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 to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

CR Construction Group Holdings Limited
華營建築集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1582)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF THE EGM

Financial adviser to the Company

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

TC CAPITAL

Capitalised terms used in this cover page shall have the same meaning as those defined in this circular.

A letter from the Board is set out on pages 5 to 18 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice(s) and recommendation(s) to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 47 of this circular.

A notice convening the EGM of the Company to be held at Level 26, Standard Chartered Tower of Millennium No. 388 Kwun Tong Road, Kwun Tong, Kowloon, on Friday, 28 April 2023, at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed herein. Whether or not you intend to attend and vote in person at the EGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (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 any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

31 March 2023

CONTENTS

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

"Acquisition"	the acquisition by the Company of the entire equity interest in the Target Company from the Seller pursuant to the Share Purchase Agreement
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"Business Day(s)"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
"Changshan Construction"	Changshan Construction Investment Water Company Limited* (常山建投水務有限公司), a limited liability company established in the PRC and is wholly-owned by the Target Company
"Changxing Construction"	Changxing Construction Investment Water Company Limited* (長興建投水務有限公司), a limited liability company established in the PRC and is wholly-owned by the Target Company
"Changxing Construction Investment"	Changxing Construction Investment Environmental Technology Company Limited* (長興建投環保科技有限公司), a limited liability company established in the PRC and is wholly-owned by the Target Company
"Company"	CR Construction Group Holdings Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability and registered as a non-Hong Kong company in Hong Kong, the shares of which are listed on the Stock Exchange (Stock Code: 1582)
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Share Purchase Agreement
"Completion Date"	within five Business Days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Share Purchase Agreement, or at such other date on the Parties may agree in writing
"connected person(s)"	has the same meaning ascribed to it in the Listing Rules
"connected transaction"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the consideration payable by the Company for the Acquisition described under the heading "Consideration and payment terms" in this circular
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at Level 26, Standard Chartered Tower of Millennium No. 388 Kwun Tong Road, Kwun Tong, Kowloon on Friday, 28 April 2023 at 2:30 p.m., or any adjournment thereof, for the Independent Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target Group after the Acquisition
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of the Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company, comprising three independent non-executive Directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Ho Man Yiu Ivan and Mr. Lau Pak Shing, has been established for the purpose of advising and giving recommendation(s) to the Independent Shareholders in respect of the Acquisition
"Independent Financial Adviser"	TC Capital International Limited, a corporation licensed under SFO) to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders who do not have any material interest in the transactions in respect of the Share Purchase Agreement pursuant to the Listing Rules and all applicable laws

"Latest Practicable Date"	27 March 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Long Stop Date"	30 April 2023 or such other date as may be agreed by the Parties in writing
"Non-Competition Deed"	the deed of non-competition dated 17 September 2019 given by the Company's controlling shareholders in favour of the Company regarding certain non-competition undertakings
"Parties"	the Company and the Seller, being the parties to the Share Purchase Agreement, and a "Party" shall be construed accordingly
"PRC"	the People's Republic of China, and for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Seller"	China Zhejiang Construction Group (H.K.) Limited (中國浙江建設集團(香港)有限公司), a company incorporated in Hong Kong and one of the controlling shareholders of the Company as at the Latest Practicable Date
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Purchase Agreement"	the sale and purchase agreement in relation to the Acquisition entered into between the Company and the Seller on 31 January 2023
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Company"	Zhejiang Construction Investment Environment Engineering Company Limited* (浙江建設環保工程有限公司), a limited company established in the PRC and the entire equity interest of which is legally owned by the Seller as at the Latest Practicable Date
"Target Group"	the Target Company and its subsidiaries
"Valuer"	APAC Asset Valuation and Consulting Limited, an independent professional valuer appointed by the Company for the valuation of the Target Group
"Zhejiang Construction"	Zhejiang Construction Investment Group Co., Ltd.* (浙江省建設投資集團股份有限公司), a limited liability company established in the PRC and listed on the Shenzhen Stock Exchange (SZSE Security Code: 002761)
"Zhejiang Tiantai"	Zhejiang Tiantai Construction Environment Technology Company Limited* (浙江天台浙建環保科技有限公司), a limited company established in the PRC and is owned as to approximately 70.0023% by the Target Company and as to approximately 10.0068% by Zhejiang Construction as at the Latest Practicable Date
"Zhejiang Tiantai Water"	Zhejiang Tiantai Construction Investment Water Co., Ltd* (浙江天台建投水務有限公司), a limited liability company established in the PRC and is owned as to 80.0% by the Target Company as at the Latest Practicable Date
"%"	per cent.

