*	–	(1,708)	1,285	(72)	–	(495)
Charged to reserve *(Note 9)*	–	–	–	–	(1,070)	(1,070)
At 31 December 2022	–	8,361	1,285	(2,337)	(187)	7,122

(ii) Reconciliation to the combined statements of financial position

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax assets	8,256	10,388	9,004
Net deferred tax liabilities	(1,470)	(1,701)	(1,882)
	6,786	8,687	7,122

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), the Target Group has not recognised deferred tax assets in respect of cumulative unused tax losses and deductible temporary differences arising from a subsidiary of the Target Group of RMB5,998,000, RMB7,085,000, and RMB7,085,000 as of 31 December 2020, 2021 and 2022, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

The year of expiry of unused tax losses and deductible temporary differences not recognised is as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Year of expiry:			
2023	276	276	276
2024	3,661	3,661	3,661
2025	2,061	2,061	2,061
2026	–	1,087	1,087
	5,998	7,085	7,085

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Paid-in capital

The Target Company was established in the PRC on 12 December 2022 with registered capital of RMB20,000,000. As at 31 December 2022, the paid-in capital of the Target Company is RMBNil.

(b) Dividends

The Target Group did not declare any dividends during the Relevant Periods.

(c) Other reserve

The other reserve comprises reserve arising from the Reorganisation.

(d) Statutory reserve

In accordance with the relevant PRC laws and regulations and articles of association of the entities of the Target Group established in the PRC, these entities were required to set up certain statutory reserves, which were non-distributable. The statutory reserves can only be utilised for predetermined means upon approval by the shareholders' meeting.

(e) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held during the year (see Note 2(e)).

(f) Special reserve

Pursuant to the relevant PRC laws and regulations, the Target Group is required to transfer production and maintenance funds at fixed rates based on relevant bases to a specific reserve account. The production and maintenance funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of production and maintenance funds utilised would be transferred from the specific reserve account to retained earnings.

(g) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to trade receivables and contract assets. The Target Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Target Group considers to have low credit risk.

Except for the financial guarantees given by the Target Group as set out in Note 26, the Target Group does not provide any other guarantees which would expose the Target Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees as at the end of the reporting period is disclosed in Note 26.

Trade receivables and contract assets

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At 31 December 2020, 2021 and 2022, 18.2%, 10.7% and 9.0% of the total trade receivables and contract assets, were due from the Target Group's largest debtor, and 42.3%, 32.6% and 29.7% of the total trade receivables and contract assets, were due from the Target Group's five largest debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Target Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Trade receivables and contract assets for contract work are considered past due once billings have been made and revenue has been recognised, respectively. Normally, the Target Group does not obtain collateral from customers.

The Target Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

The following table provides information about the Target Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2020, 2021 and 2022.

	At 31 December 2020		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2%	370,486	843
Within 1 year past due	0.5%	234,379	1,287
1 to 2 years past due	3.5%	136,397	4,744
2 to 3 years past due	8.2%	12,073	988
Over 3 years past due	81.1%	53,778	43,589
		807,113	51,451

	At 31 December 2021		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2%	308,278	732
Within 1 year past due	0.5%	384,009	2,106
1 to 2 years past due	3.6%	60,466	2,175
2 to 3 years past due	46.8%	59,231	27,700
Over 3 years past due	83.7%	39,354	32,928
		851,338	65,641

	At 31 December 2022		
	Expected loss rate	Gross carrying amount	Loss Allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.4%	212,426	785
Within 1 year past due	0.9%	453,282	4,011
1 to 2 years past due	4.0%	143,094	5,748
2 to 3 years past due	16.3%	17,773	2,895
Over 3 years past due	89.6%	46,136	41,332
		872,711	54,771

Expected loss rates are based on actual loss experience over the past recent years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables.

Movements in the loss allowance account in respect of trade receivables and contract assets during the Relevant Periods are as follows:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	31,796	51,451	65,641
Impairment losses/(reversal impairment losses) recognised during the year *(Note (i))*	19,655	14,583	(10,796)
Amounts written-off during the year	–	(393)	(74)
Balance at 31 December	51,451	65,641	54,771

Note:

(i) The impairment losses recognised are contributed to the origination of new trade receivables and contract assets net of those settled and the increase in days past due.

