THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in ZONQING Environmental Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

ZONQING Environmental Limited
中庆环境股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1855)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 87.50% INTEREST IN JILIN MODERN ZHONGQING AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

RAINBOW.
RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

Capitalised terms used in the lower portion of this cover page and the inside cover page of this circular shall have the same respective meanings as those defined in the section headed "DEFINITIONS" of this circular.

A letter from the Board is set out on pages 5 to 31 of this circular. A letter from the Independent Board Committee is set out on pages 32 to 33 of this circular. A letter from Rainbow Capital (HK) Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 66 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 11/F, Zhongqing Building, No. 5888, Fuzhi Road, Jingyue High-tech Industrial Development Zone, Changchun City, Jilin Province, the PRC on Friday, 30 June 2023 at 10 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use in connection with the EGM is enclosed with this circular. Such form of proxy is also published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zonbong.com). If you are not able or do not intend to attend the EGM in person and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or its adjournment if you so wish. If you attend and vote at the EGM, the instrument appointing your proxy will be deemed to have been revoked.

Hong Kong, 9 June 2023

CONTENTS

In this circular, the following expressions shall have the following respective meanings unless the context otherwise requires:

"Acquisition"	the acquisition of the Sale Interests pursuant to the Equity Transfer Agreement
"Announcement"	the announcement of the Company dated 11 April 2023 in relation to the Acquisition
"Beijing Ecological"	Beijing Zhongqing Ecological Environment Co., Ltd.* (北京中慶生態環境有限公司), a company established under the laws of the PRC with limited liability, and an indirect non-wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Changchun Chengwei"	Changchun Chengjianweihu Group Co., Ltd.* (長春市城建維護集團股份有限公司), a company established under the laws of the PRC with limited liability and owned as to approximately 90.65% by the Target as at the Latest Practicable Date
"Conditions Precedent"	the conditions precedent as stipulated under the Equity Transfer Agreement
"controlling shareholders"	has the meaning ascribed thereto under the Listing Rules
"Company"	ZONQING Environmental Limited (中庆环境股份有限公司), an exempted company incorporated in the Cayman Islands with limited liability the issued share of which are listed on the Main Board of the Stock Exchange (Stock code: 1855)
"Completion"	completion of the Acquisition pursuant to the terms of the Equity Transfer Agreement
"Deed of Non-competition"	the deed of non-competition dated 14 December 2020 entered into by the controlling shareholders of the Company in favour of the Company (for itself and as trustee for its subsidiaries) regarding the non-competition undertaking, further information of which is set out in the section headed "Relationship with Our Controlling Shareholders" in the Prospectus
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering, and if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition

"Equity Transfer Agreement"	the equity transfer agreement dated 11 April 2023 entered into among Beijing Ecological, ZIHG, the Target, Changchun Changwei, Zhonghuan Weilan and the Company in relation to the Acquisition
"February Transaction"	the then acquisition of the 97% equity interest in Jilin Jinghe Design by Zonbong Shanshui (as purchaser), and ZIHG (as vendor), pursuant to the amended and restated agreement dated 10 March 2022 relating to the acquisition agreement dated 18 February 2022, entered into among Zonbong Shanshui, ZIHG and Jilin Jinghe Design
"Group"	the Company and its subsidiaries (including the Target Group as the context may require)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	a committee of the Board comprising the independent non-executive Directors, namely Mr. Gao Xiangnong, Mr. Yin Jun, and Mr. Lee Kwok Tung Louis
"Independent Financial Adviser" or "Rainbow Capital"	Rainbow Capital (HK) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser engaged by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM
"Independent Third Party(ies)"	a person or entity who is not a connected person of the Company under the Listing Rules
"Jilin Jinghe Design"	Jilin Province Jinghe Design Engineering Co., Ltd.* (吉林省境和設計工程有限公司), a company established under the laws of the PRC with limited liability on 23 July 2009
"Latest Practicable Date"	5 June 2023
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Mr. Liu"	Liu Haitao (劉海濤), an executive Director, the vice-chairman of the Board and the chief executive officer of the Company

"Mr. Sun"	Mr. Sun Juqing (孫舉慶), a non-executive Director of the Company and the chairman of the Board
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Prospectus"	the prospectus of the Company dated 22 December 2020
"Remaining ZIHG Group"	the ZIHG Group excluding the Target Group
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	87.50% of the equity interest in the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target" or "Jilin Modern Zhongqing"	Jilin Modern Zhongqing City Construction Co. Ltd.* (吉林現代中慶城市建設有限公司), a company established under the laws of the PRC with limited liability and owned as to approximately 87.50% by ZIHG as at the Latest Practicable Date
"Target Group"	the Target and its subsidiaries, namely Changchun Chengwei and Zhonghuan Weilan
"Three Northeast Provinces of the PRC"	Heilongjiang province, Jilin province and Liaoning province of the PRC
"Zonbong Shanshui"	Jinghe Design Group Limited* (境和設計集團有限公司), formerly known as Zonbong Shanshui Planning and Design Limited* (中邦山水規劃設計有限公司), an indirect wholly-owned subsidiary of the Company
"Zhonghuan Weilan"	Jilin Zhonghuan Weilan Environmental Protection Technology Co., Ltd.* (吉林省中環蔚藍環保科技有限公司), a company established under the laws of the PRC with limited liability, and owned as to 75.00% by Changchun Chengwei as at the Latest Practicable Date

"ZIHG"	Zhongqing Investment Holding Group Limited Liability Company* (中慶投資控股(集團)有限責任公司), formerly known as Changchun Mingju Commerce Limited* (長春市銘聚商貿有限責任公司), a company established under the laws of the PRC with limited liability on 16 May 2014
"ZIHG Group"	ZIHG together with its subsidiaries and associates
"Zonbong International"	ZONBONG International Investment Limited (中邦国际投資有限公司), a company incorporated in the BVI with limited liability on 18 February 2019, and was owned as to 60.11% by Mr. Liu, 22.41% by Mr. Sun and 17.48% by other 13 PRC individuals as at the Latest Practicable Date
"Zonqing International"	ZONQING International Investment Limited (中庆国际投資有限公司), a company incorporated in the BVI with limited liability on 18 February 2019, and was owned as to 35% by Ms. Zhao Hongyu, 27% by Mr. Sun, 5% by Mr. Liu and 33% by other nine PRC individuals as at the Latest Practicable Date
"%"	per cent

* *For identification purpose only*

In this circular, the terms "associate", "connected person", "controlling shareholder", "percentage ratios" and "subsidiary" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

ZONQING Environmental Limited
中庆环境股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1855)

Board of Directors:

Executive Directors
Mr. Liu Haitao
Ms. Wang Yan

Non-executive Directors
Mr. Sun Juqing
Ms. Lyu Hongyan
Mr. Shao Zhanguang

Independent Non-executive Directors
Mr. Gao Xiangnong
Mr. Yin Jun
Mr. Lee Kwok Tung Louis

Registered Office:
71 Fort Street
PO Box 500,
George Town
Grand Cayman KY1-1106
Cayman Islands

Head Office and Principal Place of Business in the PRC:
3/F, Zhongqing Building,
No. 5888 Fuzhi Road,
Jingyue High-tech Industrial Development Zone,
Changchun City
Jilin Province,
PRC

9 June 2023

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 87.50% INTEREST IN JILIN MODERN ZHONGQING AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 11 April 2023 whereby the Board announced that the Company has entered into the Equity Transfer Agreement as more particularly set out therein.

The purpose of this circular is to provide you with information in relation to (i) further details of the Acquisition; (ii) a letter of recommendation from the Independent Board Committee on the Acquisition and its recommendation on voting; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of Acquisition; and (iv) a notice of the EGM to be convened for the purpose of considering and, if think fit, approving, by way of poll, the Equity Transfer Agreement and the Acquisition.

THE ACQUISITION

On 11 April 2023 (after trading hours), Beijing Ecological (the purchaser), an indirect non-wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with, among other parties, ZIHG, pursuant to which Beijing Ecological has agreed to acquire, and ZIHG has agreed to sell, in each case subject to the Conditions Precedent, the Sale Interests at a cash consideration of RMB305,756,410.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarised as follows:

Date : 11 April 2023 (after trading hours)

Parties :

(1) Beijing Ecological (the purchaser);

(2) ZIHG (the vendor);

(3) the Target;

(4) Changchun Chengwei (a subsidiary of the Target);

(5) Zhonghuan Weilan (a subsidiary of the Target); and

(6) the Company.

(each a "**Party**" and collectively, the "**Parties**")

Subject matter : Beijing Ecological has conditionally agreed to acquire, and ZIHG has conditionally agreed to sell, the Sale Interests.

Consideration : RMB305,756,410, which shall be payable by the purchaser to an account so designated by the vendor within two months of completion of the necessary registration and filing procedures with the Market Supervision and Administration Bureau (市場監督管理局) in connection with the Acquisition ("**PRC Registration Procedures**"), which PRC Registration Procedures shall occur following the satisfaction (or waiver) of the Conditions Precedent.

The consideration for the Acquisition shall be funded by internal resources and/or borrowings of the Group.

Internal resources of the Group that may be utilised to fund the consideration for the Acquisition include without limitation the following:

(a) the cash received and expected to be received by the Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of consideration (as at 31 December 2022, the Group had contract assets (less of provision) of approximately RMB710.4 million, trade and bills receivables (less of provision) of approximately RMB1,107.3 million, and prepayments, deposits and other receivables (less of provision) of approximately RMB77.3 million); and

(b) as disclosed in the Announcement, the consideration for the Acquisition shall only be payable by the Group after the Completion (i.e. upon which the Target Group would form part of the Group), accordingly, the following financial resources of the Target Group may be utilised to fund the consideration for the Acquisition:

- the cash and cash equivalents of the Target Group as at 31 December 2022 of approximately RMB90.3 million; and

- the cash received or to be received by the Target Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of consideration. In such connection, as at 31 December 2022, the Target Group had contract assets (less of provision) of approximately RMB345.3 million, trade and bills receivables (less of provision) of approximately RMB472.6 million, and prepayments, deposits and other receivables (less of provision) of approximately RMB719.6 million).

As for the borrowings available for the Group, the Group will continue to explore the possibility of obtaining new credit facility for its operation from time to time, and it does not preclude the possibility of obtaining external financing for the purpose of the Acquisition. In such connection, the Group will consider factors such as the terms and conditions of the loan, finance costs, repayment schedule, security and other commercial terms. As at the Latest Practicable Date, no binding agreement had been reached by the Group with respect to any new credit facility.

Conditions Precedent : Completion is conditional upon:

(a) the due execution of the Equity Transfer Agreement by ZIHG and the Target Group;

(b) the due approval of the transfer of Sale Interests by the Target's shareholders in general meeting, and the other shareholders of the Target having waived their pre-emptive rights;

(c) (i) all undertakings and commitments of ZIHG and the Target Group under the Equity Transfer Agreement having been performed or complied with in material aspects; and

(ii) all representations and warranties given by ZIHG and the Target Group in the Equity Transfer Agreement remaining true, complete and correct as at the date of execution of the Equity Transfer Agreement and the date of Completion, and if any of such representations and warranties were made on a specified date, they shall remain to be true and correct as at such specified date;

(d) there having been no event which would have a material adverse effect on the Target Group prior to the Completion or at Completion;

(e) the Board having approved (i) the Acquisition; and (ii) the signing, delivery and performance of the Equity Transfer Agreement and other related transaction documents;

(f) the Independent Shareholders having approved (i) the Acquisition; and (ii) the signing, delivery and performance of the Equity Transfer Agreement and other related transaction documents;

(g) the Stock Exchange and, where applicable, other relevant regulatory institutions having confirmed that they have no further comments on the circular relating to the Acquisition, and no additional conditions precedent to the implementation and completion of the Acquisition having been imposed by them; and

(h) the release or termination of all guarantee(s) provided by the Target Group for the loans of ZIHG and its subsidiaries (excluding the Target Group).

If the above Conditions Precedent are not satisfied or otherwise waived (except conditions (a), (b), (e) to (h) set out above cannot be waived) on or before 31 July 2023, Beijing Ecological shall be entitled to unilaterally:

(a) postpone the date of Completion to any date no later than 31 December 2023;

(b) waive the unsatisfied Condition(s) Precedent and proceed to Completion so far as practicable; or

(c) if Completion was not taken place as at 31 December 2023 due to any Condition(s) Precedent not being satisfied and such unsatisfied Condition(s) Precedent not being waived by Beijing Ecological, Beijing Ecological may terminate the Equity Transfer Agreement or postpone the Completion to another date as agreed in writing by the Parties.

As at the Latest Practicable Date, only conditions (a), (b), (e) and (h) of the Conditions Precedent had been satisfied, and no Conditions Precedent had been waived. The Group also does not expect to waive any of the Conditions Precedent.

Completion : Upon the satisfaction (or waiver) of the Conditions Precedent, ZIHG shall procure and assist the Target to complete the PRC Registration Procedures.

Upon Completion, Beijing Ecological will assume the rights and obligations as the equity owner of the Sales Interests, and the financial results of the Target Group will be consolidated to the consolidated financial statements of the Group.

Further undertakings by the vendor : – ZIHG shall indemnify Beijing Ecological, the Company, and/or the Target Group in respect of, among others, any liabilities, breaches, acts or infringements of the Target Group which occurred on or before Completion, and any penalties inflicted on the Target Group as a result of non-compliance issues that occurred on or before Completion.

– ZIHG shall procure its subsidiary, Zhongqing Construction Limited Liability Company* (中慶建設有限責任公司), to fully settle their amounts due to Changchun Chengwei in the amount of RMB627,640,389, which is interest-free, unsecured and repayable on demand, within one month after completion of the PRC Registration Procedures, and provide to Beijing Ecological the relevant proof of settlement. Any delay in payment will result in an accrual of additional outstanding amount of 0.03% per day of the said amounts due to Changchun Chengwei.

– ZIHG and its associates shall not, directly or indirectly, engage in business activity that competes with the Target Group's existing business, or any other business that it may potentially competes with, except where (i) ZIHG has already recommended relevant business opportunity to the Group but was rejected by the Group; or (ii) the Group has notified ZIHG of its intention not to engage in the relevant business opportunity or agreed to undertake the relevant business opportunity jointly with ZIHG. For details of such non-competition undertaking, see subsection headed "Competition with the ZIHG Group – Deed of Non-competition and the Non-competition Undertakings" in this circular.

Termination : The Equity Transfer Agreement may be terminated in accordance with the following provisions:

(a) prior to Completion, by mutual agreement of all Parties in writing;

(b) if any of the following events occur from the date of the Equity Transfer Agreement to the date of Completion, either Party may notify the other Parties in writing at least ten (10) business days prior to the intended effective date of termination, namely:

(i) the representations or warranties of any Party being untrue, inaccurate, misleading or with omissions in a material aspect which directly cause the purposes of the Equity Transfer Agreement to be unattainable (i.e. Beijing Ecological is unable to obtain the Sale Interests or ZIHG is unable to obtain the consideration paid. For the avoidance of doubt, the Target and ZIHG have no right to terminate the Equity Transfer Agreement by relying on their own default); or

(ii) if any Party fails to perform its agreements, undertakings, obligations and commitments under the Equity Transfer Agreement in a material aspect, the abiding Party may notify the defaulting Party in writing that the breach shall be rectified within thirty (30) days from the date of receipt of such notice. If such breach is not rectified within the thirty (30) day period or the defaulting Party fails to propose a rectification or compensation plan acceptable to the abiding Party (not to be unreasonably refused), such that the purposes of the Equity Transfer Agreement would become unattainable (i.e. Beijing Ecological is unable to obtain the Sale Interests or ZIHG is unable to obtain the consideration paid), the abiding Party shall have the right to terminate the Equity Transfer Agreement by notifying the defaulting Party in writing. For the avoidance of doubt, the Target and ZIHG have no right to terminate the Equity Transfer Agreement by relying on their own default;

(iii) any member of the Target Group makes an overall assignment for the benefit of its creditors, or declares itself to criminal proceedings, bankruptcy or insolvency proceedings brought by or against such member of the Target Group, or the liquidation or dissolution of any member of the Target Group resulting from bankruptcy, insolvency or reorganisation. If the legal proceedings relating to reorganisation or debt restructuring are brought by or against of any member of the Target Group, Beijing Ecological may terminate the Equity Transfer Agreement; and

(iv) either Party may terminate the Equity Transfer Agreement if there are any orders, rulings or decisions being issued, or any other actions are being undertaken by any government departments, to restrict, ban or otherwise prohibit the transactions contemplated under the Equity Transfer Agreement, and that such orders, rulings, decisions or other actions being final and not subject to reconsideration, petition or appeal.

Upon termination of the Equity Transfer Agreement, no Party shall continue to be liable to any other Party save for antecedent breaches.

BASIS OF DETERMINATION OF CONSIDERATION

The consideration of the Acquisition was arrived at by the Parties with reference to and taking into account, among others, (i) the historical financial performance and financial position of the Target Group; (ii) the track record and development prospects of the Target Group; and (iii) the business valuation report in respect of the Sale Interests prepared by an independent valuer pursuant to which the fair value of the Sale Interests as at 31 March 2023 was approximately RMB523.4 million (the "**Valuation**").

The difference between the fair value of the Sale Interest of approximately RMB523.4 million and the consideration of approximately RMB305.8 million is a result of the Parties' commercial negotiations with reference to, among others, the following:

(a) the combined net assets value of the Target Group as at 31 December 2022 of approximately RMB431.1 million, and the total equity attributable to the Sale Interests of approximately RMB342.5 million;

(b) the financial position of the Group;

(c) the Acquisition, being a connected transaction under Chapter 14A of the Listing Rules, should be on normal commercial terms or better for the Group; and

(d) the potential enhancement in Shareholder value as a result of the Acquisition, which in turn would benefit the controlling shareholders of the Company, who are at the same time the controlling shareholders of ZIHG, the vendor.

Details of the Valuation

The Valuation in relation to 87.50% equity interest in the Target Group as at 31 March 2023 (the "**Valuation Date**") has been carried out by AVISTA Valuation Advisory Limited ("**AVISTA**" or the "**Valuer**"), an independent professional valuer.