\# *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of such name.*

For the purpose of illustration only and unless otherwise stated, conversion of RMB into Hong Kong dollars in this circular is based on the exchange rate of HK$1 to RMB0.88. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

CR Construction Group Holdings Limited
華營建築集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1582)

Executive Directors:
Mr. Guan Manyu *(Chairman)*
Mr. Li Kar Yin *(Chief Executive Officer)*
Mr. Chan Tak Yiu

Non-executive Director:
Mr. Yang Haojiang
Ms. Ding Shaojian
Mr. Fan Jingbo

Independent non-executive Directors:
The Honourable Tse Wai Chun Paul *JP*
Mr. Lau Pak Shing
Mr. Ho Man Yiu Ivan
Mr. Lai Yuk Fai Stephen *JP*

Registered Office in Cayman Islands:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong:
Units 3-16, 32/F
Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

31 March 2023

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
IN THE TARGET COMPANY
AND
NOTICE OF THE EGM

INTRODUCTION

Reference is made to the announcement of the Company dated 31 January 2023 and the supplemental announcement dated 10 February 2023 in relation to, inter alia, the Acquisition.

On 31 January 2023 (after trading hours), the Company and the Seller entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire from the Seller and the Seller has conditionally agreed to sell to the Company the entire equity interest in the Target Company at the Consideration of RMB201,000,000 (equivalent to approximately HK$228,409,090), which shall be settled by the Company in cash upon Completion.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) the financial information of the Target Group; (v) the unaudited pro forma financial information of the Enlarged Group; (vi) the valuation report on the Target Company; (vii) a notice convening the EGM; and (viii) other information as required under the Listing Rules.

I. MAJOR AND CONNECTED TRANSACTION — ACQUISITION

THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are set out below:

Date:

31 January 2023, after trading hours

Parties:

(1) China Zhejiang Construction Group (H.K.) Limited, as seller.

(2) the Company, as purchaser.

As at the Latest Practicable Date, the Seller is indirectly interested in approximately 72.23% of the entire issued share capital of the Company. Accordingly, the Seller is the controlling shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. For further details of the Parties, please refer to paragraphs headed "Information of the Group" and "Information of the Seller", respectively.

Target to be acquired

Pursuant to the Share Purchase Agreement, the Company has conditionally agreed to acquire from the Seller and the Seller has conditionally agreed to sell to the Company the entire equity interest in the Target Company.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

Consideration and payment terms

The Consideration payable by the Company under the Share Purchase Agreement for the Acquisition is RMB201,000,000 (equivalent to approximately HK$228,409,090), which shall be settled by the Company in cash upon Completion. The Consideration will be financed by internal resources of the Company and/or external bank borrowings, as the Company considers appropriate.