(b) Liquidity risk

The treasury function is centrally managed by the Target Group, which includes the short-term investment of cash surpluses and the raising of loans to cover expected cash demands.

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of reporting period of the Target Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group can be required to pay:

	At 31 December 2020				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	395,335	–	–	395,335	395,335
Accrued expenses and other payables measured at amortised cost	15,985	–	–	15,985	15,985
Bank and other loans	308,458	89,016	–	397,474	377,266
Lease liabilities	3,127	1,015	381	4,523	4,250
	722,905	90,031	381	813,317	792,836

	At 31 December 2021				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	443,632	–	–	443,632	443,632
Accrued expenses and other payables measured at amortised cost	79,347	–	–	79,347	79,347
Bank and other loans	380,027	19,145	–	399,172	384,942
Lease liabilities	1,015	381	–	1,396	1,336
	904,021	19,526	–	923,547	909,257

	At 31 December 2022				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	452,474	–	–	452,474	452,474
Accrued expenses and other payables measured at amortised cost	36,809	–	–	36,809	36,809
Bank and other loans	328,943	8,295	80,466	417,704	390,513
Lease liabilities	381	–	–	381	370
	818,607	8,295	80,466	907,368	880,166

The maximum amount guaranteed in relation to the financial guarantees issued is disclosed in Note 26.

(c) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk, respectively.

(i) ***Interest rate profile***

The following table details the interest rate profile of the Target Group's borrowings at the end of the reporting period:

	At 31 December					
	2020		2021		2022	
	Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowings:						
Bank and other loans	4.35%~8.00%	377,266	1.16%~8.00%	384,942	5.00%~8.00%	390,513
Lease labilities	6.56%	4,250	6.56%	1,336	6.56%	370
		381,516		386,278		390,883
Fixed rate borrowings as a percentage of total borrowings		100.0%		100.0%		100.0%

(d) **Currency risk**

The Target Group is exposed to currency risk primarily through a bank loan that is denominated in USD. As at 31 December 2021, the balance of the bank loan and related interests is USD7,410,000.

At 31 December 2021, it is estimated that a general increase/decrease of 10% of USD exchange rate, would have decreased/increased the Target Group's net profit and retained profits of approximately RMB4,016,000.

(e) **Fair value measurement**

(i) ***Assets and liabilities measured at fair value***

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value measurements as at 31 December categorised into Level 3		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Other equity investments	14,041	43,050	58,337

During the years ended 31 December 2020, 2021 and 2022 there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**	**Range**
Other equity investments	Market comparable companies (aa)	Discount for lack of marketability	20.6%
	Discounted cashflow approach (bb)	Discount rate	7%

(aa) The fair value of the non-listed shares is determined by using enterprise value per book values of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2020, 2021 and 2022, it is estimated that with all other variables held constant, a decrease/increase in discount rate for lack of marketability by 1% would have increased/decreased the Target Group's other comprehensive income by RMB143,000, RMB448,000 and RMB609,000, respectively.

(bb) The fair value of the non-listed shares is determined by discounting projected cash flow. The valuation takes into account the expected cash flow according to the PPP agreement. The discount rate used has been adjusted to reflect specific risks relating to respective investees. The fair value measurement is negatively correlated to the discount rate. As at 31 December 2020,2021 and 2022, it is estimated that with all other variables held constant, a decrease in discount rate by 1% would have increased the Group's other comprehensive income by RMB82,000, RMB80,000 and RMB76,000, respectively, and an increase in discount rate by 1% would have decreased the Group's other comprehensive income by RMB74,000, RMB73,000 and RMB70,000, respectively.

The movements during each of the years ended 31 December 2020, 2021 and 2022 in the other equity investments balance of these Level 3 fair value measurements are as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity securities:			
At 1 January	16,304	14,041	43,050
Payment for purchases	2,220	30,438	8,161
Change in fair value recognised in other comprehensive income during the year	(4,483)	(1,429)	7,126
At 31 December	14,041	43,050	58,337

(ii) ***Fair value of financial assets and liabilities carried at other than fair value***

The carrying amounts of the Target Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020, 2021 and 2022.