Given that the Target Group is an investment holding company and its major asset as at the Valuation Date is 90.65% of the equity investment in Changchun Chengwei, the Valuer adopted the adjusted net asset method in valuing the Target Group. In particular, the Valuer calculates the adjusted net assets value of the Target Group by adjusting the fair value of 90.65% equity interest in Changchun Chengwei.

The Valuer adopted the market approach in valuing the fair value of 90.65% equity interest in Changchun Chengwei. Under the market approach, namely the comparable company method, the Valuer computes a price multiple for publicly listed companies that are considered to be comparable to the subject company and then applies the result to a base of the subject company. The key assumptions adopted in this valuation including, (i) there will be no material changes in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target; and (ii) the Valuer has assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, the Valuer assumes no responsibility for changes in market conditions after the Valuation Date.

The key parameters had been adopted in the course of valuation including value multiple, lack of marketability discount and control premium.

The Valuer considered that enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiple is the most appropriate indicator of the fair value of Changchun Chengwei, as this multiple eliminates the differences in capital structure, taxation and depreciation and amortization methods across different comparable companies, it is hence adopted in the market approach. In addition, the Valuer adopted median point of EV/EBITDA multiple of comparable companies since the multiples of comparable companies could fully reflect the fundamentals of the related industry, and median value could avoid bias on the select of value multiple.

As Changchun Chengwei is a privately held company, the Valuer applied lack of marketability discount (the "**DLOM**") in valuing the fair value of the equity interest in Changchun Chengwei. DLOM reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. The DLOM was determined at 20.5% with reference to "Stout Restricted Stock Study Companion Guide (2022 Edition)".

Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. The EV/EBITDA multiple adopted in the valuation was calculated from public listed companies, which represents minority ownership interest. Market value calculated using such EV/EBITDA multiple, therefore, represents the minority interest. Thus, control premium was adopted to adjust such minority interest market value to controlling interest market value. Adjustment for control is made by the application of a control premium to the value of the Changchun Chengwei's shares. The report "Control Premium Study: 4th Quarter 2022" by FactSet Mergerstat, LLC, a reputable research company, suggested a median control premium is 28.0%. As a result, a control premium of 28.0% is considered appropriate and suitable for the Valuation.

INFORMATION ABOUT THE PARTIES TO THE ACQUISITION

Information of Beijing Ecological and the Group

The Company is a company incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Act of the Cayman Islands on 8 March 2019. The Company is an investment holding company. The Group is an established service provider for landscaping and ecological restoration projects in the Three Northeast Provinces of the PRC and it is principally engaged in landscaping, ecological restoration and other related projects. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company and is primarily engaged in the business of technical consultancy for landscaping, ecological restoration and other projects.

Information of ZIHG

ZIHG is a company established in the PRC with limited liability on 16 May 2014. As at the Latest Practicable Date, ZIHG was owned as to approximately 35.00% by Ms. Zhao Hongyu, 27.00% by Mr. Sun, 10.00% by Ms. Li Ping, 5.00% by Mr. Hou Baoshan, 5.00% by Mr. Liu Haitao, 5.00% by Mr. Shao Zhanguang, 5.00% by Mr. Sun Juzhi, 4.00% by Mr. Shan Dejiang, 1.00% by Mr. Li Peng, 1.00% by Mr. Liu Changli, 1.00% by Mr. Wei Xiaoguang and 1.00% by Mr. Weng Hongzhao. Together with other members of the ZIHG Group (excluding the Target Group), it mainly engages in the infrastructure and municipal construction works business and other businesses.

Information of the Target Group

The Target is a company established in the PRC with limited liability and is an investment holding company without any substantive business. As at the Latest Practicable Date, the Target was owned as to approximately 87.50%, 5.00%, 5.00% and 2.50% by ZIHG, Mr. Sun Yangang (孫艷剛), Mr. Li Peng (李鵬) and Kai Ming Investment Holding Limited ("**Kai Ming Investment**"), respectively. As at the Latest Practicable Date, Mr. Li Peng held approximately 1.0% of the equity interests in Zonqing International and he is one of the controlling shareholders of the Company, hence a connected person of the Company. Both Mr. Sun Yangang and Kai Ming Investment are Independent Third Parties.

As at the Latest Practicable Date, the Target held approximately 90.65% of the total issued shares of Changchun Chengwei, which, together with Zhonghuan Weilan (its 75.00% owned subsidiary), are the principal operating subsidiaries of the Target Group. The Target Group is principally engaged in the provision of environmental hygiene services and construction and maintenance services for public work projects.

The Shareholding Structure of the Target Group

(a) Immediately before Completion

Notes:

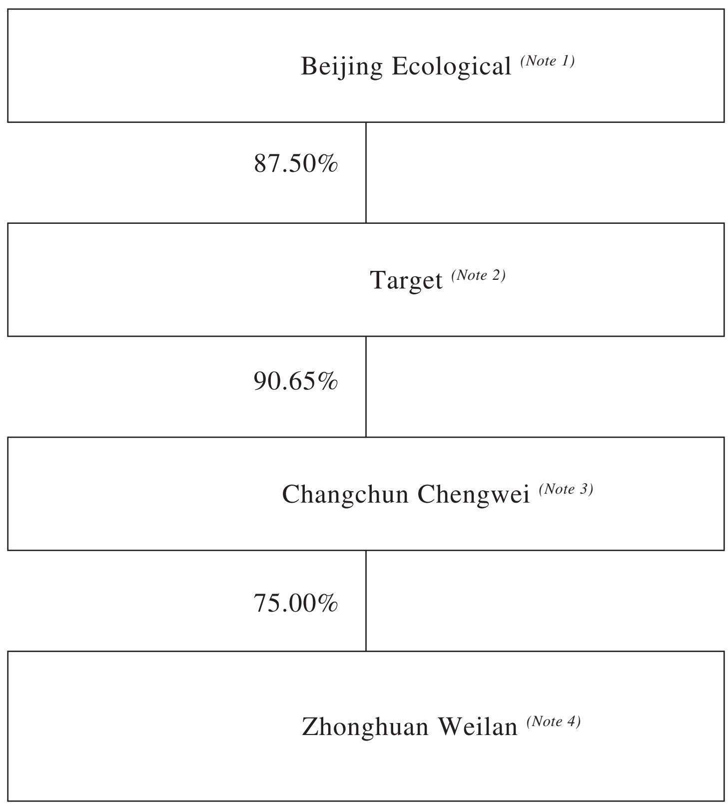
1. The remaining approximately 12.50% equity interest in the Target is owned by Mr. Sun Yangang, Mr. Li Peng and Kai Ming Investment as to 5.00%, 5.00% and 2.50% , respectively.

2. Pursuant to an internal restructuring of the ZIHG Group in the first quarter of 2023, ZIHG transferred all its shareholding in Changchun Chengwei (representing approximately 90.65% of the total issued shares of Changchun Chengwei) to the Target, and the Target thereby became a shareholder of Changchun Chengwei.

3. The remaining approximately 9.35% issued shares of Changchun Chengwei are owned by 30 individual shareholders. Save as Ms. Zhao Hongyu (the spouse of Mr. Sun) who owns approximately 0.16% of the total issued shares of Changchun Chengwei, the remaining 29 individual shareholders are Independent Third Parties.

4. The remaining 25.00% equity interests in Zhonghuan Weilan are held by Ms. Yin Qi (尹琪), an Independent Third Party.

(b) Upon Completion



Notes:

1. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company. It is owned as to approximately 99.00% by Jilin Zonbong Ecological Environmental Limited* (吉林中邦生態環境有限公司), a wholly-owned subsidiary of the Company, and approximately 1.00% by Jilin Shengyi Engineering Consulting Limited* (吉林晟藝工程諮詢有限公司), an associate of the controlling shareholders of the Company.

2. The remaining approximately 12.50% equity interest in the Target is owned by Mr. Sun Yangang, Mr. Li Peng and Kai Ming Investment as to 5.00%, 5.00% and 2.50% , respectively.

3. The remaining approximately 9.35% issued shares of Changchun Chengwei are owned by 30 individual shareholders. Save as Ms. Zhao Hongyu (the spouse of Mr. Sun) who owns approximately 0.16% of the total issued shares of Changchun Chengwei, the remaining 29 individual shareholders are Independent Third Parties.

4. The remaining 25.00% equity interests in Zhonghuan Weilan are held by Ms. Yin Qi, an Independent Third Party.

Financial information of the Target Group

Set out below are the summary of the combined financial information of the Target Group for the years ended 31 December 2021 and 2022 set out in the accountants' report on the Target Group in Appendix II to this circular:

	For the year ended 31 December	
	2021	**2022**
	RMB$'000	*RMB$'000*
Revenue	665,598	463,001
Net profit before taxation	352	9,806
Net profit after taxation	1,013[(1)]	9,311

Note (1): The higher amount of net profit after taxation as compared to the net profit before taxation of the same year was primarily due to qualified R&D expenses are allowed for additional tax deduction.

The combined net assets value of the Target Group as at 31 December 2022 was approximately RMB431.1 million. For further details of the financial information of the Target Group, please refer to Appendices II and III to this circular.

The Target was established by ZIHG and the Target only acquired 90.65% of the total issued shares of Changchun Chengwei from ZIHG as a result of the internal restructuring of the ZIHG Group. The original acquisition cost of Changchun Chengwei by ZIHG prior to such restructuring was RMB314.5 million, being the corresponding issued and paid-in capital of ZIHG's then shareholding in Changchun Chengwai.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Group will hold 87.50% equity interests of the Target and, and the financial information of the Target Group will be consolidated into the financial information of the Group.

Possible effect on Assets and Liabilities

The consolidated total assets and total liabilities of the Group as at 31 December 2022 were approximately RMB2,450.3 million and RMB1,963.4 million, respectively, as set out in the annual report of the Company for the year ended 31 December 2022. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, had the Completion been taken place on 31 December 2022, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately RMB3,882.7 million and RMB3,265.0 million, respectively.

Please refer to Appendix IV to this circular for more information on the basis of preparation of the unaudited pro forma financial information of the Enlarged Group. The unaudited pro forma financial information of the Enlarged Group has been prepared based on the judgments and assumptions of the Directors for illustrative purposes only.

Possible effect on Earnings

After the Acquisition, the Group will consolidate the financial results of the Target Group into its consolidated statement of profit or loss and it is expected that the revenue of the Enlarged Group will be increased and the earnings of the Enlarged Group will be basically affected by the results of the Target Group in the same level. After considering the factors set out in the subsection headed "Reasons and Benefits of the Acquisition" in this circular, the Directors expect that the Acquisition will have a positive impact on the Group's earnings in the long run. However, the financial impact will depend on the future operating performance of the Target Group after the Acquisition.

REASONS AND BENEFITS OF THE ACQUISITION

Diversification of income stream and business portfolio

Catalysed by the downturn of the Group's businesses during the outbreak of the COVID-19 pandemic, the Company has recognised the need to diversify its business and income stream to gain resilience to cyclical development of the economy. Therefore, the Company has been exploring opportunities to expand and diversify on its business portfolios.

The Group has been engaging in various aspects of the green construction and management industry, including environmental and landscape designing, the construction, engineering and operation management for ecological restoration projects, and provision of operation and maintenance services for public work projects, etc. With the Acquisition, the Group could expand vertically along the industry value chain to the environmental hygiene, sanitation services and city maintenance sector via the Target Group, and in particular Changchun Changwei and its subsidiaries, thereby enrich the service offerings of the Group and facilitate the Group's market penetration in green construction and management industry. In such connection, Changchun Chengwei possesses, among others, the First-Grade Qualification of Main Contractor for Municipal Public Works (市政公用工程施工總承包壹級資質) (the "**First Grade Qualification**") and various other permits including Municipal Solid Waste Cleaning, Collection and Transportation Permit (城市生活垃圾清掃、收集、運輸服務許可證) and Road Transportation Permit (道路運輸許可證), with the support of a pool of talented employees experienced in municipal level services. Accordingly, the Acquisition would strengthen the Group's capabilities and expertise in undertaking municipal projects, particularly in relation to the provision of environmental hygiene services and public work maintenance and construction services, and thereby enhance the overall competitiveness of the Group and facilitate the growth and development of the Group in the long run.

In addition, the Company believes that the environmental hygiene and sanitation and public infrastructure maintenance sectors, which the Target Group is engaging in, generally have a relatively more stable and consistent demand with more rapid cash in-flow as compared to the Group's other service offerings in the landscaping and ecological restoration sectors, hence it is expected to be comparatively less prone to economic changes and fluctuations and be able to generate more stable operating cash flow. The Company therefore considers that the Acquisition would allow the Group as a whole to be more resilient to cyclical development of the economy, which in turn is in the interest of the Group and the Shareholders as a whole.

Industry norm and the requirement for higher qualification

Subsequent to the Company's listing in 2021, the Group started to note certain instances where landscaping and ecological restoration project tenders which the Group was interested in would require the tender applicant to possess the First Grade Qualification, even though First Grade Qualification is not a mandatory requirement for the bidding of landscaping and ecological restoration projects under the applicable laws and regulations. So far as the Group is aware, such requirement of First Grade Qualification has become more popular since 2022. For instance, (i) during 2022, there were in total six tenders for landscaping and ecological projects which the Group was interested in requiring the tender applicant to possess First Grade Qualification, with an aggregate contract sum of approximately RMB6.2 billion; and (ii) since January 2023 and up to the Latest Practicable Date, there were at least 10 tenders for landscaping and ecological restoration projects in the Three Northeast Provinces requiring the tender applicant to possess the First Grade Qualification, with an aggregate contract sum of approximately RMB10.6 billion. Among the said 16 tenders, seven of them pertain to landscaping and ecological restoration works only. For the remaining nine tenders, their respective scope of work includes both landscaping and ecological restoration works and other infrastructure and municipal construction works. Such tenders may also require the First- or Second-Grade Landscape Engineering Design Speciality Qualification Certificate, on top of the First-Grade Qualification.

As the Group only possesses the Second-Grade Qualification of Main Contractor for Municipal Public Works (the "**Second Grade Qualification**"), it was unable to submit tender application itself for landscaping and ecological projects that require the First Grade Qualification, and the only way for the Group to participate in such projects would be to co-operate with entities that possess the First Grade Qualification yet do not carry out landscaping and ecological restoration works, either to jointly bid for such projects, or to carry out the landscaping and ecological restoration works as a sub-contractor, which might result in a lower profit margin for the Group as compared to the Group being the sole tender applicant itself. For joint bidding, whilst the Group would indeed gain the opportunity to participate in such projects, extra costs may also be incurred by the Group as a result. Depending on the scale and nature of the project and the commercial negotiations between the parties, a co-operation fee may need to be paid by the Group to the joint bidder. This is particularly so for projects that involve landscaping and ecological restoration works only but require the First Grade Qualification, where the Group would essentially be undertaking all the works but still be required to pay the co-operation fee to the joint bidder for its possessing of the First Grade Qualification. The Company therefore considers that the lack of the First Grade Qualification would hinder the business development of the Group as it could only participate in such project tenders through collaboration with entities with the First Grade Qualification, even if the Group is equipped with the necessary machinery and talents to carry out the project on its own.

In addition, the First Grade Qualification is not transferrable and the Group is unable to obtain the First Grade Qualification by itself within a short period of time, which the Group considers to be undesirable due to the prolonged exposure to the risks of losing its market position.

As Changchun Chengwei possesses the First Grade Qualification, the Company considers that the Acquisition would allow the Group to swiftly accommodate the changing market trend as described above and enhance its operational capability and overall competitiveness, such that the Group would be able to further consolidate its position in the landscaping and ecological restoration industry.

Synergetic effect expected to be brought along by fusing the Group and the Target Group's network and experience

The Group prides itself as a prominent market player in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC. The Group considers that leveraging on its existing reputation and track record, developing itself through the collaboration with the Target Group will diversify the Group's business and income stream in the pan-municipal public works and green construction and management industry. Since the Company's listing in 2021, the Group has been endeavouring to maintain its leading position in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC, while at the same time seeking strategical expansion to other regions in the PRC. As at the Latest Practicable Date, on top of the Three Northeast Provinces, the Group had also established presence in other regions in the PRC including the Huadong region (including Shandong Province, Zhejiang Province and Jiangsu Province) and the Southwest region (including Chongqing City, Sichuan Province and Guizhou Province), and the business of the Group had expanded to cover a total of 16 provinces and three municipalities in the PRC. Such lateral expansion has allowed the Group to extend the geographic coverage of its business, and thereby broadened the customer base and project portfolio of the Group. Upon Completion, the Group intends to continue implementing this lateral expansion strategy to achieve growth of its landscaping and ecological restoration business.

On the other hand, as part of the organic growth strategy of the Group's businesses, the Company also recognises the need of vertical expansion along the pan-municipal public works and green construction and management industry value chain, which would allow the Group to (i) utilise the resources, experience, expertise and business network developed along the industry value chain to enhance the product and service offerings of the Group in terms of both quality and quantity, and seek new business opportunities in light of the closer proximity with other market players along the industry value chain. With such synergetic effect and more in-depth market penetration, the Group would be able to consolidate its market position in the landscaping and ecological restoration sector, which is also in line with the Group's core business strategy of maintaining and enhancing its competitiveness in the landscaping and ecological restoration industry; and (ii) develop new growth drivers for the Group through leveraging its leading market position in the landscaping and ecological restoration sector, so as to achieve continuous or even accelerated growth of the Group's businesses, and create value to Shareholders, and pave way for the Group's long-term strategic plan of developing into a more comprehensive service provider with a focus on landscaping and ecological restoration, being capable of providing a wider range of services to satisfy the needs of customers in the in the pan-municipal public works and green construction and management industry.

With the Acquisition, the Group could utilise the First Grade Qualification to participate in the bidding of landscaping and ecological restoration projects and enhance its capability to undertake landscaping and ecological restoration projects on its own, as opposed to joint-bidding or participation as a sub-contractor, which in turn is expected to enhance the profit and competitiveness of the Group. The Group could also pull together the resources and expertises of the Target Group in the public work maintenance and construction sector and environmental hygiene sector to improve its offerings in the landscaping and ecological restoration sector through the provision of additional value-added services together with more in-depth industry knowledge. Accordingly, the Group would continue to further its existing principal businesses of landscaping and ecological restoration. On the other hand, the Group also intends to further develop the environmental hygiene business and public work maintenance and construction business of the Target Group within its existing scope as a means to diversify its business and income stream through vertical expansion along the industry value chain, and achieve synergetic effect with the Group's landscaping and ecological restoration businesses. The Target Group's environmental and hygiene business and public work maintenance and construction business are expected to contribute to the future growth of the Group's in parallel with the Group's existing core principal businesses of landscaping and ecological restoration. The Company wishes to emphasise the Group has no intention to downsize its existing principal businesses of landscaping and ecological restoration.