Basis of the Consideration

The Consideration was primarily determined by the Parties after arm's length negotiation on normal commercial terms, with reference to, among other things:

(i) the effective business valuation of the Target Group of approximately RMB230.6 million (i.e. RMB245.0 million – RMB14.4 million), having considered (a) the independent preliminary business valuation of the Target Group based on market approach of approximately RMB245.0 million as at 30 September 2022, on the assumption that 80% equity interest of Zhejiang Tiantai Water (which has been acquired by the Target Company as at the Latest Practicable Date) has been combined to the Target Group as at 30 September 2022 but without taking into account of the consideration payable by the Target Company of approximately RMB14.4 million in respect of such acquisition; and (b) the consideration payable by the Target Company of approximately RMB14.4 million in respect of the acquisition of 80% equity interest of Zhejiang Tiantai Water (the "**Consideration Payable**");

(ii) the business prospects of the industry in which the Target Group operates, after taking into account of the cumulative annual growth rate (the "**CAGR**") of approximately 12% on the environmental service industry market in the PRC from 2022 to 2027, according to the data issued by Qianzhan Industry Institute* (前瞻產業研究院), as set out in the section headed "Information of the Target Group" below; and

(iii) the reasons and benefits of the Acquisition, in view of the expansion of the service scopes of the Target Group which generally entail higher gross profit margins as compared to the existing business segments of building construction and repair, maintenance, alteration and addition ("**RMAA**") works, as set out in the paragraph headed "Reasons for and benefits of the Acquisition" below.

After considering all of the aforesaid factors and in view of the relationship between the Company and the Seller, after several rounds of negotiations between the Parties and having made reference to the combined net assets (excluding non-controlling interests) of the Target Group of approximately RMB216.7 million as at 30 September 2022 net of the Consideration Payable of approximately RMB202.3 million, it was further agreed that the Consideration would be RMB201.0 million, which represents a discount of approximately 12.8% of the effective business valuation of the Target Group of approximately RMB230.6 million.

Having considered the above, the Board (including the independent non-executive Directors) is of the opinion that the Consideration of the Acquisition is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of certain conditions which include, inter alia:

(i) the passing by the Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM of the resolution approving the Share Purchase Agreement and the transactions contemplated thereunder;

(ii) a due diligence report (in content and form satisfactory to the Company at its absolute discretion) having been issued by a PRC qualified lawyer approved by the Company with respect to the Target Group's businesses, and the Seller having provided the Company with its resolutions, consents, authorisations, documents and approvals (in content and form satisfactory to the Company at its absolute discretion) in relation to the Share Purchase Agreement and the transactions contemplated thereunder;

(iii) all necessary consents, permission and approvals from relevant organisations, institutions, government (including the filing of state-owned assets assessment results and the approval of non-public transfers by agreement administered by State-owned Assets Supervision and Administration Department, if applicable) and regulatory authorities (including but not limited to the Stock Exchange) required to be obtained by the Seller and the Company in respect of the Share Purchase Agreement and the transactions contemplated thereunder having been obtained;

(iv) the completion of a due diligence exercise to be carried out by the Company in respect of the group structure, financial positions, books and records and businesses of the Target Group, and the relevant results being satisfactory to the Company in its absolute discretion;

(v) the Seller having provided the Company with the completion accounts of the Target Group (in content and form to the satisfaction of the Company at its absolute discretion);

(vi) all representations, warranties and undertakings of the Seller remaining true and correct as at the Completion Date, for which the Seller shall have has fulfilled or complied with on or before the Completion Date (as the case may be); and

(vii) the Seller having provided the Company with a duly signed certificate certifying that as at Completion Date, each of the above conditions (other than (i)) having been fulfilled and that it is not aware of any matter or thing which is in breach of any representations, warranties and undertakings giving by the Seller or is inconsistent with any of the above items.

If the above conditions precedent (except for conditions precedent (i) and (iii) which are not waivable) are not satisfied or waived by the Company on or before the Long Stop Date, the Share Purchase Agreement shall, subject to certain provisions of the Share Purchase Agreement and liability of any Party to the other in respect of any antecedent breaches of the terms of the Share Purchase Agreement, become void and cease to have effect. As at the Latest Practicable Date, the conditions precedent (ii) and (iv) have been fulfilled and the Board has no present intention to waive any of the conditions precedent on or before the Long Stop Date.