25 COMMITMENTS

Capital commitments outstanding at 31 December 2020, 2021 and 2022 not provided for in the Historical Financial Statements were as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Authorised but not contracted for	6,683	13,888	2,924

26 CONTINGENT LIABILITIES

The Target Group has issued guarantees in respect of bank loans and bills payable of ZIHG and its subsidiaries, joint ventures and associates, ZONQING Environmental and its subsidiaries and third parties. As at 31 December 2020, 2021 and 2022, the balance of the bank loans and bills payable of ZIHG and its subsidiaries, joint ventures and associates, which has been guaranteed or counter-guaranteed by the Target Group amounted to RMB695,000,000, RMB939,500,000 and RMB630,000,000, respectively. As at 31 December 2020, 2021 and 2022, the balance of the bank loans of ZONQING Environmental and its subsidiaries, which has been guaranteed or counter-guaranteed by the Target Group amounted to RMBNil, RMBNil and RMB4,000,000, respectively. As at 31 December 2020, 2021 and 2022, the balance of the bank loans of third parties, which has been guaranteed or counter-guaranteed by the Target Group amounted to RMBNil, RMBNil and RMB28,000,000, respectively.

The directors do not believe it probable that ZIHG and its subsidiaries, joint ventures and associate, ZONQING Environmental and its subsidiaries and third parties will default on the contracts and fail to make payment when due, and the Target Group will make specified payments to reimburse the beneficiary of the guarantee for a loss the bank incurs. Financial guarantees to ZIHG and its subsidiaries, joint ventures and associates will be released prior to completion of the proposed acquisition of equity interests in the Target Company by ZONQING Environmental.

27 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Target Group, including amounts paid to the Target Company's directors is as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	1,290	2,143	2,368
Discretionary bonuses	125	738	–
Contributions to defined contribution retirement schemes	8	97	121
	1,423	2,978	2,489

Total remuneration is included in "staff costs" (see Note 7(b)).

(b) **Names and relationships of the related parties that had material transactions with the Target Group during the Relevant Periods:**

Names of related parties	Nature of relationship
Cao Xilin	One of the shareholders of Changchun Chengwei
Sun Juqing	One of the Controlling Parties
Zhao Hongyu	One of the Controlling Parties
ZIHG	Controlled by the Controlling Parties
Zonbong Ecology Environmental Construction Limited	Controlled by ZONQING Environmental
Zhongqing Construction Limited Liability Company	Controlled by ZIHG
Jilin Zhongqing Modern Agricultural Technology Limited Liability Company	Controlled by ZIHG
Jilin Zhongqing Shenlu Cultural Tourism Investment Limited Liability Company	Controlled by ZIHG
Jinlin Huayi Highway Construction Group Limited	Controlled by ZIHG
Jilin Zhongqing Taifeng Investment Center (Limited Partnership)	Controlled by ZIHG
Changchun Chengkai Chengwei Construction Investment and Development Limited Liability Company	Controlled by ZIHG
Changchun Puqing Cement Products Limited Liability Company	Controlled by ZIHG
Changchun Huasheng Municipal Construction Limited Liability Company	Controlled by ZIHG
Jilin Hongxin Industry Limited Liability Company	Managed by a key personnel of ZIHG
Changchun Chengtou Urbanization Construction Investment Limited Liability Company	Equity accounted for investee of ZIHG
Changchun Lvyuan Chengtai Construction Engineering Co., Ltd.	Equity accounted for investee of ZIHG
Runde Construction Investment (Changchun) Limited Liability Company	Equity accounted for investee of ZIHG

(c) **Transactions with related parties:**

(i) Transactions with ZIHG and its subsidiaries, joint ventures and associates

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Rendering of construction services	7,466	6,891	1,724
Receiving services	9,891	11,072	3,837
Purchase of goods	965	6,790	1,943
Proceeds from advances from related parties	67,940	39,162	16,274
Repayment of advances from related parties	67,940	795	50,948
Payments for advances granted to related parties	1,963,016	1,179,018	1,560,355
Proceeds from other loans from related parties	–	–	1,000
Proceeds from repayment of advances granted to related parties	2,124,491	1,055,962	1,540,093
Issuance of bills	–	–	50,000