Through the Acquisition, the Group aims to pro-actively adapt to the recent industry changes as mentioned above, better equip itself to the needs of the market, to maintain its competitiveness in the landscaping and ecological restoration industry while achieving vertical expansion along the industry value chain and strategic development into a more comprehensive service provider in the long run, and in turn create value for Shareholders.

Taking into consideration, among others, the above factors, the Directors (excluding (i) Mr. Sun, Mr. Liu and Mr. Shao Zhanguang who had abstained from voting on the relevant resolutions of the Board; and (ii) members of the Independent Board Committee, whose view on the Equity Transfer Agreement and the Acquisition are set out in the letter from the Independent Board Committee in this circular) namely, Ms. Wang Yan and Ms. Lyu Hong Yan, are of the view that the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

POTENTIAL COMPETITION BETWEEN THE ENLARGED GROUP AND THE REMAINING ZIHG GROUP AFTER COMPLETION

Deed of Non-competition and the Non-competition Undertaking

According to the Deed of Non-competition, the scope of the Restricted Activity (as defined therein) does not include the existing businesses of the Target Group ("**Target Group Businesses**"). In such connection, pursuant to the Deed of Non-competition, the Restricted Activity pertains to technical consultancy, design and work implementation of landscaping projects; surveying, technical consultancy, design and work implementation of ecological restoration projects; and surveying, investigation, technical consultancy and design of municipal public work projects, which collectively were the then existing principal businesses of the Group at the time the Deed of Non-competition was entered into.

In order to address any potential competition issue relating to the Target Group Businesses that may arise after completion of the Acquisition, ZIHG has provided a non-competition undertaking (the "**Non-competition Undertaking**") in favor of the Group in the Equity Transfer Agreement. The Non-competition Undertaking has substantially the same terms as the Deed of Non-competition. Pursuant to the Non-competition Undertaking, ZIHG has undertaken, among others, that:

(i) ZIHG shall not, and shall procure its associates (excluding the Group and the Target Group) not to, directly or indirectly, engage in business activity that competes with the Target Group Businesses, or any other business of the Target Group that it may potentially compete with ("**New Restricted Activities**"), except where (a) ZIHG has already recommended the relevant business opportunity to the Group but was rejected by the Group; or (b) the Group has notified ZIHG of its intention not to engage in the relevant business opportunity or agreed to undertake the relevant business opportunity jointly with ZIHG;

(ii) the undertaking as set out in (i) shall not apply where ZIHG and its associates (a) collectively hold less than 5% of the total issued share capital of a company (whose shares are listed on any stock exchange) that engages in the New Restricted Activities, and (b) do not control 10% of more of the board of directors of such company;

(iii) ZIHG shall, and shall procure its associates (excluding the Group and the Target Group) to, provide all information necessary for the (a) enforcement of the Non-competition Undertaking; and (b) annual review by the independent non-executive Directors on the compliance with the Non-competition Undertaking;

(iv) ZIHG will make an annual declaration on the compliance with the Non-competition Undertaking in the annual report of the Company in accordance with the principle of voluntary disclosure in the corporate governance report; and

(v) ZIHG shall indemnify and keep indemnified the Group for any breach of the Non-competition Undertaking by ZIHG or its associates (excluding the Group and the Target Group).

The Non-competition Undertaking will be effective upon completion of the Acquisition, and shall cease to be effective on the earlier of the date on which (i) the shareholders of ZIHG and their close associates, whether individually or taken as a whole, cease to own 30% or more of the total issued capital of the Company; (ii) ZIHG ceases to be an associate of the controlling shareholders of the Company; (iii) the Shares cease to be listed on the Stock Exchange; and (iv) the Group no longer engages in, owns, carries out, participates or invests in the New Restricted Activities.

Accordingly, after Completion, it is expected that the Deed of Non-competition and the Non-competition Undertaking shall operate in parallel to address any potential competition (if any) between the Enlarged Group and the Remaining ZIHG Group. The Restricted Activity under the Deed of Non-competition primarily includes (i) technical consultancy, design and work implementation of landscaping projects; (ii) surveying, technical consultancy, design and work implementation of ecological restoration projects; and (iii) surveying, investigation, technical consultancy and design of municipal public work projects. On the other hand, the New Restricted Activities under the Non-competition Undertaking primarily include (a) construction of city roads in Changchun city, construction of water supply and sewage pipes and ducts in Changchun city, and construction of flyovers and bridges with span of less than 100 metres in Changchun city; (b) provision of inspection and maintenance services to public work projects and public infrastructures including city roads, bridges, city parks, tunnels, rail transportation systems, underground water supply and sewage network; and (c) provision of environmental hygiene services including cleaning and hygiene services to public infrastructures such as city and rural roads and bridges. Such compliance of the Deed of Non-competition and the Non-competition Undertaking shall be subject to annual review of the independent non-executive Directors and disclosures in the annual report of the Company.

Target Group's and the ZIHG Group's Principal Businesses

The Target Group's businesses can be categorised into three business segments, namely:

(i) provision of construction services for public work projects, which primarily pertain to construction of city roads, small-scale flyovers and bridges, water supply and sewage pipes and ducts;

(ii) provision of maintenance services for public work projects, which mainly include inspection and maintenance services to public infrastructures including city roads, bridges, city parks, tunnels, rail transportation systems, underground water supply and sewage network; and

(iii) provision of environmental hygiene services, which primarily include cleaning and hygiene services to public infrastructures such as city and rural roads and bridges.

The breakdown of the Target Group's revenue by business segments for the year ended 31 December 2021 and 2022 are as follows:

	Year ended 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Revenue from construction services	518,895	316,493
Revenue from maintenance services	92,731	100,554
Revenue from environmental hygiene services	53,972	45,954
Total:	**665,598**	**463,001**

The ZIHG Group, on the other hand, principally engaged in infrastructure and municipal constructions works with a focus on construction of buildings and railways.

Based on the unaudited management accounts of the ZIHG Group and the accountants' report on the Target Group as set out in Appendix II to this circular, the respective revenue and total assets of the Target Group and the ZIHG Group (including the Target Group) for the year ended/as at 31 December 2021 and 2022 are as follows:

	For the year ended/as at 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Revenue		
Target Group	665,598	463,001
ZIHG Group (including the Target Group)	5,537,202	5,725,078
Total Assets		
Target Group	1,447,790	1,735,785
ZIHG Group (including the Target Group)	13,184,361	15,155,090

Accordingly, (i) the Target Group's revenue accounted for approximately 12.02% and 8.09% of the revenue of the ZIHG Group (including the Target Group) for the year ended 31 December 2021 and 2022, respectively, and (ii) the Target Group's total assets accounted for approximately 10.98% and 11.45% of the total assets of the ZIHG Group (including the Target Group) as at 31 December 2021 and 2022, respectively.

Delineation of businesses of the Target Group and the ZIHG Group

As disclosed in the Prospectus, the existing landscaping business and ecological restoration business of the Group can be delineated from the infrastructure and municipal construction works business of the ZIHG Group.

With respect to the Target Group Businesses, the table below sets forth a brief comparison of the respective businesses of the Target Group and Remaining ZIHG Group, based on revenue contribution for the year ended 31 December 2022 (information relating to the Remaining ZIHG Group is based on its unaudited management accounts):

Description	Engaged by the Target Group *(Yes/No)*	Engaged by the Remaining ZIHG Group *(Yes/No)*
Construction services		
Housing and buildings	No	Yes
Railway systems	No	Yes
Flyovers and bridges		
– Changchun city		
• with span of more than 100 metres	No	Yes
• with span of less than 100 metres	Yes	No
– other cities	No	Yes
City roads (i.e. roads within the city)		
– Changchun city	Yes	Yes
– other cities	No	Yes
Water supply and sewage pipes and ducts		
– Changchun city	Yes	Yes
– other cities	Yes	Yes
Inter-city roads (i.e. roads bridging cities)	No	Yes
Maintenance services	Yes	No
Environmental hygiene services	Yes	No

Construction of flyovers and bridges in Changchun city

Whilst both the Target Group and the Remaining ZIHG Group engage in the construction of flyovers and bridges in Changchun city, the Target Group primarily engages in the construction of small- and medium- scale flyovers and bridges with span of less than 100 metres, average contract sum of which amounted to approximately RMB21.1 million per project for 2020 - 2022, and the construction period is typically within one year. In contrast, based on the information provided by ZIHG, the flyover and bridge construction works engaged by the Remaining ZIHG Group primarily pertain to the construction of large- and extra-large- scale flyovers and bridges with span of more than 100 metres, the average contract sum of which amounted to approximately RMB370.3 million per project for 2020 - 2022, and the construction period is typically more than one year.

Notwithstanding that the holding of the same qualification is a prerequisite to the tender and construction of both small- and medium-scale flyovers and bridges on one hand and large- and extra-large-scale flyovers and bridges on the other hand, the Company considers that the respective flyovers and bridges of the Target Group and the Remaining ZIHG Group can be delineated, and any potential competition in such regard is limited and can be sufficiently addressed through the Non-competition Undertaking:

(i) according to the Technical Specifications for Construction of Highway Bridges and Culverts (《公路橋涵施工技術規範》) issued by the Ministry of Transport of the PRC, flyovers and bridges are categorised into different categories based on their span, and those with span of less than 100 metres are categorised as small- or medium-scale, whereas those with span of more than 100 metres are categorised as large- or extra-large-scale. As compared to small- and medium-scale flyovers and bridges, construction of large- and extra-large-scale flyovers and bridges typically requires more heavy duty construction machinery and equipment such as bridge girder erection machine and tower crane, and more extensive capital and human resources, hence often results in a much higher contract sum as illustrated above. In addition, the construction period of large- and extra-large-scale flyovers and bridges is often longer and generally takes at least more than one year. In practice, the construction of small- and medium-scale flyovers and bridges is considered to be of different nature from that of large- and extra-large-scale flyovers and bridges with different major market players, hence the two belong to separate markets; and

(ii) the construction of flyovers and bridges in Changchun city is not the business focus of both the Target Group and the Remaining ZIHG Group. The Target Group's revenue attributable to construction of flyovers and bridges for the year ended 31 December 2021 and 2022 only accounted for approximately 3.68% and 4.70% of its total revenue for the same years, respectively. On the other hand, based on the unaudited management accounts of the Remaining ZIHG Group, approximately 15.74% and 16.09% of its consolidated revenue for the year ended 31 December 2021 and 2022, respectively, was attributable to the construction of flyovers and bridges in Changchun city. That said, as confirmed by ZIHG, the core business strategy of the Remaining ZIHG Group is to focus on the construction of housing, buildings and railway systems, which accounted for approximately 71.00% of the total contract sum of new projects secured by the Remaining ZIHG Group during the year ended 31 December 2022. Accordingly, both the Target Group and the Remaining ZIHG Group do not focus their businesses on the construction of flyovers and bridges in Changchun city, and in light of the industry practice that construction of small- and medium-scale flyovers and bridges is considered to be of different nature and separate market from the construction of large- and extra-large-scale flyovers and bridges, any potential competition between the Target Group and the Remaining ZIHG Group in such regard, if any at all, is limited.

Construction of city roads in Changchun city

The revenue attributable to the construction of city roads in Changchun city accounted for approximately 46.73% and 35.81% of the total revenue of the Target Group for the year ended 31 December 2021 and 2022, respectively. In contrast, the revenue attributable to the construction of city roads in Changchun city only accounted for approximately 2.63% and 2.97% of the consolidated revenue of the Remaining ZIHG Group for the same years, respectively, based on the unaudited management accounts of the Remaining ZIHG Group. As mentioned above, the core business strategy of the Remaining ZIHG Group is to focus on the construction of housing, buildings and railway systems, and the construction of city roads in Changchun city does not form part of its core business of the Remaining ZIHG Group, nor in-line with its core business strategy. According to the information provided by ZIHG, in 2022, the construction of city roads in Changchun city only accounted for as low as 0.40% of the total contract sum of new projects secured by the Remaining ZIHG Group during the year, and it is expected that the Remaining ZIHG Group will further diminish and minimise its presence in the city road construction industry in Changchun city, particularly in light of the Non-competition Undertaking. Accordingly, any potential competition between the Target Group and the Remaining ZIHG Group with respect to the construction of city roads in Changchun city is limited, and the Company considers such limited potential competition can be sufficiently addressed through the Non-competition Undertaking.

Construction of water supply and sewage pipes and ducts

The water supply and sewage pipes and ducts construction business of the Target Group primarily focuses on projects within the Changchun city, which accounted for approximately 25.41% and 19.92% of the Target Group's total revenue for the year ended 31 December 2021 and 2022, respectively. In contrast, non-Changchun city pipes and ducts construction projects only accounted for approximately 2.14% and 0.31% of the Target Group's total revenue for the year ended 31 December 2021 and 2022, respectively, based on the unaudited management accounts of the Target Group. In terms of newly engaged projects, non-Changchun city pipes and ducts construction projects only accounted for approximately 2.62% of total contract sum of new projects secured by the Target Group during the year ended 31 December 2022, as compared to the high percentage of 37.08% attributable to Changchun city pipes and ducts construction projects. The aforesaid demonstrates that Changchun city is indeed the prime focus of the Target Group's water supply and sewage pipes and ducts construction business, which is expected to remain unchanged after Completion.

As to the Remaining ZIHG Group, its water supply and sewage pipes and ducts construction business primarily pertains to non-Changchun cities, and only minimal revenue is attributable to projects within Changchun city. To put into perspective, based on the unaudited management accounts of the Remaining ZIHG Group, non-Changchun city pipes and ducts construction projects accounted for approximately 6.90% and 12.42% of its consolidated revenue for the year ended 31 December 2021 and 2022, respectively, whereas projects locating within Changchun city only accounted for approximately 0.01% and 0.31% of its consolidated revenue for the same years, respectively, which were all attributable to existing projects previously engaged. As confirmed by ZIHG, the Remaining ZIHG Group has already ceased undertaking any new pipes and ducts construction projects in Changchun city since 2021 and such practice is expected to remain unchanged after completion of the Acquisition in light of the Non-competition Undertaking.

In light of the above, the Company considers that the respective water supply and sewage pipes and ducts construction business of the Target Group and the Remaining ZIHG Group can be delineated and any potential competition in this regard, if any at all, can be sufficiently addressed through the Non-competition Undertaking. Therefore, the Directors considers that the business of the Enlarged Group as a whole after Completion can be delineated from the infrastructure and municipal construction works business of the Remaining ZIHG Group.

Potential conflict of interest between the Enlarged Group and the Remaining ZIHG Group

The business of the Target Group is primarily managed by the board of directors and members of senior management of Changchun Chengwei under the leadership of Mr. Sun Yangang (孫艷剛), the chairperson of Changchun Chengwei, who has no position or role in the Remaining ZIHG Group. In addition, other than two directors of Changchun Chengwei, who do not participate in the day-to-day operation and management of the business of the Target Group, are holding positions in a subsidiary of the Remaining ZIHG Group, the remaining three members of the board (including Mr. Sun Yangang) and the members of senior management of Changchun Chengwei do not hold any position or role in the Remaining ZIHG Group. In light of the above, there is no material overlapping of the management of the Target Group and the Remaining ZIHG Group, nor is there any material conflict of interests.

In addition, the Group also expects to implement further corporate governance and internal control measures on the Target Group level to address any potential conflict of interests, including but not limited to requiring the management of the Target Group to declare his/her interests in the transactions of the Target Group and, where applicable, abstain from voting and/or participating in such transactions should there be any potential conflict of interests.

Furthermore, the Company is able to operate independently from the ZIHG Group for reasons disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus, and the Company does not foresee there to be any material conflict of interests between the Enlarged Group on one hand, and the Remaining ZIHG Group on the other hand.

IMPLICATIONS OF THE LISTING RULES

As at the Latest Practicable Date, ZIHG is owned as to approximately 27.00% by Mr. Sun, 35.00% by Ms. Zhao Hongyu (the spouse of Mr. Sun; hence an associate of Mr. Sun), 5.00% by Mr. Liu, 5.00% by Mr. Shao Zhanguang (a non-executive Director), and 5.00% by Mr. Sun Juzhi (the brother of Mr. Sun; hence an associate of Mr. Sun). Mr. Sun, Ms. Zhao Hongyu, Mr. Liu, Mr. Shao Zhanguang and Mr. Sun Juzhi are controlling shareholders of the Company via their respective interests in Zonqing International and/or Zonbong International. Therefore, ZIHG is a connected person of the Company under the Listing Rules. As a result, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. The Acquisition and the February Transaction constitute a series of transactions made within a 12-month period and will be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Acquisition (both on a standalone basis and when aggregated with the February Transaction) exceeds 25% but are all less than 100%, the Acquisition constitutes a major transaction and a connected transaction of the Company subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. For information of the February Transaction, please refer to the Company's announcements dated 18 February 2022 and 10 March 2022, respectively.

Mr. Sun, Mr. Liu and Mr. Shao Zhanguang, in view of their shareholding in ZIHG, have abstained from voting on the board resolutions for approving the Acquisition. Save as disclosed above, none of the Directors has abstained from voting on such board resolutions.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has established an Independent Board Committee comprising Mr. Gao Xiangnong, Mr. Yin Jun and Mr. Lee Kwok Tung Louis (all of whom are independent non-executive Directors) to advise the Independent Shareholders as to (i) whether the terms of the Equity Transfer Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Acquisition. Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 June 2023 to Friday, 30 June 2023 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Monday, 26 June 2023.

EGM

A notice convening the EGM of the Company to be held at 11/F, Zhongqing Building, No. 5888, Fuzhi Road, Jingyue High-tech Industrial Development Zone, Changchun City, Jilin Province, the PRC on Friday, 30 June 2023 at 10 a.m. is set out on pages EGM-1 to EGM-2 of this circular, at which the resolutions will be proposed for the purpose of considering and, if thought fit, approving, among others, the Equity Transfer Agreement and the Acquisition.