Completion

Completion will take place within five Business Days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Share Purchase Agreement, or at such other date on the Parties may agree in writing.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

Upon Completion, Zhejiang Tiantai will become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules by virtue of it being an indirect non wholly-owned subsidiary of the Company where Zhejiang Construction, being a connected person at the Company's level, can exercise or control the exercise of 10% or more of the voting power of Zhejiang Tiantai. Accordingly, Zhejiang Tiantai will remain as a connected person of the Company under Chapter 14A of the Listing Rules after Completion.

INFORMATION OF THE GROUP

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2017 and is an investment holding company. As at the Latest Practicable Date, the Group is principally engaged in contractor services for building construction works and repair, maintenance, alteration and addition works projects across public and private sectors in Hong Kong, Malaysia and the United Kingdom. The Group principally acts as a main contractor and is responsible for (i) overall management of the projects; (ii) formulating work programmes; (iii) engaging subcontractors and supervising their works; (iv) sourcing construction materials; (v) communication and coordination with our customers and their consultant teams; and (vi) safeguarding compliance with safety, environmental and other contractual requirements.

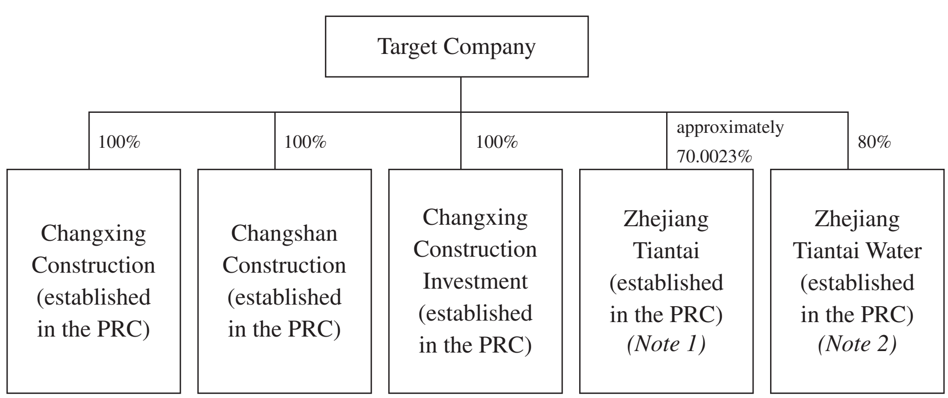
INFORMATION OF THE SELLER

The Seller is a company incorporated in Hong Kong with limited liability, with an indirect interest of approximately 72.23% of the entire issued share capital of the Company and is one of the controlling shareholders of the Company. The Seller is directly wholly-owned by Zhejiang Construction Group (H.K.) Holdings Limited (浙江省建設集團(香港)控股有限公司), another controlling shareholder of the Company, which is directly wholly-owned by Zhejiang Construction, which is also a controlling shareholder of the Company and a company listed on Shenzhen Stock Exchange (SZSE Security Code: 002761). As at the Latest Practicable Date, Zhejiang Construction is in turn ultimately owned as to (i) approximately 35.90% by Zhejiang State-owned Capital Operation Company Limited* (浙江省國有資本運營有限公司) (which is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Zhejiang Provincial Government* (浙江省人民政府國有資產監督管理委員會)); (ii) approximately 9.32% by ICBC Financial Asset Investment Co. Ltd.* (工銀金融資產投資有限公司); (iii) approximately 7.52% by China Cinda Asset Management Co., Ltd.* (中國信達資產管理股份有限公司); (iv) approximately 6.21% by Zhejiang Jianyang Investment Company Limited.* (浙江建陽投資股份有限公司); (v) approximately 6.21% by Deson Development International Holdings Investment Limited.* (迪臣發展國際集團投資有限公司); (vi) approximately 6.21% by Hung Wan Construction Co., Ltd.* (鴻運建築有限公司); and (vii) the remaining approximately 28.63% held by other minority shareholders. As at the Latest Practicable Date, Zhejiang Construction is principally engaged in building construction business, engineering related services and investment in infrastructure projects.