(ii) Transactions with a company managed by a key management personnel of ZIHG

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of goods	15,880	18,817	20,576

(iii) Transactions with ZONQING Environmental and its subsidiaries

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Receiving services	40	64,724	–
Proceeds from advances from related parties	–	–	2,580

(d) Balances with related parties as at the end of the reporting period:

(i) Due from or due to ZIHG and its subsidiaries, joint ventures and associates

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade in nature:			
Contract assets *(Note 14(a))*	309	43	–
Trade and bills receivables *(Note 15)*	11,506	17,594	10,014
Trade and bills payables *(Note 18)*	14,479	23,011	6,043
Contract liabilities *(Note 14(b))*	728	3,231	728
Non-trade in nature:			
Prepayments, deposits and other receivables *(Note 16)*	386,138	509,194	579,456
Accrued expenses and other payables *(Note 19)*	–	38,367	3,693
Bank and other loans *(Note 20)*	–	–	1,000
Guarantees provided by related parties for the Target Group's bank loans at the end of the reporting period *(Note 20(a))*	302,640	219,333	256,571
Guarantees provided to related parties for the bank loans at the end of the reporting period	695,000	939,500	630,000

(ii) Due from or due to a company managed by a key management personnel of ZIHG

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade in nature:			
Trade and bills payables *(Note 18)*	39,986	19,456	13,007

(iii) Due from or due to ZONQING Environmental and its subsidiaries

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade in nature:			
Trade and bills payables *(Note 18)*	102	435	534
Non-trade in nature:			
Accrued expenses and other payables *(Note 19)*	–	–	2,580
Guarantees provided to related parties for the bank loans at the end of the reporting period	–	–	4,000

(iv) Due from one of the shareholders of Changchun Chengwei

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade in nature:			
Prepayments, deposits and other receivables *(Note 16)*	1,047	1,047	1,047

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2022, the directors consider the ultimate controlling party of the Target Group is the Controlling Parties, and the immediate parent of the Target Group to be ZIHG. This entity does not produce financial statements available for public use.

29 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Historical Financial Information, the following events took place after 31 December 2022.

On 10 March 2023, the Target Company increased its registered capital from RMB20,000,000 to RMB340,700,000, such registered capital of RMB305,756,000, RMB17,472,000 and RMB17,472,000 was subscribed and fully paid by ZIHG, Mr. Sun Yangang and Mr. Li Peng, respectively. Upon completion of the capital contributions, the Target Company was owned as to 89.74% by ZIHG, 5.13% by Mr. Sun Yangang and 5.13% by Mr. Li Peng.

On 31 March 2023, the Target Company acquired 90.65% equity interests of Changchun Chengwei at a cash consideration of RMB340,700,000 from ZIHG.

On 4 April 2023, the Target Company increased its registered capital from RMB340,700,000 to RMB349,436,000, such increased registered capital of RMB8,736,000 was subscribed by Kai Ming Investment Holding Limited ("Kai Ming Investment"). Upon completion of the capital contribution, the Target Company was owned as to 87.50% by ZIHG, 5.00% by Mr. Sun Yangang, 5.00% by Mr. Li Peng and 2.50% by Kai Ming Investment.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2022

Up to the date of issue of the Historical Financial Information, the IASB has issued a number of amendments and new standards, which are not yet effective for the accounting period beginning on 1 January 2022, and which have not been adopted in the Historical Financial Information. These include the following.

	Effective for accounting periods beginning on or after
IFRS 17, Insurance contracts and amendments to IFRS17, *Insurance contracts*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to IAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to IAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to IAS 1, *Classification of liabilities as current or non-current*	1 January 2024
Amendments to IAS 1, *Non-current liabilities with covenants*	1 January 2024
Amendments to IFRS 16, *Lease Liability in a sale and Leaseback*	1 January 2024
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Target Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the combined financial statements.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2022.