A form of proxy for use in connection with the EGM is enclosed with this circular and can also be downloaded from the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zonbong.com). If you are not able or do not intend to attend the EGM and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the branch share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or its adjournment should he/she/it so wishes. If the Shareholder attends and votes at the EGM, the instrument appointing the proxy will be deemed to have been revoked.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition. As at the Latest Practicable Date, Zonqing International held 181,202,166 Shares, representing approximately 65.89% interests of the Company, which in turn was owned as to approximately (i) 27.00% by Mr. Sun; (ii) 35.00% by Ms. Zhao Hongyu (the spouse of Mr. Sun); (iii) 5.00% by Mr. Liu; and Zonbong International held 14,054,104 Shares, representing approximately 5.11% interest of the Company, which in turn was owned as to approximately (i) 60.11% by Mr. Liu Haitao; and (ii) 22.41% by Mr. Sun. In this connection, Zonqing International and Zonbong International will abstain from voting on the resolutions in relation to the Acquisition at the EGM, in view of the interests of Ms. Zhao Hongyu, Mr. Sun and Mr. Liu in ZIHG. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Zonqing International and Zonbong International, no Shareholder has a material interest in the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the Acquisition contemplated thereunder.

VOTING BY POLL AT THE EGM

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions to be proposed at the EGM and contained in the notice of the EGM will be voted by way of a poll by the Shareholders.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose view is set out in the letter from the Independent Board Committee in this circular) believe that the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are on or normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

By order of the Board
ZONQING Environmental Limited
Sun Juqing
Chairman and non-executive Director

Hong Kong, 9 June 2023

The following is the full text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Equity Transfer Agreement and the Acquisition for the purpose of incorporation in this circular.

ZONQING Environmental Limited
中庆环境股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1855)

9 June 2023

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 87.50% INTEREST IN JILIN MODERN ZHONGQING

We refer to the circular dated 9 June 2023 issued by the Company (the "**Circular**"), of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Equity Transfer Agreement and the Acquisition and to advise the Independent Shareholders whether the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and to the voting action that should be taken. Rainbow Capital (HK) Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 31 of the Circular, and the letter from Rainbow Capital (HK) Limited which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement and the Acquisition contemplated thereunder, as well as the principal factors and reasons considered by the Rainbow Capital (HK) Limited in arriving at its recommendation as set out on pages 34 to 66 of the Circular.

After taking into consideration the advice from Rainbow Capital (HK) Limited, we consider that the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms, and that they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Equity Transfer Agreement and the Acquisition contemplated thereunder.

Yours faithfully
Independent Board Committee

Mr. Gao Xiangnong	**Mr. Yin Jun**	**Mr. Lee Kwok Tung Louis**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of incorporation in this circular.

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

9 June 2023

To the Independent Board Committee and the Independent Shareholders

ZONQING Environmental Limited
3/F, Zhongqing Building,
No.5888 Fuzhi Road,
Jingyue High-tech Industrial Development Zone,
Changchun City
Jilin Province, PRC

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 87.50% INTEREST IN JILIN MODERN ZHONGQING

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 9 June 2023 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 11 April 2023 (after trading hours), Beijing Ecological (the purchaser), an indirect non-wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with, among other parties, ZIHG, pursuant to which Beijing Ecological has agreed to acquire, and ZIHG has agreed to sell, in each case subject to the Conditions Precedent, the Sale Interests at a cash consideration of RMB305,756,410 (the "**Consideration**"). The Sale Interests represent 87.50% of the equity interest in the Target. Upon Completion, the Group will hold 87.50% equity interests of the Target, and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

As at the Latest Practicable Date, ZIHG is owned as to approximately 27.00% by Mr. Sun, 35.00% by Ms. Zhao Hongyu (the spouse of Mr. Sun; hence an associate of Mr. Sun), 5.00% by Mr. Liu, 5.00% by Mr. Shao Zhanguang (a non-executive Director), and 5.00% by Mr. Sun Juzhi (the brother of Mr. Sun; hence an associate of Mr. Sun). Mr. Sun, Ms. Zhao Hongyu, Mr. Liu, Mr. Shao Zhanguang and Mr. Sun Juzhi are controlling shareholders of the Company via their respective interests in Zonqing International and/or Zonbong International. Therefore, ZIHG is a connected person of the Company under the Listing Rules. As a result, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. The Acquisition and the February Transaction constitute a series of transactions made within a 12-month period and will be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition (both on a standalone basis and when aggregated with the February Transaction) exceeds 25% but are all less than 100%, the Acquisition constitutes a major transaction and a connected transaction of the Company and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Acquisition by way of a poll at the EGM. In view of the interests above, Zonqing International and Zonbong International will abstain from voting on the ordinary resolution to be proposed at the EGM in relation to the Acquisition. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Zonqing International and Zonbong International, no Shareholder has a material interest in the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the Acquisition contemplated thereunder.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Gao Xiangnong, Mr. Yin Jun and Mr. Lee Kwok Tung Louis, has been formed to advise the Independent Shareholders on whether (i) the Acquisition is in the ordinary and usual course of business of the Group; and (ii) the terms of the Acquisition are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, ZIHG and the Target Group that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the renewal of non-exempt continuing connected transactions between the Company and ZIHG, details of which are set out in the circular of the Company dated 14 December 2022. Other than that, there was no engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, ZIHG or the Target Group. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the Equity Transfer Agreement and the Acquisition contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advices; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Target Group or their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Acquisition are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Background information of the Group

The Group is an established service provider for landscaping and ecological restoration projects in the Three Northeast Provinces of the PRC and it is principally engaged in landscaping, ecological restoration and other related projects. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company and is primarily engaged in the business of technical consultancy for landscaping, ecological restoration and other projects.

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 December 2022 ("**FY2020**", "**FY2021**" and "**FY2022**", respectively) as extracted from the annual reports of the Company for the years ended 31 December 2021 and 2022 (the "**2022 Annual Report**"), respectively:

(i) Financial performance

	For the year ended 31 December			
	2022	**2021**	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
		(restated)	*(un-restated)*	
Revenue	**653,441**	**936,595**	**896,747**	**1,001,427**
Cost of sales	(519,437)	(725,365)	(704,949)	(762,995)
Gross profit	**134,004**	**211,230**	**191,798**	**238,432**
Other net income	7,087	23,402	22,714	9,957
Selling expenses	(13,234)	(28,099)	(23,841)	(13,113)
Administrative expenses	(59,515)	(75,075)	(66,904)	(67,841)
Impairment losses on trade and other receivables and contract assets	(149,526)	(64,234)	(62,232)	(40,393)
Finance costs	(40,311)	(38,007)	(37,909)	(38,065)
Share of (losses)/profits of associates	(3,928)	1,259	1,259	1,446
Share of profits of a joint venture	863	6,530	6,530	8,929
(Loss)/profit before taxation	**(124,560)**	**37,006**	**31,415**	**99,352**
Income tax	18,556	(3,596)	(3,033)	(30,411)
(Loss)/profit attributable to the Shareholders	**(105,286)**	**33,558**	**28,530**	**68,505**

In July 2022, the Group acquired the entire equity interests of Jilin Jinghe Design Engineering Co., Ltd. ("**Jilin Jinghe Design**"), a fellow subsidiary of the Group, from ZIHG and a third party. Jilin Jinghe Design became a subsidiary of the Group upon the completion of the acquisition. This business combination under common control has been accounted for using the principle of merger accounting. As such, the consolidated financial statements of the Group for FY2021 have been restated using the merger basis of accounting as if the current group structure has been in existence throughout the years presented. For comparison purpose, the restated financial performance for FY2021 was adopted to compare the financial performance for FY2022 while the un-restated financial performance for FY2021 was adopted to compare the financial performance for FY2020.

FY2022 compared to FY2021

Revenue of the Group decreased significantly by approximately 30.2% from approximately RMB936.6 million for FY2021 to approximately RMB653.4 million for FY2022, primarily attributable to (a) the implementation of control and lockdown measures to combat the COVID-19 outbreak in Changchun city from 11 March 2022, which started to lift around mid of May 2022; and (b) the further implementation of social control measures in Changchun city from 28 November 2022 until December 2022 when the second-wave COVID-19 outbreak re-emerged. Due to the control and lockdown period as well as the impact of outbreak occurring during peak construction season, construction work of the Group's landscaping and ecological restoration projects could not be carried out, which resulted in the decrease in revenue.

In line with the decrease in the revenue, gross profit of the Group decreased by approximately 36.6% from approximately RMB211.2 million for FY2021 to approximately RMB134.0 million for FY2022.

The Group recorded loss attributable to the Shareholders of approximately RMB105.3 million for FY2022, as compared to profit attributable to the Shareholders of approximately RMB33.6 million for FY2021, primarily attributable to (a) the decrease in gross profit as stated above; (b) the decrease in other net income by approximately RMB16.3 million mainly due to the absence of the one-off and non-recurring grants by local government in Jilin Province to support enterprises which have entered into capital market by listing in Hong Kong in 2022, which was available to the Group in 2021; and (c) the increase in impairment losses on trade and other receivables and contract assets by approximately RMB85.3 million, mainly due to the slow turnaround of the Group's trade and other receivables and contract assets at the end of FY2022, which was partially offset by (a) the decrease in selling expenses by approximately RMB14.9 million mainly due to the lock down control measures during quarantine period which limited the Group's expansion plan into external markets; (b) the decrease in administrative expenses by approximately RMB15.6 million; and (c) the decrease in income tax by approximately RMB22.2 million mainly due to the increase in the impairment losses under the expected credit loss and the corresponding increase in deferred tax asset.

FY2021 compared to FY2020

Revenue of the Group decreased by approximately 10.5% from approximately RMB1,001.4 million for FY2020 to approximately RMB896.7 million for FY2021, primarily attributable to the decrease in the value of winning bids of the Group's ecological restoration projects and projects under the other segments in FY2021. Such decrease was partially offset by the increase in the amount of landscaping construction works undertaken and revenue recognised by the Group in FY2021.

In line with the decrease in the revenue, gross profit of the Group decreased by approximately 19.6% from approximately RMB238.4 million for FY2020 to approximately RMB191.8 million for FY2021.

The Group recorded profit attributable to the Shareholders of approximately RMB28.5 million for FY2021, which represented a significant decrease of approximately 58.4% from approximately RMB68.5 million for FY2020, primarily attributable to (a) the decrease in gross profit as stated above; (b) the increase in selling expenses by approximately RMB10.7 million mainly due to the increase in marketing and bidding efforts for projects outside of the Northeast China region, the increase in market development talents and the opening of local offices as a result of the Group's expansion into external markets; and (c) the increase in impairment losses on trade and other receivables and contract assets by approximately RMB21.8 million mainly due to the slow turnaround of the Group's trade and other receivables and contract assets at the end of FY2021. Such decrease was partially offset by (a) the increase in other net income by approximately RMB12.8 million, mainly due to the grants by local government in Jilin Province to support enterprises which have entered into capital market by listing in Hong Kong in 2021; and (b) the decrease in income tax by approximately RMB27.4 million.

(ii) ***Financial position***

	As at 31 December			
	2022	**2021**	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
		(restated)	*(un-restated)*	
Non-current assets, including:	**391,990**	**385,865**	**383,441**	**366,237**
– Interest in associates	77,512	76,718	76,718	75,459
– Interest in a joint venture	195,660	194,797	194,797	188,267
– Non-current portion of trade receivables	18,988	34,627	34,627	43,402
Current assets, including:	**2,058,323**	**1,993,922**	**1,869,412**	**1,699,903**
– Contract assets	710,406	746,230	732,484	813,448
– Trade and bills receivables	1,088,353	987,062	979,887	653,600
– Prepayments, deposits and other receivables	77,349	170,070	68,212	51,071
– Restricted bank deposits	22,213	12,110	12,110	602
– Cash and cash equivalents	129,899	47,495	46,673	143,997
Total assets	**2,450,313**	**2,379,787**	**2,252,853**	**2,066,140**
Current liabilities, including:	**1,951,668**	**1,738,198**	**1,621,095**	**1,523,553**
– Trade and bills payables	785,538	943,446	838,448	703,415
– Accrued expenses and other payables	263,725	144,649	139,579	182,949
– Bank and other loans	663,200	479,565	479,565	430,000
Net current assets	**106,655**	**255,724**	**248,317**	**176,350**
Non-current liabilities, including:	**11,695**	**37,512**	**36,997**	**58,777**
– Bank loans	–	25,000	25,000	50,000
– Deferred tax liabilities	10,880	10,336	10,336	8,507
Total liabilities	**1,963,363**	**1,775,710**	**1,658,092**	**1,582,330**
Equity attributable to the Shareholders	**480,213**	**594,627**	**585,311**	**474,235**
Net gearing ratio *(Note 1)*	**105.0%**	**73.7%**	**75.0%**	**69.3%**

Note:

1. Being net debt (which equals bank and other loans less cash and cash equivalents, and less restricted bank deposits) divided by total equity and multiplied by 100%.

As at 31 December 2022, total assets of the Group were approximately RMB2,450.3 million, which mainly included (a) interest in associates of approximately RMB77.5 million, attributable to two associates which are principally engaged in financing, development, operating and maintaining a Public-Private-Partnership project in Changchun city and providing public utility services to a park as well as consulting, construction, operations and maintenance services to enterprises in the park, respectively; (b) interest in a joint venture of approximately RMB195.7 million, attributable to a joint venture which is principally engaged in financing, development, operating and maintaining a Public-Private-Partnership project in Inner Mongolia, the PRC; (c) contract assets of approximately RMB710.4 million, arising from the Group's normal business operations when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms as set out in the contracts; (d) trade and bills receivables of approximately RMB1,107.3 million; (e) prepayments, deposits and other receivables of approximately RMB77.3 million; and (f) cash and cash equivalents of approximately RMB129.9 million.

As at 31 December 2022, total liabilities of the Group were approximately RMB1,963.4 million, which mainly included (a) trade and bills payables of approximately RMB785.5 million; (b) accrued expenses and other payables of approximately RMB263.7 million; and (c) bank and other loans of approximately RMB663.2 million.

The Group had net current assets of approximately RMB106.7 million with a net gearing ratio of approximately 105.0% as at 31 December 2022. As at 31 December 2022, the Group had equity attributable to the Shareholders of approximately RMB480.2 million.

(iii) Overall comment

The Group has been committed to providing the whole industry chain services of landscape design, ecological and landscape construction, landscape maintenance and cultural and tourism project operation. With robust in-house design capabilities in addition to construction capabilities and diversified industry qualifications, the Group can undertake a diverse range of works for landscaping and ecological restoration projects.

In FY2022, the financial performance of the Group was adversely affected by the decrease in revenue caused by the lockdown and social control measures in China as a result of the COVID-19 outbreak in the early 2022 and December 2022. It is expected that the impact from COVID-19 will gradually fade in 2023 since the PRC government started to ease various COVID-19 restrictions in the end of 2022.

As disclosed in the 2022 Annual Report, with a view of reinforcing its leading position in the green construction and management industry in the PRC, the Group is exploring opportunities to expand and diversify its business portfolios by acquisition if any such appropriate acquisition target is identified. Taking into account the industry outlook of the infrastructure construction market in the PRC as stated in the section headed "4. Industry overview" below, we consider that the Acquisition represents an opportunity for the Group to expand its principal business in landscaping so as to achieve sustainable growth of the Group.

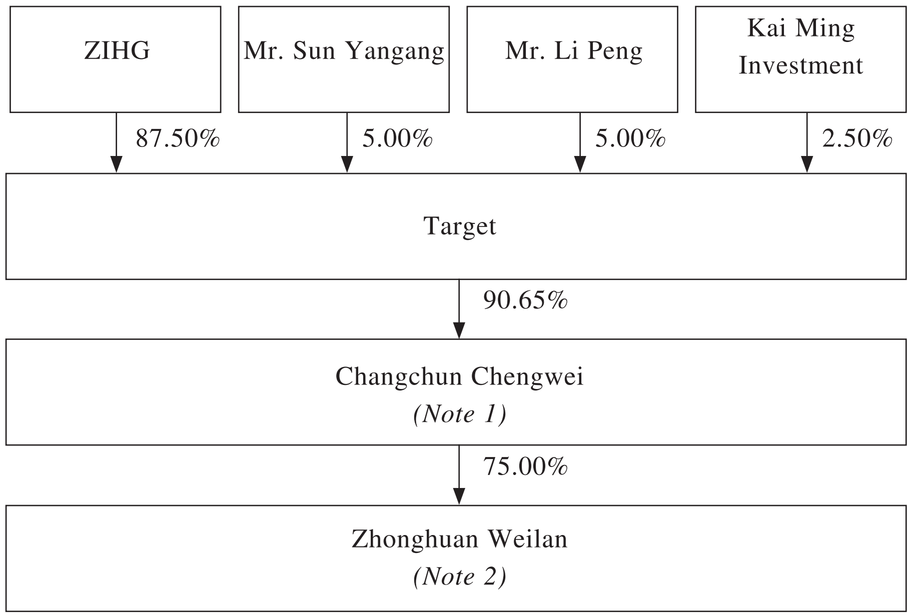
2. Information of the Target Group

(i) Business of the Target Group

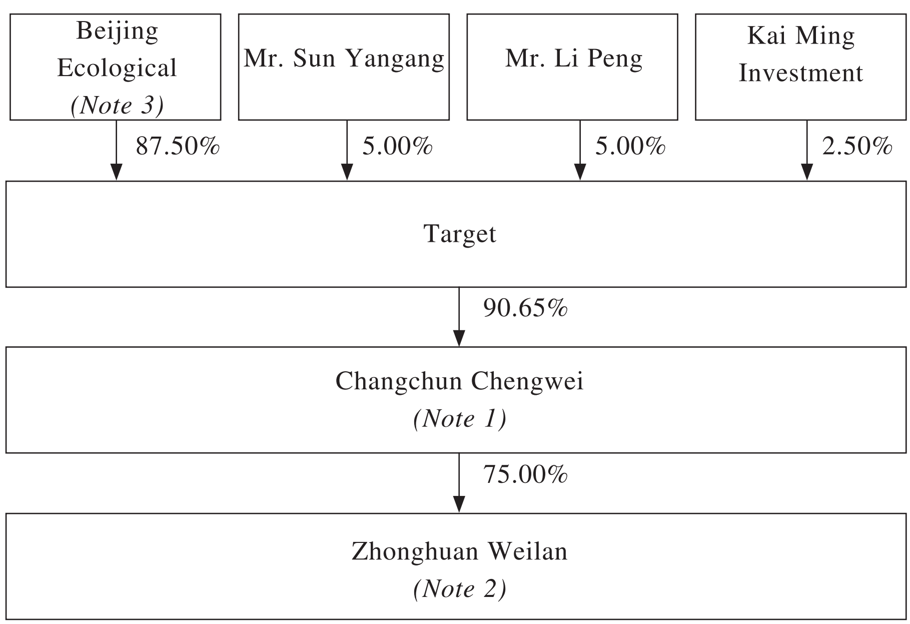
The Target is a company established in the PRC with limited liability and is an investment holding company without any substantive business. As at the Latest Practicable Date, the Target was owned as to approximately 87.50%, 5.00%, 5.00% and 2.50% by ZIHG, Mr. Sun Yangang (孫艷剛), Mr. Li Peng (李鵬) and Kai Ming Investment Holding Limited ("**Kai Ming Investment**"), respectively. As at the Latest Practicable Date, Mr. Li Peng held approximately 1.0% of the equity interests in Zonqing International and he is one of the controlling Shareholders of the Company, hence a connected person of the Company. Both Mr. Sun Yangang and Kai Ming Investment are Independent Third Parties.