As at the Latest Practicable Date, the Seller is principally engaged in (i) building construction business in the Asia Pacific region excluding Hong Kong and Macau; (ii) holding interests in companies engaging working capital management in Hong Kong, financial leasing, civil engineering; and (iii) property management in the PRC.

INFORMATION OF THE TARGET GROUP

Group structure of the Target Group upon Completion



Notes:

(1) The remaining approximately 19.9909% and approximately 10.0068% equity interest in Zhejiang Tiantai is owned by Tiantai State-Owned Assets Capital Management Limited Company* (天台縣國有資本運營有限公司) and Zhejiang Construction respectively.

(2) The remaining 20% equity interest in Zhejiang Tiantai Water is held by Tiantai County Qingyuan Water Operation Company Limited* (天台縣清源水務運營有限公司).

The Target Company is a limited liability company established in the PRC on 17 July 2014 and is a direct wholly-owned subsidiary by the Seller as at the Latest Practicable Date. It is principally engaged in construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.

As at the Latest Practicable Date, Changxing Construction is a limited liability company established in the PRC on 1 December 2016 and is a direct wholly-owned subsidiary of the Target Company. It is principally engaged in sewage and reclaimed water treatment services.

As at the Latest Practicable Date, Changshan Construction is a limited liability company established in the PRC on 20 March 2017 and is a direct wholly-owned subsidiary of the Target Company. It is principally engaged in sewage and reclaimed water treatment services.

As at the Latest Practicable Date, Changxing Construction Investment is a limited liability company established in the PRC on 14 July 2017 and is a direct wholly-owned subsidiary of the Target Company. It is principally engaged in environmental improvement related construction services, sewage and reclaimed water treatment services, and water distribution services.

As at the Latest Practicable Date, Zhejiang Tiantai is a limited liability company established in the PRC on 23 March 2022 and is owned as to approximately 70.0023% by the Target Company. The remaining approximately 19.9909% and approximately 10.0068% equity interest in Zhejiang Tiantai is owned by Tiantai State-Owned Assets Capital Management Limited Company* (天台縣國有資本運營有限公司) (which is a state-owned company) and Zhejiang Construction respectively. It is principally engaged in sewage and reclaimed water treatment services.

As at the Latest Practicable Date, Zhejiang Tiantai Water is a limited liability company established in the PRC on 9 August 2016 and is owned as to approximately 80.0% by the Target Company and approximately 20.0% by Tiantai County Qingyuan Water Operation Co., Ltd.* (天台縣清源水務運營有限公司). It is principally engaged in sewage and reclaimed water treatment services. Tiantai County Qingyuan Water Operation Company Limited* (天台縣清源水務運營有限公司) is a limited liability company established in the PRC on 4 November 2013 and is wholly-owned by Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司). It is principally engaged in sewage and reclaimed water treatment services, municipal facilities management, and engineering management services. Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司) is a limited liability company established in the PRC on 25 June 2012 and is wholly-owned by Tiantai State-Owned Assets Capital Management Limited Company* (天台縣國有資本運營有限公司) (which is a stated-owned company). Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司) is principally engaged in source water supply; tap water production and supply; hydropower generation; pipeline engineering construction; water conservancy engineering construction and sewage treatment.

As at the Latest Practicable Date, the Target Group has obtained and possessed the following qualifications and licenses: construction industry enterprise qualification (municipal public works construction general contracting level three, fire protection facilities engineering professional contracting level two, and ungraded special engineering (structural reinforcement)* 建築業企業資質證書(市政公用工程施工總承包三級；消防設施工程專業承包二級；特種工程(結構補強)專業承包不分等級) and safe production licence (construction engineering)* (安全生產許可證(建築施工)) (collectively, the "**Licences**"); high tech enterprise certificate* (高新技術企業證書), quality management system certification* (質量管理體系認證), environmental management system certification* (環境管理體系認證), Zhejiang Province environmental pollution prevention and control project special design service registration evaluation* (浙江省環境污染防治工程專項設計服務登記評價), Zhejiang Province environmental protection Evaluation of general contracting service capabilities of pollution control projects* (浙江省環境污染治理工程總承包服務能力評價), evaluation of soil and groundwater ecological restoration engineering capabilities* (土壤和地下水生態修復工程能力評價) and life garbage treatment and recycling engineering capacity evaluation certificates * (生活垃圾處理及資源化工程能力評價) (collectively, the "**Qualifications**").