As at the Latest Practicable Date, the Target held approximately 90.65% of the total issued shares of Changchun Chengwei, which, together with Zhonghuan Weilan (its 75.00% owned subsidiary) are the principal operating subsidiaries of the Target Group. The Target Group is principally engaged in the provision of environmental hygiene services and construction and maintenance services for public work projects.

Immediately before the completion of the Acquisition, the shareholding structure of the Target Group is set out as follows:



Immediately after the completion of the Acquisition, the shareholding structure of the Target Group will be as follows:



Notes:

1. The remaining approximately 9.35% issued shares of Changchun Chengwei are owned by 30 individual shareholders. Save as Ms. Zhao Hongyu (the spouse of Mr. Sun) who owns approximately 0.16% of the total issued shares of Changchun Chengwei, the remaining 29 individual shareholders are Independent Third Parties.

2. The remaining approximately 25.00% equity interests in Zhonghuan Weilan are held by Ms. Yin Qi (尹琪), an Independent Third Party.

3. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company. It is owned as to approximately 99.00% by Jilin Zonbong Ecological Environmental Limited* (吉林中邦生態環境有限公司), a wholly-owned subsidiary of the Company, and approximately 1.00% by Jilin Shengyi Engineering Consulting Limited* (吉林晟藝工程諮詢有限公司), an associate of the controlling Shareholders of the Company.

(ii) Financial information of the Target Group

The following discussion of the financial performance and position of the Target Group is based upon and should be read in conjunction with the accountants' report on the Target Group set out in Appendix II to the Circular:

Financial performance

	For the year ended 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	**463,001**	**665,598**	**538,170**
Cost of sales	(403,253)	(590,237)	(440,154)
Gross profit	**59,748**	**75,361**	**98,016**
Other net income	1,481	2,451	3,323
Selling expenses	(5,601)	(4,943)	(3,777)
Administrative expenses	(27,295)	(22,730)	(16,807)
Reversal of impairment losses/ (Impairment losses) on trade and other receivables and contract assets	11,043	(14,581)	(19,649)
Finance costs	(29,570)	(35,206)	(54,664)
Profit before taxation	**9,806**	**352**	**6,442**
Income tax	(495)	661	(396)
Profit for the year	**9,311**	**1,013**	**6,046**

FY2022 compared to FY2021

Revenue of the Target Group mainly represented income from construction services, maintenance services and environmental hygiene services, which decreased by approximately 30.4% from approximately RMB665.6 million for FY2021 to approximately RMB463.0 million for FY2022. Such decrease was mainly due to the impact of the pandemic within the region in 2022 which disrupted the progress of the Target Group's projects.

In line with the decrease in revenue, gross profit of the Target Group decreased by approximately 20.7% from approximately RMB75.4 million for FY2021 to approximately RMB59.7 million for FY2022.

The Target Group's net profit amounted to approximately RMB9.3 million for FY2022, representing an increase of approximately 819.2% from approximately RMB1.0 million for FY2021. Such increase was primarily attributable to the turnaround from impairment losses on trade and other receivables and contract assets of approximately RMB14.6 million for FY2021 to reversal of impairment losses on trade and other receivables and contract assets of approximately RMB11.0 million for FY2022, which was partially offset by the decrease in revenue and gross profit as mentioned above.

FY2021 compared to FY2020

Revenue of the Target Group increased by approximately 23.7% from approximately RMB538.2 million for FY2020 to approximately RMB665.6 million for FY2021. Such increase was mainly due to the increase in municipal infrastructure investment by local governments in 2021.

Gross profit of the Target Group decreased by approximately 23.1% from approximately RMB98.0 million for FY2020 to approximately RMB75.4 million for FY2021, primarily attributable to the increase in labour costs, certain materials and transportation costs and the undertaking of projects with lower profit margin for expansion into new regions in 2021.

The Target Group's net profit amounted to approximately RMB1.0 million for FY2021, representing a decrease of approximately 83.2% from approximately RMB6.0 million for FY2020. Such decrease was primarily attributable to (a) the decrease in gross profit as mentioned above; and (b) the increase in administrative expenses by approximately RMB5.9 million, which was partially offset by (a) the decrease in impairment losses on trade and other receivables and contract assets by approximately RMB5.1 million; and (b) the decrease in finance costs by approximately RMB19.5 million as a result of the decrease in bank and other loans in 2021.

Financial position

	As at 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets, including:	**101,803**	**82,404**	**51,920**
Property, plant and equipment	29,175	21,435	19,789
Other equity investments	58,337	43,050	14,041
Current assets, including:	**1,633,982**	**1,365,386**	**1,245,460**
Contract assets	345,303	449,192	503,044
Trade and bills receivables	472,637	337,616	252,618
Prepayments, deposits and other receivables	719,608	527,192	400,901
Cash and cash equivalents	90,334	41,375	26,236
Total assets	**1,735,785**	**1,447,790**	**1,297,380**
Current liabilities, including:	**1,223,911**	**1,008,788**	**791,525**
Trade and bills payables	452,474	443,632	395,335
Contract liabilities	352,565	70,930	49,083
Bank and other loans	311,581	365,797	292,205
Net current assets	**410,071**	**356,598**	**453,935**
Non-current liabilities, including:	**80,814**	**21,216**	**87,867**
Bank and other loans	78,932	19,145	85,061
Total liabilities	**1,304,725**	**1,030,004**	**879,392**
Total equity	**431,060**	**417,786**	**417,988**

As at 31 December 2022, non-current assets of the Target Group amounted to approximately RMB101.8 million, mainly including (a) property, plant and equipment of approximately RMB29.2 million, primarily representing the Target Group's motor vehicles and construction equipment; and (b) other equity investments of approximately RMB58.3 million, representing the Target Group's investments in two unlisted companies which were held for strategic purpose.

As at 31 December 2022, current assets of the Target Group amounted to approximately RMB1,634.0 million, mainly including (a) contract assets of approximately RMB345.3 million arising from the Target Group's normal business operations when the Target Group recognises revenue before being unconditionally entitled to the consideration under the payment schedules as set out in the construction contracts; (b) trade and bills receivables of approximately RMB472.6 million; (c) prepayments, deposits and other receivables of approximately RMB719.6 million, primarily representing the amounts due from ZIHG and its subsidiaries, joint ventures and associates as well as prepayments for purchase of raw materials; and (d) cash and cash equivalents of approximately RMB90.3 million.

As at 31 December 2022, total liabilities of the Target Group amounted to approximately RMB1,304.7 million, mainly including (a) trade and bills payables of approximately RMB452.5 million; (b) contract liabilities of approximately RMB352.6 million arising from the Target Group's normal business operations when the Target Group receives a deposit before the construction actively commence; and (c) bank and other loans of approximately RMB390.5 million, with effective interest rate ranging from approximately 5.00% to 8.00%.

Net current assets and total equity of the Target Group amounted to approximately RMB410.1 million and RMB431.1 million as at 31 December 2022, respectively. As such, the Target Group is in a healthy financial position.

3. Reasons for and benefits of the Acquisition

The Group is an established service provider for landscaping and ecological restoration projects in the Three Northeast Provinces of the PRC. It has been engaging in various aspects of the green construction and management industry, including environmental and landscape designing, the construction, engineering and operation management for ecological restoration projects, and provision of operation and maintenance services for public work projects, etc. Catalysed by the downturn of the Group's businesses during the outbreak of the COVID-19 pandemic, the Company has recognised the need to diversify its business and income stream to gain resilience to cyclical development of the economy. On the other hand, the Target Group is principally engaged in the provision of environmental hygiene and sanitation services and construction and maintenance services for public work projects. The sectors which the Target Group is engaged in are considered to generally have a relatively more stable and consistent demand with more rapid cash inflow as compared to the Group's other service offerings in the landscaping and ecological restoration sectors, hence it is expected to be comparatively less prone to economic changes and fluctuations and be able to generate more stable operating cash flows. We concur with the Directors that the Acquisition would allow the Group to (i) be more resilient to cyclical development of the economy, which in turn is in the interest of the Group and the Shareholders as a whole; and (ii) expand vertically along the industry value chain to the environmental hygiene, sanitation services and city maintenance sector via the Target Group, thereby enrich the service offerings of the Group, diversify the business and income stream of the Group and facilitate the Group's market penetration in the green construction and management industry.

As disclosed in the 2022 Annual Report, with a view of reinforcing its leading position in the green construction and management industry in the PRC, the Group is exploring opportunities to expand and diversify its business portfolios by acquisition if any such appropriate acquisition target is identified. As such, we consider that the Acquisition is consistent with the Group's business strategy of seeking acquisition opportunities to consolidate its market position in the green construction and management industry.

In addition, as disclosed in the Letter from the Board, subsequent to the Company's listing in 2021, the Group has noted that for certain instances where the landscaping and ecological restoration project tenders which the Group was interested in would require the tender applicant to possess the First-Grade Qualification of Main Contractor for Municipal Public Works (市政公用工程施工總承包壹級) (the "**First Grade Qualification**"), even though the First Grade Qualification is not a mandatory requirement for the bidding of landscaping and ecological restoration projects under the applicable laws and regulations. So far as the Group is aware, such requirement of First Grade Qualification has become more popular since 2022. For instance, (i) during 2022, there were in total six tenders for landscaping and ecological projects which the Group was interested in requiring the tender applicant to possess the First Grade Qualification, with an aggregate contract sum of approximately RMB6.2 billion; and (ii) since January 2023 and up to the Latest Practicable Date, there were at least 10 tenders for landscaping and ecological restoration projects in the Three Northeast Provinces requiring the tender applicant to possess the First Grade Qualification, with an aggregate contract sum of approximately RMB10.6 billion. Among the said 16 tenders, seven of them pertain to landscaping and ecological restoration works only. For the remaining nine tenders, their respective scope of work includes both landscaping and ecological restoration works and other infrastructure and municipal construction works. Such tenders may also require the First- or Second-Grade Landscape Engineering Design Speciality Qualification Certificate, on top of the First-Grade Qualification.

As the Group only possesses the Second-Grade Qualification of Main Contractor for Municipal Public Works (the "**Second Grade Qualification**"), it was unable to submit tender application itself for the above projects that require the First Grade Qualification, and the only way for the Group to participate in such projects would be to co-operate with entities that possess the First Grade Qualification yet do not carry out landscaping and ecological restoration works, either to jointly bid for such projects, or to carry out the landscaping and ecological restoration works as a sub-contractor, which might result in a lower profit margin for the Group as compared to the Group being the sole tender applicant itself. For joint bidding, whilst the Group would indeed gain the opportunity to participate in such projects, extra costs may also be incurred by the Group as a result. Depending on the scale and nature of the project and the commercial negotiations between the parties, a co-operation fee may need to be paid by the Group to the joint bidder. This is particularly so for projects that involve landscaping and ecological restoration works only but require the First Grade Qualification, where the Group would essentially be undertaking all the works but still be required to pay the co-operation fee to the joint bidder for its possessing of the First Grade Qualification. The Company therefore considers that the lack of the First Grade Qualification would hinder the business development of the Group as it could only participate in such project tenders through collaboration with entities with the First Grade Qualification, even if the Group is equipped with the necessary machinery and talents to carry out the project on its own. In addition, the First Grade Qualification is not transferrable and the Group is unable to obtain the First Grade Qualification by itself within a short period of time, which the Group considers to be undesirable due to the prolonged exposure to the risks of losing its market position. As Changchun Chengwei possesses the First Grade Qualification, the Acquisition would allow the Group to swiftly accommodate the changing market trend as mentioned above and strengthen the Group's capabilities and expertise in undertaking municipal projects of larger scales, and thereby enhance the overall competitiveness of the Group and facilitate the growth and development of the Group in the long run.

In respect of the increasing popularity on requiring the tender applicant to possess the First Grade Qualification since 2022, we have (i) reviewed the documents of the 16 tenders as mentioned above, and noted that all of them required the tender applicant to possess the First Grade Qualification; and (ii) performed independent public domain search (i.e. Changchun public resources trading network http://ccggzy.com.cn/) on landscaping and ecological restoration project tenders in Changchun city and noted that there are tenders required the tender applicant to possess the First Grade Qualification from February 2023 to April 2023. As such, we concur with the Directors that the landscaping and ecological restoration project tenders require the tender applicant to possess the First Grade Qualification has become more popular.

In respect of the lower gross profit margin for the Group to jointly bid or work as a subcontractor to participate in the projects requiring the First Grade Qualification, we have discussed with the senior management of the Group and understood that the differences in project scale, location, quality, design and other specific requirements can generally lead to large variance of the gross profit margin of a project. Therefore, it is considered hard and biased to directly compare the gross profit margins of joint-bidding projects and sole-tender projects as they are different projects in nature. Based on the industry knowledge and experience of the senior management of the Group, joint bidding or working as a subcontractor to participate in the projects would generally entail lower gross profit margins for the Group, since the Group would have less competitive advantages and bargaining power than companies who possess the First Grade Qualification and thus may have to share fewer revenue, share the part of work scope of a project with lower gross profit margin or even pay a co-operation fee in order to be able to participate in such projects and broaden the Group's revenue stream. In addition, companies who possess the First Grade Qualification would generally bid the project individually rather than joint bidding to avoid sharing revenue and profit with other parties. As such, we concur with the Directors that to participate in the projects requiring the First Grade Qualification, if the Group does not possess the First Grade Qualification, the only way for the Group would be to jointly bid for projects with entities that possess the First Grade Qualification or to work with them as subcontractors, which might result in lower profit margin for the Group as compared to the Group being the sole tender applicant itself.

Overall, given that (i) the landscaping and ecological restoration project tenders require the tender applicant to possess the First Grade Qualification has become more popular; (ii) tendering projects with large contract sum and project scale would usually have more complicated scope of work and higher quality requirements, thus would set stricter qualification requirements for applicants such as the First Grade Qualification; (iii) participating in more projects with large contract sum and project scale could enhance the Group's market reputation and competitiveness, which would in turn expedite its business development, expand its revenue streams and maximise the returns of its Shareholders; and (iv) companies who possess the First Grade Qualification would generally bid the project individually rather than joint bidding to avoid sharing revenue and profit with other parties, we concur with the Directors that obtaining the First Grade Qualification through the Acquisition is beneficial for the Group's business development and sustainable growth in the long run.

As a prominent market player in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC, the Group is expected to develop itself through the collaboration with the Target Group and leveraging on its existing reputation and track record. Since the Company's listing in 2021, the Group has been endeavouring to maintain its leading position in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC, while at the same time seeking strategical expansion to other regions in the PRC. As at the Latest Practicable Date, on top of the Three Northeast Provinces, the Group had also established presence in other regions in the PRC including the Huadong region (including Shandong Province, Zhejiang Province and Jiangsu Province) and the Southwest region (including Chongqing City, Sichuan Province and Guizhou Province), and the business of the Group had expanded to cover a total of 16 provinces and three municipalities in the PRC. Such lateral expansion has allowed the Group to extend the geographic coverage of its business, and thereby broadened the customer base and project portfolio of the Group. Upon Completion, the Group intends to continue implementing this lateral expansion strategy to achieve growth of its landscaping and ecological restoration business. On the other hand, as part of the organic growth strategy of the Group's businesses, the Company also recognises the need of vertical expansion along the pan-municipal public works and green construction and management industry value chain, which would allow the Group to (i) utilise the resources, experience, expertise and business network developed along the industry value chain to enhance the product and service offerings of the Group in terms of both quality and quantity, and seek new business opportunities in light of the closer proximity with other market players along the industry value chain. With such synergetic effect and more in-depth market penetration, the Group would be able to consolidate its market position in the landscaping and ecological restoration sector, which is also in line with the Group's core business strategy of maintaining and enhancing its competitiveness in the landscaping and ecological restoration industry; and (ii) develop new growth drivers for the Group through leveraging its leading market position in the landscaping and ecological restoration sector, so as to achieve continuous or even accelerated growth of the Group's businesses, and create value to the Shareholders, and pave way for the Group's long-term strategic plan of developing into a more comprehensive service provider with a focus on landscaping and ecological restoration, being capable of providing a wide range of services to satisfy the needs of customers in the pan-municipal public works and green construction and management industry.

With the Acquisition, the Group could utilise the First Grade Qualification to participate in the bidding of landscaping and ecological restoration projects on its own, as opposed to joint-bidding or participation as a sub-contractor, which in turn is expected to enhance the profit and competitiveness of the Group. The Group could also pull together the resources and expertise of the Target Group in the public work maintenance and construction sector and environmental hygiene sector to improve its offerings in the landscaping and ecological restoration sector through the provision of additional value-added services together with more in-depth industry knowledge. Accordingly, the Group would continue to further its existing principal businesses of landscaping and ecological restoration. On the other hand, the Group intends to further develop the environmental hygiene business and public work maintenance and construction business of the Target Group within its existing scope as a means to diversify its business and income stream through vertical expansion along the industry value chain, and achieve synergetic effect with the Group's landscaping and ecological restoration businesses. The Target Group's environmental and hygiene business and public work maintenance and construction business are expected to contribute to the future growth of the Group in parallel with the Group's existing core principal businesses of landscaping and ecological restoration.

Taking into account that (i) the Acquisition allows the Group to more resilient to cyclical development of the economy, enrich its service offerings and diversify its business and income stream so as to enhance its earning potential and bring a higher return to the Group and the Shareholders; (ii) the Acquisition is in line with the business strategy of the Group to reinforce its leading position in the green construction and management industry in the PRC; (iii) the Acquisition represents an opportunity to strengthen the Group's operational capabilities and enhance the overall competitiveness of the Group; (iv) the Non-competition Undertaking provided by ZIHG is in favour of the Group in the Equity Transfer Agreement which prevents any potential competition between the Target Group and the Remaining ZIHG Group after Completion; and (v) the positive outlook and trends of the infrastructure construction market in the PRC as mentioned in the section headed "4. Industry Overview" below, we concur with the Directors that the Acquisition is conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

4. Industry overview

As disclosed in the "2022 Report on the Work of the Government" (2022政府工作報告) made by the premier of the State Council of the PRC in March 2022, it states that in order to be in line with major national strategies and the 14th Five-Year Plan, the Chinese government will make proactive investments in infrastructure as appropriate including the construction of major water conservancy projects, integrated multidimensional transportation networks and important energy bases and facilities. According to the National Development and Reform Commission, China's infrastructure investment (excluding electricity, heat, gas and water production and supply industries) has increased by approximately 9.4% and 8.8% in 2022 and 2023Q1, respectively, as compared to the corresponding previous year/period, respectively.

In addition, the scale of local government special-purpose bonds, with a high priority given to the development of sectors such as transportation, water conservancy, energy, information and other infrastructure as well as projects for the people's wellbeing has been increased and nongovernmental capital to participate in the construction and operation of such projects has been encouraged in recent years. For instance, according to a State Council executive meeting announced in June 2022, bank credits in the amount of RMB800 billion and financial instruments in the amount of RMB300 billion have been allocated to support and fund infrastructure construction.

Taking into account that (i) the recovery of the PRC economy as the COVID-19 restrictions have been relaxed since the end of 2022; (ii) the growth in infrastructure investment (excluding electricity, heat, gas and water production and supply industries) in the PRC in 2022 and early 2023; and (iii) the promulgation of favourable government policies to support the growth of infrastructure construction market in the PRC, we expect infrastructure construction market in the PRC will continue to grow and we are optimistic about its prospects.

5. Principal terms of the Equity Transfer Agreement

Set out below is a summary of the principal terms of the Equity Transfer Agreement. The Independent Shareholders are advised to read further details of the Equity Transfer Agreement as disclosed in the Letter from the Board.

Date : 11 April 2023 (after trading hours)

Parties :

(i) Beijing Ecological (the purchaser);

(ii) ZIHG (the vendor);

(iii) the Target;

(iv) Changchun Chengwei (a subsidiary of the Target);

(v) Zhonghuan Weilan (a subsidiary of the Target); and

(vi) the Company.

(each a "**Party**" and collectively, the "**Parties**")

Subject matter : Beijing Ecological has conditionally agreed to acquire, and ZIHG has conditionally agreed to sell, the Sale Interests.

Consideration : RMB305,756,410, which shall be payable by the purchaser to an account so designated by the vendor in cash within two months of completion of the necessary registration and filing procedures with the Market Supervision and Administration Bureau (市場監督管理局) in connection with the Acquisition ("**PRC Registration Procedures**"), which PRC Registration Procedures shall occur following the satisfaction (or waiver) of the Conditions Precedent.

The Consideration shall be funded by internal resources and/or borrowings of the Group.

Internal resources of the Group that may be utilised to fund the Consideration include without limitation the following:

(i) the cash received and expected to be received by the Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of the Consideration in a total amount of approximately RMB1,895.0 million as at 31 December 2022; and

(ii) as the Consideration shall only be payable by the Group after the Completion (i.e. upon which the Target Group would form part of the Group), the following financial resources of the Target Group may be utilised to fund the Consideration:

(a) the cash and cash equivalents of the Target Group of approximately RMB90.3 million as at 31 December 2022; and

(b) the cash received or to be received by the Target Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of the Consideration in a total amount of approximately RMB1,537.5 million as at 31 December 2022.

As for the borrowing available for the Group, the Group will continue to explore the possibility of obtaining new credit facility for its operation from time to time, and it does not preclude the possibility of obtaining external financing for the purpose of the Acquisition. In such connection, the Group will consider factors such as the terms and conditions of the loan, finance costs, repayment schedule, security and other commercial terms. As at the Latest Practicable Date, no binding agreement had been reached by the Group with respect to any new credit facility.

As disclosed in the Letter from the Board, the Consideration was arrived at by the Parties with reference to and taking into account, among others, (i) the historical financial performance and financial position of the Target Group; (ii) the track record and development prospects of the Target Group; and (iii) the business valuation report in respect of the Sale Interests prepared by an independent valuer, pursuant to which the fair value of the Sale Interests as at 31 March 2023 was approximately RMB523.4 million.

Conditions Precedent : Completion is conditional upon, among other things:

(i) the Independent Shareholders having approved (a) the Acquisition; and (b) the signing, delivery and performance of the Equity Transfer Agreement and other related transaction documents; and

(ii) the Stock Exchange and, where applicable, other relevant regulatory institutions having confirmed that they have no further comments on the circular relating to the Acquisition, and no additional conditions precedent to the implementation and completion of the Acquisition having been imposed by them.

Completion	:	Upon the satisfaction (or waiver) of the Conditions Precedent, ZIHG shall procure and assist the Target to complete the PRC Registration Procedures. Upon Completion, Beijing Ecological will assume the rights and obligations as the equity owner of the Sales Interests, and the financial results of the Target Group will be consolidated to the consolidated financial statements of the Group.
Further undertakings by the vendor	:	ZIHG shall indemnify Beijing Ecological, the Company, and/or the Target Group in respect of, among others, any liabilities, breaches, acts or infringements of the Target Group which occurred on or before Completion, and any penalties inflicted on the Target Group as a result of non-compliance issues that occurred on or before Completion. ZIHG shall procure its subsidiary, Zhongqing Construction Limited Liability Company* (中慶建設有限責任公司), to fully settle their amounts due to Changchun Chengwei in the amount of RMB627,640,389, which is interest-free, unsecured and repayable on demand, within one month after completion of the PRC Registration Procedures, and provide to Beijing Ecological the relevant proof of settlement. Any delay in payment will result in an accrual of additional outstanding amount of 0.03% per day of the said amounts due to Changchun Chengwei. ZIHG and its associates shall not, directly or indirectly, engage in business activity that competes with the Target Group's existing business, or any other business that it may potentially compete with, except where (i) ZIHG has already recommended relevant business opportunity to the Group but was rejected by the Group; or (ii) the Group has notified ZIHG of its intention not to engage in the relevant business opportunity or agreed to undertake the relevant business opportunity jointly with ZIHG.

6. Valuation of the Target Group and evaluation of the Consideration

As stated in the Letter from the Board, the Consideration was arrived at by the Parties with reference to and taking into account, among others, (i) the historical financial performance and financial position of the Target Group; (ii) the track record and development prospects of the Target Group; and (iii) the business valuation report in respect of the Sale Interests prepared by an independent valuer, pursuant to which the fair value of the Sale Interests as at 31 March 2023 was approximately RMB523.4 million.

As mentioned above, the Consideration was determined after taking into account, without limitation, the preliminary valuation of the Sale Interests of approximately RMB523.4 million (the "**Valuation**") as at 31 March 2023 (the "**Valuation Date**"), according to the valuation report prepared by an independent valuer, AVISTA Valuation Advisory Limited, appointed by the Company (the "**Valuer**") using the adjusted net assets approach in valuing the Target Group by adjusting the fair value of 90.65% equity interest in Changchun Chengwei, which is calculated by market approach (the "**Valuation Report**").

We have conducted an interview with the Valuer to enquire to their qualification and experience in valuing similar construction companies in the PRC and their independence. From the mandate letter and other relevant information provided by the Valuer, we noted that the Valuer is a qualified asset appraisal firm to perform valuation works in the PRC, and the responsible person of the Valuer is a member and registered member of Royal Institute of Chartered Surveyors who possesses sufficient qualifications and experience in valuing similar assets in the PRC. We have also enquired with the Valuer as to their independence from the Group, ZIHG, the Target Group, and were given to understand that the Valuer is independent of the Group, ZIHG and the Target Group. The Valuer confirmed that they were not aware of any relationship or interest between themselves and the Group, ZIHG and the Target Group or any other parties that would reasonably be considered to affect their independence to act as the independent valuer for the Company. The Valuer also confirmed that apart from normal professional fees paid or payable to them in connection with their appointment as the Valuer, no arrangements exist whereby they will receive any fees or benefits from the Group, ZIHG and the Target Group. We have also reviewed the terms of engagement of the Valuer, in particular to their scope of work. We noted that their scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to Rule 13.80 of the Listing Rule in relation to the Valuer and its work as regards the Valuation. Based on the above, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate.

As stated in the Valuation Report, the Valuation is conducted in compliance with all requirements contained in the International Valuation Standards published by the International Valuation Standards Council.

(i) Analysis of the valuation methodology and approach

We have reviewed and discussed with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the Valuation. Considering that the Target is the equity investment holding company of Changchun Chengwei, the Valuer adopted the adjusted net assets method to estimate the fair value of the Target as of the Valuation Date. Regarding to the valuation of the fair value of equity interest in Changchun Chengwei, which is the long-term investment owned by the Target, the Valuer has considered three generally accepted valuation methodologies, namely the market approach, the income approach and the cost approach. Among these valuation methodologies, we noted that the Valuer had selected the market approach after taking into account the following: (a) the income approach requires significant level of unobservable and subjective assumptions and judgements to be made to arrive at, among others, detailed operational information and long-term financial projections, to which the valuation is highly dependent on the financial projection of the Changchun Chengwei prepared by the management of the Company; (b) the cost approach assumed the assets and liabilities of Changchun Chengwei are separable and can be sold separately which is more appropriate for industries with highly liquid assets such as property development companies and financial institutions. In addition, the cost approach does not directly incorporate information about the economic benefits contributed by Changchun Chengwei, and the earning potential of Changchun Chengwei cannot be captured in such a valuation given that Changchun Chengwei is profit making; and (c) the market approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public information in similar nature and business to that of Changchun Chengwei, their market values are good indicators of the industry of Changchun Chengwei.

In view of the nature of the business operations of Changchun Chengwei which is expected to sustain its business operations in the foreseeable future and the availability of market information of publicly traded comparable companies in the similar industry of Changchun Chengwei, we concur with the Valuer that the market approach is the most appropriate approach in assessing the valuation of Changchun Chengwei.

Under market approach, the Valuer has adopted enterprise value ("**EV**") to earnings before interest, tax, depreciation and amortisation ("**EBITDA**") ("**EV/EBITDA(s)**") to determine the value of the Target. For the purpose of independent assessment of the fairness and reasonableness of the Valuation, we have considered the four most commonly used benchmarks in valuing a company, namely price-to-earnings ("**P/E(s)**"), price-to-book ("**P/B(s)**"), price-to-sale ("**P/S(s)**") and EV/EBITDA multiples. P/E is usually adopted for judging valuations for companies which are profit-making. On the other hand, P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies and banks whereas P/S is approximate for valuing companies which have volatile earnings or loss but with relatively stable revenue such as retailers offering general merchandise. EV/EBITDA is appropriate for valuing companies in the same industry with various capital structures.

Taking into account that (a) P/B is considered not appropriate for the Valuation as the business nature of Changchun Chengwei is not asset intensive and the intangible company-specific competencies and advantages are not captured in P/B; (b) P/S is considered not appropriate for the Valuation as it does not reflect the earning potential of Changchun Chengwei but only focus on the sales amount which can be easily distorted if the cost structure is not being considered; (c) P/E is not appropriate as it does not eliminate the differences in capital structure, financial leverage and related risk features across the companies; (d) Changchun Chengwei and the relevant comparable companies which are engaged in the same infrastructure construction sector may have different capital structures with diverse gearing ratios, different tax systems, different costs of debt and different accounting policies on the depreciation and amortisation of the property, plant and equipment, which will distort the comparability of P/E. On the other hand, EV/EBITDA screens out the impact of finance costs, depreciation and amortisation and other non-operating items and focuses on the operating performance of the core businesses of the relevant companies; and (e) EV/EBITDA bears the advantages of P/E and P/B by taking into account the earning potential of Changchun Chengwei in the form of operating profit and both equity and debt values of Changchun Chengwei as embedded in the enterprise value, we concur with the Valuer that EV/EBITDA is the most appropriate multiple to value Changchun Chengwei as compared with other valuation multiples.

(ii) Analysis of the comparable companies

The Target Group, especially its principal operating subsidiary Changchun Chengwei, is principally engaged in the provision of environmental hygiene services and construction and maintenance services for public work projects. As set out in the Valuation Report, the Valuer has identified 12 comparable companies (the "**Comparable Companies**") with reference to data as extracted from publicly available information including S&P Capital IQ. In selecting the appropriate comparable companies, the Valuer has adopted the following selection criteria:

(a) the primary industry of the company is being the industry of Construction and Engineering under Global Industry Classification Standard, as extracted from S&P Capital IQ;

(b) the principal business of the company is engaged in construction and maintenance of urban roads and bridges in the PRC, with at least approximately 80% of its total revenue generated from the related business segment in their respective latest financial year;

(c) the company is mainly operated in the PRC and publicly listed in stock exchanges in Hong Kong or the PRC; and

(d) sufficient financial information of the company is available to the public.

We consider that the Valuer's selection criteria is appropriate and sufficient for the Valuation as (a) it enables the Valuer to identify companies with similar business (i.e. construction and maintenance of urban roads and bridges in the PRC) in the same geographical region (i.e. the PRC) as Changchun Chengwei, with sufficient data publicly available for it to conduct the Valuation; and (b) it has covered the prevailing market conditions and sentiments in Hong Kong and the PRC. Based on the above criteria, we have, based on our search on Bloomberg and the websites of the Stock Exchange, identified 12 comparable companies which are the same as those identified by the Valuer as set out in the Valuation Report. We consider that no other suitable comparable company is omitted as our independent research results are identical to those identified by the Valuer. Based on our independent research on the Comparable Companies, we are of the view that all of the Comparable Companies fit the selection criteria and are fair and representative. As such, we are of the view that the list of the Comparable Companies analysed by the Valuer for the purpose of determining the valuation of Changchun Chengwei are representative and exhaustive.

The following table sets out the details of the Comparable Companies:

Company name (stock code)	**Principal activities (Percentage of total revenue derived from infrastructure construction business in the latest financial year)**	**Principal place of operation**	**EV/EBITDA as at 31 March 2023** *(times)*
Anhui Gourgen Traffic Construction Co., Ltd. (603815.CH)	Principally engaged in the highway and municipal infrastructure construction. It undertakes road construction, bridge engineering, tunnel engineering, municipal engineering, and maintenance engineering project works. (80%)	The PRC	14.9
Chengdu Road & Bridge Engineering Co., Ltd (002628.CH)	Principally engaged in the infrastructure construction business including roads, bridges, tunnels and municipal construction projects. (97%)	The PRC	N/A
China Communications Construction Company Limited (1800.HK)	Principally engaged in the infrastructure construction, infrastructure design and dredging businesses. (84%)	The PRC	14.5

Company name (stock code)	Principal activities (Percentage of total revenue derived from infrastructure construction business in the latest financial year)	Principal place of operation	EV/EBITDA as at 31 March 2023 *(times)*
China Railway Group Limited (390.HK)	Principally engaged in the infrastructure construction, survey and consulting services, engineering equipment and component manufacturing, property development and other businesses. (82%)	The PRC	8.1
Longjian Road & Bridge Co., Ltd (600853.CH)	Principally engaged in the infrastructure construction of roads and bridges. (96%)	The PRC	29.0
Shandong Hi-Speed Road & Bridge Group Co., Ltd. (000498.CH)	Principally engaged in the infrastructure construction business including highways, bridges, tunnels, municipal works engineering, traffic engineering, ports, waterways and other infrastructures. (96%)	The PRC	7.0
Shanghai Pudong Construction Co., Ltd. (600284.CH)	Principally engaged in the infrastructure construction business including roads, highways, bridges and various foundation projects. (98%)	The PRC	0.6
Shanghai Tunnel Engineering Co., Ltd. (600820.CH)	Principally engaged in the consulting, planning, design, investment, construction, operation, maintenance, and upgradation of urban infrastructure, including tunnels, roads and bridges, rail transit, water affairs, energy, construction and real estate, equipment, green materials, and underground space development projects. (86%)	The PRC	9.0

Company name (stock code)	Principal activities (Percentage of total revenue derived from infrastructure construction business in the latest financial year)	Principal place of operation	EV/EBITDA as at 31 March 2023 *(times)*
Sichuan Road & Bridge Group Co., Ltd. (600039.CH)	Principally engaged in the design, investment, construction, and operation of civil engineering infrastructures, including highways, bridges, tunnels, railway projects, municipal, ports and other projects. (84%)	The PRC	9.5
Xinjiang Communications Construction Group Co., Ltd. (002941.CH)	Principally engaged in the design, construction, and operation of highways, bridges, tunnels, municipals, and other transportation infrastructures. (93%)	The PRC	24.0
Zhejiang Communications Technology Co., Ltd. (002061.CH)	Principally engaged in the investment, design, construction, maintenance, and engineering project consulting and management of roads, bridges, tunnels, rail transit, port terminals, underground engineering, and other transportation infrastructure services. (91%)	The PRC	5.4
Zhengping Road & Bridge Construction Co., Ltd. (603843.CH)	Principally engaged in the investment, construction, manufacture, operation and maintenance of infrastructure sector, with a focus on the development of transportation construction, water conservancy construction, urban, cultural, and electric power. (97%)	The PRC	17.1
		Max	**29.0**
		Min	**0.6**
		Average	**12.6**
		Median	**9.5**

Source: Bloomberg and the annual reports of the respective Comparable Companies in the latest financial year as at 31 March 2023

As shown in the table above, the EV/EBITDA of the Comparable Companies ranges from approximately 0.6 time to 29.0 times with an average and median of approximately 12.6 times and 9.5 times, respectively. We have reviewed the calculation of the EV/EBITDA of the 12 Comparable Companies to verify the median EV/EBITDA adopted by the Valuer in the Valuation. Based on our discussion with the Valuer, we understood that the median EV/EBITDA is considered as a better representation of the middle point of a dataset than an average since it is less influenced by biases towards large and small valuers and less likely to be distorted than average for small sample size. The average EV/EBITDA of the Comparable Companies is approximately 12.6 times, which is even higher than the median EV/EBITDA of approximately 9.5 times, as the average EV/EBITDA is affected by the higher EV/EBITDAs of two Comparable Companies of approximately 29.0 and 24.0 times. For illustrative purpose, an outlier is a datapoint which is more than 1 standard deviation away from the overall average. The standard deviation of the EV/EBITDAs of the Comparable Companies has been calculated to be approximately 8.0 times. As a result, the upper boundary for identifying outliers is set at 20.6 (i.e. 12.6 + 8.0) times, while the lower boundary is set at 4.6 (i.e. 12.6 – 8.0) times. Therefore, three EV/EBITDAs of approximately 0.6 time, 24.0 times and 29.0 times are regarded as outliers. If excluding these three outliers, the adjusted EV/EBITDA of the Comparable Companies ranges from approximately 5.4 times to 17.1 times and the adopted median EV/EBITDA of approximately 9.5 times is still within the adjusted range. As such, we concur with the Valuer's view that the adoption of median EV/EBITDA of the Comparable Companies to compute the enterprise value of the Target Group is fair and reasonable and consider it is more conservative.

(iii) Analysis of the valuation adjustments

After the Valuer computed the median EV/EBITDA of the Comparable Companies, the Valuer adjusted such ratio by certain factors such as lack of marketability discount ("**LOMD**") and control premium, to arrive at the adjusted EV/EBITDA of the comparable companies.

We understood from the Valuer that a discount of 20.5% (i.e. the LOMD) has been applied to reflect the cost associated with locating interested and capable buyers of interest in privately held companies, as there is no established market of readily available buyers and sellers. Since Changchun Chengwei is a private company whose shares are not publicly traded in the open market, we consider that it is fair and reasonable to apply a discount for lack of marketability in the course of valuation to discount for lack of ability of converting shares of Changchun Chengwei into immediate cash. We noted that the Valuer determined the LOMD with reference to the 2022 edition of the Stout Restricted Stock Study Companion Guide (the "**Stout Study**") published by Stout Risius Ross, LLC which we consider a reliable reference given it is global investment bank and advisory firm specialising in corporate finance, valuation, financial disputes and investigations with offices located in Asia, Europe and North America. We have reviewed the Stout Study provided by the Valuer and noted that the LOMD of 20.5% is an average of discounts for lack of marketability for 772 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through March 2022 which is considered to be fair and reasonable for the LOMD analysis of the Valuation.

In respect of the control premium, we noted that the Valuer, with reference to the Control Premium Study (4th Quarter 2022) publish by FactSet Mergerstat, LLC, applied a premium of 28.0% to reflect the price premium for controlling interest of a company. Since the Acquisition represents 87.5% of the interest of the Target Group and it is widely recognised that an investment which offers an investor control of a business is worth more than a minority stake, we consider it is fair and reasonable to apply a control premium in the Valuation. We noted that FactSet Mergerstat, LLC provides merger and acquisition information for the local, regional, national, and international financial news media. As advised by the Valuer, the Control Premium Study published by FactSet Mergerstat, LLC is a widely accepted source among valuers for analysis of the control premium. We have reviewed the Control Premium Study provided by the Valuer and noted that the applied control premium of 28.0% is the median of equity control premium of a list of 519 cases of acquisitions of majority control and/or privatisations globally for the year ended 31 December 2022 which is considered to be fair and reasonable for the control premium analysis of the Valuation.

(iv) Analysis of the valuation computation

In arriving at the estimated 100% equity value in Changchun Chengwei, the Valuer firstly derived the estimated 100% enterprise value of Changchun Chengwei by multiplying the EBITDA of Changchun Chengwei for FY2022 by the adjusted median EV/EBITDA of the Comparable Companies, and then adjusted for cash and debt positions, minority interest and non-operating assets of Changchun Chengwei. In arriving at the Valuation of approximately RMB523.4 million, the Valuer has adjusted the net asset value of the Target as at 31 March 2023 by adjusting the estimated 90.65% equity value in Changchun Chengwei with its book value and then applied the shareholding of 87.50% to be acquired under the Acquisition.

Below is the summary of the calculation of the Valuation extracted from the Valuation Report:

		RMB'000
EBITDA of Changchun Chengwei for FY2022 *(Note 1)*	A	35,837
Adjusted median EV/EBITDA (times) *(Note 2)*	B	9.65
Enterprise value of Changchun Chengwei	C = A x B	**345,648**
Less: Debts as at 31 December 2022 *(Note 3)*	D	390,883
Less: Minority interests as at 31 December 2022	E	(1,007)
Add: Cash and cash equivalents and restricted bank deposits as at 31 December 2022	F	90,344
Add: Non-operating assets (net of non-operating liabilities) as at 31 December 2022 *(Note 4)*	G	604,073
100% equity value of Changchun Chengwei	H = C – D – E + F + G	**650,189**
% Shareholding of Changchun Chengwei held by the Target	I	90.65%
Fair value of 90.65% of the equity interest in Changchun Chengwei	J = H x I	**589,396**
Net asset value of the Target as at 31 March 2023 *(Note 5)*	K	344,329
Book value of 90.65% of the equity interest in Changchun Chengwei as at 31 March 2023 *(Note 6)*	L	335,594
Add: Revaluation surplus arising from the valuation of 90.65% of the equity interest in Changchun Chengwei as at 31 March 2023	M = J - L	253,802
100% equity value of the Target as at 31 March 2023	N = K + M	**598,132**
Equity interest of the Target to be acquired under the Acquisition	O	87.50%
Valuation	P = N x O	**523,366**

Notes:

1. Being profit from operations minus reversal of impairment losses on trade and other receivables plus depreciation and amortisation expenses of Changchun Chengwei, based on the audited consolidated financial information of Changchun Chengwei for FY2022.

2. Being the adopted median EV/EBITDA of the Comparable Companies as at the Valuation Date of approximately 9.5 times adjusted by LOMD of 20.5% and control premium of 28.0%.

3. Being short- and long-term bank loans and lease liabilities of Changchun Chengwei, based on the audited consolidated financial information of Changchun Chengwei as at 31 December 2022.

4. Being the sum of other receivables of RMB610.0 million, other equity investments of approximately RMB58.3 million and deferred tax assets of approximately RMB9.0 million less the sum of other payables of approximately RMB71.4 million and deferred tax liabilities of approximately RMB1.9 million of Changchun Chengwei, based on the audited consolidated financial information of Changchun Chengwei as at 31 December 2022.

5. Based on the management account of the Target for the three months ended 31 March 2023.

6. Based on the management account of the Target for the three months ended 31 March 2023.

Based on our review on the Valuation Report and our discussion with the Valuer in relation to the analysis of (i) the selection of valuation methodology and approach; (ii) the selection criteria of the Comparable Companies, (iii) the valuation adjustments applied due to LOMD and control premium; and (iv) the detailed computation of the Valuation, we consider that the methodology, bases, assumptions, parameters and computation adopted for the Valuation are appropriate and reasonable.

Although the Consideration represents a discount of approximately 41.6% to the Valuation under the Valuation Report (i.e. RMB523.4 million), taking into account (i) our independent work performed on the Valuation Report as set out above; (ii) that the Consideration is also determined as a result of the Parties' commercial negotiations with reference to (a) the combined net asset value of the Target Group of approximately RMB431.1 million as at 31 December 2022, and the total equity attributable to the Sale Interests of approximately RMB342.5 million; (b) the financial position of the Group; and (c) the potential enhancement in the Shareholder's value as a result of the Acquisition which in turn would benefit the controlling Shareholders who are at the same time also the controlling shareholders of ZIHG, the vendor; (iii) that such discount is beneficial to the Company and the Shareholders; and (iv) the reasons for and benefits of the Acquisition as discussed in the section headed "3. Reasons for and benefits of the Acquisition" above, we consider the Consideration to be fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Acquisition

Upon Completion, the Target shall become a non-wholly-owned subsidiary of the Company and the financial statements of the Target Group shall be consolidated into the consolidated financial statements of the Group. The unaudited pro forma financial information of the Group (the "**Unaudited Pro Forma Financial Information**") is set out in Appendix IV to the Circular.

(i) Earnings

As disclosed in the sections headed "1. Background information of the Group" and "2. Information of the Target Group" above, the Group recorded loss attributable to the Shareholders of approximately RMB105.3 million while the Target Group recorded net profit of approximately RMB9.3 million for FY2022. Considering the profit-making performance of the Target Group for the three years ended 31 December 2022, we concur with the Directors that the Acquisition is expected to bring positive contribution to the earnings of the Group upon Completion.

(ii) Net assets

As set out in the Unaudited Pro Forma Financial Information, assuming Completion took place on 31 December 2022, the pro forma consolidated net assets would be approximately RMB617.7 million, representing an increase of approximately 26.8%, from approximately RMB487.0 million as at 31 December 2022.

(iii) Working capital

The Consideration will be payable by the purchaser in cash within two months upon Completion.

As disclosed in the sections headed "1. Background information of the Group", the Group had net current assets of approximately RMB106.7 million and cash and cash equivalents of approximately RMB129.9 million as at 31 December 2022. As stated in the Letter from the Board, all of the Consideration is expected to be satisfied by a combination of internal resources and/or borrowings, including but not limited to (a) the cash received and expected to be received by the Group and the Target Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of the Consideration; and (b) the cash and cash equivalents of the Target Group.

As set out in the Unaudited Pro Forma Financial Information, assuming Completion took place on 31 December 2022, the pro forma consolidated net current assets would be approximately RMB216.4 million, representing an increase of approximately 102.9%, from approximately RMB106.7 million as at 31 December 2022.

The Directors confirm that, after due and careful enquiry and taking into account (a) the effect of the transactions contemplated under the Equity Transfer Agreement; (b) the Enlarged Group's available financial resources including internally generated cash flows, cash on hand and other external facilities from banks and other financial institutions; (c) the expected success renewal of financing facilities upon maturity; and (d) the financial support for at least 18 months from 31 December 2022 to be provided by ZIHG, the Enlarged Group will have sufficient working capital to meet its present requirements for at least the next twelve months from the date of the Circular.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Completion.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Acquisition is on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Equity Transfer Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Equity Transfer Agreement.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the three years ended 31 December 2022, 2021 and 2020, are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.zonbong.com).

- The Company's annual report for the year ended 31 December 2020 (page 91 to 178): https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800811.pdf

- The Company's annual report for the year ended 31 December 2021 (page 115 to 200): https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0527/2022052700394.pdf

- The Company's annual report for the year ended 31 December 2022 (page 103 to 196): https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042800423.pdf

2. FINANCIAL INFORMATION SUMMARY OF THE GROUP

The following is a summary of the Group's financial results for the years ended 31 December 2020, 2021 and 2022, as extracted from the Company's relevant annual reports:

	For the year ended 31 December 2022	For the year ended 31 December 2021	For the year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Un-restated)*
Revenue	653,441	936,595	1,001,427
(Loss)/profit before taxation	(124,560)	37,006	99,352
Income tax	18,556	(3,596)	(30,411)
(Loss)/profit attributable to the equity shareholders of the Company	(105,286)	33,558	68,505
(Loss)/profit attributable to the non-controlling interests	(718)	(148)	436

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital to meet its present requirements for at least the next twelve months from the date of this circular, taking into account (i) the effect of the transactions contemplated under the Equity Transfer Agreement; (ii) the Enlarged Group's available financial resources including internally generated cash flows, cash on hand and other external facilities from banks and other financial institutions; (iii) the expected success renewal of financing facilities upon maturity; and (iv) the financial support for at least 18 months from 31 December 2022 to be provided by ZIHG.

4. INDEBTEDNESS STATEMENT

As at 30 April 2023, being the most recent practicable date for the purpose of the indebtedness statement, the Enlarged Group indebtedness details are as follows:

Bank and other loans and lease liabilities

	RMB'000
Bank loans:	
Guaranteed by related parties	19,000
Guaranteed by third parties	364,751
Guaranteed by related parties and third parties	303,405
Guaranteed by a third party and secured by trade and bills receivables and contract assets of the Enlarge Group	29,890
Guaranteed by a third party and secured by bank deposits of the Enlarge Group	49,803
Secured by trade and bills receivables and contract assets of the Enlarged Group	25,000
Guaranteed by related parties and secured by trade and bills receivables and contract assets of the Enlarge Group	30,000
Unguaranteed and unsecured	46,100
	867,949
Other loans:	
Unguaranteed and unsecured from related parties	255,958
Unguaranteed and unsecured from third parties	16,945
	272,903
	1,140,852
Amounts due to related parties	95,077
Amounts due to third parties	34,446
Lease liabilities	2,578
	132,101

Contingent liabilities

The Enlarged Group has issued guarantees or counter-guarantees in respect of bank loans of RMB535.0 million as at 30 April 2023 to Ulanhot Tianjiao Tianjun Tourism Development Limited* (烏蘭浩特市天驕天駿旅遊開發有限公司), a joint venture of the Enlarged Group, Changchun Xianbang Municipal and Landscape Limited* (長春市現邦市政園林有限責任公司), an associate of the Enlarged Group, ZIHG and its subsidiaries, joint ventures and associates and third parties.

Unamortised value of financial guarantees issued amounted to approximately of RMB30.6 million as at 30 April 2023, which was provided for the guarantees provided by the Enlarged Group for the bank loans of RMB514.0 million borrowed by an associate of the Enlarged Group and a joint venture of the Enlarged Group, for the purpose of supporting the financing for the two projects, and initially recognised with reference to fees charged in an arm's length transaction for similar services and amortised in profit or loss over the term of the guarantees subsequent to initial recognition. Such financial guarantees issued by the Enlarged Group are expected to be released upon the maturity and full repayment of the bank loans borrowed by the associate and the joint venture in 2029 and 2033, respectively.

5. MATERIAL ADVERSE CHANGE

The Directors confirm that, save as disclosed in the annual report for the year ended 31 December 2022, there was no material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated accounts of the Group were made up, and up to the Latest Practicable Date.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the beginning of 2023, infrastructure investment showed signs of high prosperity, with a year-on-year growth of 9.0%, representing a growth rate of 3.5 percentage points higher than that of all fixed assets investment. This was mainly attributable to (i) strong policy support for the expansion of infrastructure investment, benefitting from the continuous and steady national policy on expanding government infrastructure investment; (ii) continued effort and improvement in the effectiveness of the active fiscal policy, marked by early issuance of special-purpose bonds by local government, advance planning of projects and advancement of investment, all of which provided strong funding support for infrastructure investment; (iii) significant adjustments made to the national pandemic prevention and control policy, which resulted in significant increase in market activity, gradual improvement in social investment and consumption, a more stabilised economy and economic recovery, and higher growth expectations, thereby creating the optimal condition for increasing infrastructure investment; (iv) many shortcomings in terms of economic development and improving people's livelihood in our nation, faced by issues such as inadequate infrastructure, poor quality and incomplete functions that require further improvement, which also provided the necessary space for increasing infrastructure investment.

During 2022, although the Group recorded a loss due to the pandemic, the Group has maintained sufficient stock contracts, a complete construction capability, and an adequate amount of reserve projects. The Group has been well prepared to recover from unfavourable conditions by further deepening its nationwide footprint and continuously improving its operation and management standard. The Directors are confident that the Group will bottom out in 2023 and achieve further success.

The following is the text of a report set out on pages II - 1 to II - 57, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

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.

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.

KPMG
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 RMB'000 (Note 23(a))	Other reserve RMB'000 (Note 23(c))	Statutory reserve RMB'000 (Note 23(d))	Fair value reserve RMB'000 (Note 23(e))	Special reserve RMB'000 (Note 23(f))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 *RMB'000* *(Note 23(a))*	Other reserve *RMB'000* *(Note 23(c))*	Statutory reserve *RMB'000* *(Note 23(d))*	Fair value reserve *RMB'000* *(Note 23(e))*	Special reserve *RMB'000* *(Note 23(f))*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
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)

		Year ended 31 December		
		2020	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*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	Amounts due to third parties	Amounts due to related parties	Lease liabilities	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 20)	*(Note 19)*	*(Note 19)*	*(Note 21)*	
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.

FINANCIAL PERFORMANCE OF THE TARGET GROUP

The following sets out the discussion and analysis of the results of the Target Group (comprising the Target and its subsidiaries) for the three years ended 31 December 2020, 2021 and 2022.

Business Review

The Target is a company incorporated under the laws of the PRC with limited liability. The main asset of the Target is the 90.65% equity interests of Changchun Chengwei, which in turn is the main business operating vehicle of the Target Group. Changchun Chengwei is a company incorporated under the laws of the PRC with limited liability, and its principal business is general contracting of municipal public works, bridges, and tunnels, maintenance and operation of municipal facilities, and urban and rural sanitation and cleaning services. Changchun Chengwei was only acquired by the Target and thereby became a subsidiary of the Target in February 2023 (the "**February Acquisition**").

Financial Review

Operating revenue

The revenue of the Target Group represents income from construction services, maintenance services and environmental hygiene services. The revenue for the years ended 31 December 2020, 2021 and 2022 were approximately RMB538.17 million, RMB665.60 million and RMB463.00 million, respectively. Such changes were mainly due to companies benefiting from increased investment in municipal infrastructure by local governments in 2021, and lower revenue in 2022 due to the impact of the pandemic within the region.

Gross profit

For the years ended 31 December 2020, 2021 and 2022, the gross profit of the Target Group was approximately RMB98.02 million, RMB75.36 million and RMB59.75 million, respectively. Such changes were mainly due to increase in labour costs, certain materials and transportation costs, and the undertaking of projects with lower profit margin for expansion into new regions.

Other net income

The other net incomes of the Target Group are mainly interest income on deposits and government grants. For the years ended 31 December 2020, 2021 and 2022, other net income amounted to approximately RMB3.32 million, RMB2.45 million and RMB1.48 million, respectively.

Financial Position

As at 31 December 2020

As at 31 December 2020, the non-current and current assets of the Target Group were approximately RMB51.92 million and RMB1,245.46 million, respectively.

As at 31 December 2020, the current liabilities of the Target Group were approximately RMB791.53 million.

As at 31 December 2020, the net current assets of the Target Group were approximately RMB453.94 million.

As at 31 December 2021

As at 31 December 2021, the non-current assets of the Target Group were approximately RMB82.40 million and the current assets of the Target Group were approximately RMB1,365.39 million. The increase was mainly due to increase in other equity investments and prepayments, deposits and other receivables.

As at 31 December 2021, the current liabilities of the Target Group were approximately RMB1,008.79 million. The increase was mainly due to increase in the transferral of trade and bills payables and long-term loans from the previous year to loans that would mature within one year.

As at 31 December 2021, the net current assets of the Target Group were approximately RMB356.60 million. The decrease was mainly due to long-term loans from the previous year were transferred to loans that mature within one year.

As at 31 December 2022

As at 31 December 2022, the non-current and current assets of the Target Group were approximately RMB101.80 million and RMB1,633.99 million, respectively. The increase was mainly due to increase in property, plant and equipment, other equity investments, prepayments, deposits and other receivables and cash and cash equivalents.

As at 31 December 2022, the current liabilities of the Target Group were approximately RMB1,223.91 million. The increase was mainly due to increase in contract liabilities.

As at 31 December 2022, the net current assets of the Target Group were approximately RMB410.07 million. The increase was mainly due to the obtaining of certain new long-term loan contracts after the loans expired during the year.

Working Capital

The Target Group recorded a net operating cash inflow of approximately RMB60.60 million for the year ended 31 December 2020, a net operating cash inflow of approximately RMB106.71 million for the year ended 31 December 2021, and a net operating cash inflow of approximately RMB175.35 million for the year ended 31 December 2022. The increase was mainly due to facilitation of contract settlement and improvement in settlement of receivables.

Subsequent Material Changes

On 10 March 2023, the registered capital of the Target was increased from RMB20,000,000 to RMB340,700,000, and the new registered capital was subscribed and paid by ZIHG, Mr. Sun Yangang and Mr. Li Peng through monetary payments. Upon completion of the capital increase, ZIHG, Mr. Sun Yangang and Mr. Li Peng have contributed RMB305,756,410, RMB17,471,795 and RMB17,471,795 to the Target respectively, holding approximately 89.744%, 5.128% and 5.128% equity interests of the Target, respectively.

On 4 April 2023, Kai Ming Investment Holding Limited subscribed an additional registered capital of RMB8,735,897 of the Target. Upon the completion of the capital increase, ZIHG, Mr. Li Peng, Mr. Sun Yangang and Kai Ming Investment Holding Limited have contributed RMB305,756,410, RMB17,471,795, RMB17,471,795 and RMB8,735,897 to the Target Company respectively, holding approximately 87.50%, 5.00%, 5.00% and 2.50% equity interests of the Target, respectively.

Save as the abovementioned capital increases and the February Acquisition, the Directors confirmed that there has not been any material change in the financial or trading position or prospects of the Target Group from 31 December 2022 up to and including the Latest Practicable Date.

Litigation

So far as the Directors were aware, as at the Latest Practicable Date, the Target Group was not involved in any material litigation or arbitration, and no material litigation or claim of importance were pending or threatened against the Target Group.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1 Introduction

The following unaudited pro forma financial information of the Enlarged Group, being ZONQING Environmental Limited (the "Company") and its subsidiaries (collectively the "Group"), together with Jilin Modern Zhongqing City Construction Co. Ltd. (the "Target Company") and its subsidiaries (collectively the "Target Group"), comprising the unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as at 31 December 2022, has been prepared by the directors of the Company in accordance with paragraphs 4.29 and 14.67(6)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of illustrating the impact of the proposed acquisition of 87.5% equity interests in the Target Company (the "Proposed Acquisition") by Beijing Zhongqing Ecological Environment Co., Ltd., an indirect wholly owned subsidiary of the Company, on the Group's assets and liabilities as at 31 December 2022, as if the Proposed Acquisition had taken place at 31 December 2022.

The unaudited pro forma financial information has been prepared using accounting policies materially consistent with that of the Group and based on the consolidated statement of financial position of the Group at 31 December 2022 as extracted from the Group's published annual report for the year ended 31 December 2022 after making certain pro forma adjustments as described below. A narrative description of the pro forma adjustments of the Proposed Acquisition that are (i) directly attributable to the Proposed Acquisition concerned and not relating to future events or decisions; and (ii) factually supportable, is summarised in the notes below.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group had the Proposed Acquisition been completed as at 31 December 2022 or any future date.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2022, the historical financial information of the Target Group at 31 December 2022 as set out in the "Accountants' Report of the Target Group" in Appendix II to this circular, and other financial information included elsewhere in this circular. The unaudited pro forma financial information of the Enlarged Group does not take into account of any trading or other transactions subsequent to 31 December 2022.

2. Unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as at 31 December 2022

(Expressed in RMB)

	The Group as at 31 December 2022	The Target Group as at 31 December 2022	Other Pro forma Adjustments				The Enlarged Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note3(a)	*Note3(b)*	*Note3(c)*	*Note3(d)*	*Note3(e)*	*Note3(f)*	
Non-current assets							
Property, plant and equipment	8,400	29,175	–	–	–	–	37,575
Intangible assets	2,440	–	–	–	–	–	2,440
Right-of-use assets	3,287	5,287	–	–	–	–	8,574
Interest in associates	77,512	–	–	–	–	–	77,512
Interest in a joint venture	195,660	–	–	–	–	–	195,660
Other equity investments	17,285	58,337	–	–	–	–	75,622
Deferred tax assets	68,418	9,004	–	–	–	–	77,422
Non-current portion of trade receivables	18,988	–	–	–	–	–	18,988
	391,990	101,803	–	–	–	–	493,793
Current assets							
Inventories and other contract costs	30,103	6,090	–	–	–	–	36,193
Contract assets	710,406	345,303	–	–	–	–	1,055,709
Trade and bills receivables	1,088,353	472,637	–	–	–	(534)	1,560,456
Prepayments, deposits and other receivables	77,349	719,608	–	(579,456)	–	(2,580)	214,921
Restricted bank deposits	22,213	10	–	–	–	–	22,223
Cash and cash equivalents	129,899	90,334	8,736	273,700	(3,300)	–	499,369
	2,058,323	1,633,982	8,736	(305,756)	(3,300)	(3,114)	3,388,871
Current liabilities							
Trade and bills payables	785,538	452,474	–	–	–	(534)	1,237,478
Accrued expenses and other payables	263,725	87,145	–	–	–	(2,580)	348,290
Contract liabilities	230,471	352,565	–	–	–	–	583,036
Bank and other loans	663,200	311,581	–	–	–	–	974,781
Lease liabilities	2,240	370	–	–	–	–	2,610
Income tax payable	6,494	19,776	–	–	–	–	26,270
	1,951,668	1,223,911	–	–	–	(3,114)	3,172,465
Net current assets	106,655	410,071	8,736	(305,756)	(3,300)	–	216,406
Total assets less current liabilities	498,645	511,874	8,736	(305,756)	(3,300)	–	710,199

	The Group as at 31 December 2022	The Target Group as at 31 December 2022	Other Pro forma Adjustments				The Enlarged Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note3(a)	*Note3(b)*	*Note3(c)*	*Note3(d)*	*Note3(e)*	*Note3(f)*	
Non-current liabilities							
Bank and other loans	–	78,932	–	–	–	–	78,932
Lease Liabilities	815	–	–	–	–	–	815
Deferred tax liabilities	10,880	1,882	–	–	–	–	12,762
	11,695	80,814	–	–	–	–	92,509
NET ASSETS	486,950	431,060	8,736	(305,756)	(3,300)	–	617,690

3. Notes to the Unaudited Pro Forma Financial Information

(a) The consolidated statement of assets and liabilities of the Group as at 31 December 2022 was extracted from the Group's consolidated financial statements for the year ended 31 December 2022 as set out in the published annual report for the year ended 31 December 2022.

(b) The combined statement of assets and liabilities of the Target Group as at 31 December 2022 was extracted from the Accountants' Report of the Target Group as set out in Appendix II to this circular.

(c) In March 2023, The Target Company increased its registered capital from RMB20,000,000 to RMB340,700,000, such registered capital of RMB340,700,000 was fully paid in March 2023. The paid-in capital of RMB340,700,000 was recorded as capital injection to the Target Group. The Target Company acquired 90.65% equity interests of Changchun Chengwei at a cash consideration of RMB340,700,000 from ZIHG. The consideration of RMB340,700,000 in connection with the acquisition of Changchun Chengwei was recorded within equity of the Target Group as deemed distribution arising from the Reorganisation. In 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 and paid 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 Zhongqing Investment Holding Group Limited Liability Company ("ZIHG"), 5.00% by Mr. Sun Yangang, 5.00% by Mr. Li Peng and 2.50% by Kai Ming Investment. The increased paid-in capital was recorded as capital injection to the Target Group.

(d) According to the Equity Transfer Agreement, ZIHG shall procure its subsidiary to fully settle its amounts due to the Target Group within one month after completion of the PRC Registration Procedures. The relevant amounts due to the Target Group as at 31 December 2022 was RMB579,456,000. In addition, the total cash consideration for the Proposed Acquisition is determined to be RMB305,756,000.

(e) The directors of the Company estimated that costs related to the Proposed Acquisition (including fee to legal advisers, financial adviser, reporting accountants, valuer, printer and other professional parties) are approximately RMB3.3 million. This adjustment does not have continuing effect on the Enlarged Group.

(f) This adjustment represents the elimination of inter-company balances between the Group and the Target Group.

(g) The Company and the Target Group are ultimately controlled by Mr. Sun Juqing and Ms. Zhao Hongyu (the "Controlling Parties") before and after the Proposed Acquisition and the control is not transitory. There has been a continuation of risks and benefits to the Controlling Parties that exists prior to the Proposed Acquisition. Consequently, the Proposed Acquisition is considered as a business combination under common control. The directors of the Company account for the Proposed Acquisition using merger accounting. As a result, the assets and liabilities of the Target Group will be recorded using the existing book values from the perspective of the Controlling Parties (which are the same as those amounts shown in the Target Group's historical financial information) and will not be revaluated to their respective fair values. Furthermore, no goodwill will arise from the Proposed Acquisition.

(h) No adjustments have been made to the pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2022.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF ZONQING ENVIRONMENTAL LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of ZONQING Environmental limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma combined statement of assets and liabilities as at 31 December 2022 and related notes as set out in Part A of Appendix IV to the circular dated 9 June 2023 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 87.5% equity interests in Jilin Modern Zhongqing City Construction Co. Ltd. by the Group (the "Proposed Acquisition") on the Group's assets and liabilities as at 31 December 2022 as if the Proposed Acquisition had taken place at 31 December 2022. As part of this process, information about the Group's assets and liabilities as at 31 December 2022 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2022 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma 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:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
9 June 2023

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and the chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which will be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

(i) Interests in the Shares

Name of Director	Capacity	Nature of interests	Number of Shares held	Approximate percentage of shareholding
Mr. Sun[(1)]	Interest of spouse/ Interest in a controlled corporation	Long position	181,202,166	65.89%
Mr. Liu[(2)]	Interest in a controlled corporation	Long position	14,054,104	5.11%

Notes:

(1) As at the Latest Practicable Date, these Shares were held by Zonqing International. As Mr. Sun and Ms. Zhao Hongyu (the spouse of Mr. Sun) are the beneficial owners of 27.00% and 35.00% shareholding in Zonqing International, respectively, Mr. Sun is therefore deemed to be interested in the Shares held by Zonqing International for the purposes of the SFO.

(2) As at the Latest Practicable Date, these Shares were held by Zonbong International. As Mr. Liu is the beneficial owner of 60.11% shareholding in Zonbong International, he therefore is deemed to be interested in the Shares held by Zonbong International for the purposes of the SFO.

(ii) Interests in the ordinary shares of associated corporations of the Company

Name of Director	Name of associated corporations	Capacity	Nature of interests	Approximate percentage of shareholding
Mr. Sun[(1)(2)]	Zonqing International	Beneficial owner	Long position	62.00%
Mr. Sun	Zonbong International	Beneficial owner	Long position	22.41%
Mr. Liu	Zonqing International	Beneficial owner	Long position	5.00%
Mr. Liu[(3)]	Zonbong International	Beneficial owner	Long position	60.11%
Mr. Shao Zhanguang	Zonqing International	Beneficial owner	Long position	5.00%
Mr. Shao Zhanguang	Zonbong International	Beneficial owner	Long position	7.04%
Ms. Lyu Hongyan	Zonbong International	Beneficial owner	Long position	1.92%
Ms. Wang Yan	Zonbong International	Beneficial owner	Long position	1.02%

Note:

(1) Mr. Sun and Ms. Zhao Hongyu are the beneficial owners of 27.00% and 35.00% shareholding in Zonqing International, respectively, as at the Latest Practicable Date. As Mr. Sun and Ms. Zhao Hongyu are the spouse of each other, they are deemed to be interested in the same number of shares that the other person is interested in for the purpose of the SFO.

(2) As at the Latest Practicable Date, Mr. Sun is the sole director of Zonqing International.

(3) As at the Latest Practicable Date, Mr. Liu is the sole director of Zonbong International.

Saved as disclosed above, none of the Directors, or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

Save as disclosed above, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

3. COMPETING BUSINESS

As at the Latest Practicable Date, save as disclosed in this circular and so far as the Directors were aware, none of the Directors had interests in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

4. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

Save as disclosed in this circular and except for the Acquisition, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group.

Save as disclosed in this circular and except for the Acquisition, as at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2022, the date of which the latest published audited consolidated financial statements of the Company were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contracts with the Company or any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up).

7. EXPERT AND CONSENT

The following sets out the qualifications of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualification(s)
Rainbow Capital (HK) Limited	a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
KPMG	Certified Public Accountants Public Interest Entity Auditor Registered in accordance with the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)

Each of Rainbow Capital (HK) Limited and KPMG has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, (i) Rainbow Capital (HK) Limited had no interest, either direct or indirect, in any assets which have been, since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) Rainbow Capital (HK) Limited had no shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate any persons to subscribe for securities of any members of the Group.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular up to and including the Latest Practicable Date, no contract (not being contracts entered into in the ordinary course of business of the Group) has been entered into by the Group and is or may be material.

10. ACQUISITION

Save as disclosed in this circular, subsequent to 31 December 2022, being the date to which the latest published audited accounts of the Group have been made up, the Group has not acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the audited accounts or next published accounts of the Group.

11. MISCELLANEOUS

(a) The registered office of the Company in Cayman Island is located at 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is situated at Room 18, 9/F, Block B, HI-TECH Industrial Centre, 491–501 Castle Peak Road, Tsuen Wan, Hong Kong.

(c) The Hong Kong share registrar of the Company is Boardroom Share Registrars (HK) Limited, is situated at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong.

(d) The company secretary of the Company is Mr. Tsui Hin Chi, who is a Chartered Secretary, a Chartered Governance Professional, and an associate member of both the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(e) The translation into Chinese language of this circular is for reference only. In the event of any inconsistency, the English text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.zonbong.com) for a period of 14 days from the date of this circular:

(a) the Equity Transfer Agreement;

(b) the letter from the Board dated 9 June 2023, the text of which is set out on pages 5 to 31 of this circular;

(c) the letter of recommendation from the Independent Board Committee dated 9 June 2023, the text of which is set out on pages 32 to 33 of this circular;

(d) the letter of advice from Rainbow Capital (HK) Limited dated 9 June 2023, the text of which is set out on pages 34 to 66 of this circular;

(e) the accountants' report of the Target Group for the years ended 31 December 2020, 2021 and 2022, the text of which is set out in Appendix II to this circular;

(f) the report in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the written consent from each of Rainbow Capital (HK) Limited and KPMG; and

(h) this circular.

ZONQING Environmental Limited
中庆环境股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1855)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of ZONQING Environmental Limited (the "**Company**") will be held at 11/F, Zhongqing Building, No. 5888, Fuzhi Road, Jingyue High-tech Industrial Development Zone, Changchun City, Jilin Province, the PRC on Friday, 30 June 2023 at 10 a.m. for the following purposes:

ORDINARY RESOLUTION

To consider and, if thought fit, to pass the following resolution as ordinary resolution of the Company:

"**THAT**:

the equity transfer agreement dated 11 April 2023 entered into among Beijing Zhongqing Ecological Environment Co., Ltd.* (北京中慶生態環境有限公司) (the purchaser and an indirect non-wholly-owned subsidiary of the Company), Zhongqing Investment Holding Group Limited Liability Company* (中慶投資控股(集團)有限責任公司) (the vendor), Jilin Modern Zhongqing City Construction Co. Ltd.* (吉林現代中慶城市建設有限公司) ("**Jilin Modern Zhongqing**"), Changchun Chengjianweihu Group Co., Ltd.* (長春市城建維護集團股份有限公司) (a subsidiary of Jilin Modern), and Jilin Zhonghuan Weilan Environmental Protection Technology Co., Ltd.* (吉林省中環蔚藍環保科技有限公司) (a subsidiary of Jilin Modern) ("**Equity Transfer Agreement**") (a copy of the Equity Transfer Agreement has been produced at the meeting marked "**A**" and signed by the chairman of the meeting for identification purpose), the terms and conditions thereof and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one of the directors of the Company be and is hereby authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company (including the affixation of the common seal of the Company where required) as he/she may consider necessary, appropriate, expedient or desirable in connection with, or to give effect to, the Equity Transfer Agreement and to implement the transaction contemplated thereunder, and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the Equity Transfer Agreement and/or the transactions contemplated under or incidental to the Equity Transfer Agreement."

By order of the Board
ZONQING Environmental Limited
Sun Juqing
Chairman and non-executive Director

Hong Kong, 9 June 2023

Notes:

1. All resolutions at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

2. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint more than one proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy. Every shareholder of the Company presents in person or by proxy shall be entitled to one vote for each share held by him/her.

3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited of Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong not less than 48 hours before the time appointed for the EGM or the adjourned meeting (as the case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 27 June 2023 to Friday, 30 June 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company should ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited of Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 June 2023.

5. References to time and dates in this notice are to Hong Kong time and dates.

* *For identification purpose only*