Combined financial information of the Target Group

Set out below is a summary of certain combined financial information of the Target Group for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, prepared in accordance with HKFRSs:

	Year ended 31 December 2020 *RMB'000*	**Year ended 31 December 2021** *RMB'000*	**Nine months ended 30 September 2022** *RMB'000*
Revenue	114,780	105,374	69,999
Gross profit	22,035	26,293	20,967
Net profit before taxation	7,812	10,186	10,192
Net profit after taxation attributable to the owners of the parent	7,320	9,618	9,250

The combined net asset value of the Target Group as at 31 December 2020 and 2021 and 30 September 2022 were approximately RMB168.8 million (equivalent to approximately HK$191.9 million), RMB178.6 million (equivalent to approximately HK$203.0 million) and RMB232.0 million (equivalent to approximately HK$263.6 million), respectively.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in building construction, overall project management, and RMAA works across public and private sectors in Hong Kong, Malaysia and the United Kingdom. Upon Completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group. By adhering to the Group's diversified development strategy, the Acquisition will enable the Group to expand its service scopes which generally entail relatively higher gross profit margins as compared to its existing business segments of building construction and RMAA works. The gross profit margins of the Target Group for the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022 were approximately 20.3%, 19.2 %, 25.0% and 30.0%, respectively. According to the Group's annual report for the year ended 31 December 2019, 2020 and 2021 and the Group's annual results announcement for the year ended 31 December 2022, the gross profit margins of the Group for the four years ended 31 December 2019, 2020, 2021 and 2022 were approximately 4.4%, 4.5%, 3.6% and 3.5%, respectively.

As at the Latest Practicable Date, with the Licences and Qualifications, the Target Group is principally engaged in the construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC. For the nine months ended 30 September 2022, the Target Group had undertaken a portfolio of over 10 sewage treatment and related projects, which principally scatter across different cities in the Zhejiang Provinces in the PRC.

The Directors and management of the Group possess the relevant experience in environmental related projects which generally includes the Target Group's business. Under the supervision of Mr. Guan Manyu, Mr. Li Kar Yin and Mr. Chan Tak Yiu, who are the Executive Directors of the Company, the Group has participated in (i) an environmental related project in relation to subcontracting construction works for waste electrical and electronic equipment treatment and recycling facility in Hong Kong with a contract sum of approximately HK$256.4 million during 2016 to 2017; and (ii) a project for the centralised general research lab complex in relation to sewage and reclaimed water treatment of an university in Hong Kong with a contract sum of approximately HK$1.3 billion in 2021. With respect to the main role and responsibilities of each individual, Mr. Chan acted as the general manager of these two projects to oversee the construction progress and liaise with the subcontractors, whereas Mr. Guan and Mr. Li mainly provided strategic directions and attended the progress meetings of these two projects from time to time. Furthermore, the Company intends to nominate a chief engineer from the Target Company, whom possesses years of experience in the operation and management of wastewater treatment plants and other environmental-related facilities and infrastructure, for appointment to be a senior management of the Company upon acquisition in order to oversee and manage the operation of the Target Group. In light of the aforesaid, the Board considers that the Directors and management of the Group are capable of overseeing and managing the Target Group's business.

For the two years ended 31 December 2021, the respective combined revenue generated by the Target Group amounted to approximately RMB114.8 million (equivalent to approximately HK$130.5 million) and approximately RMB105.4 million (equivalent to approximately HK$119.8 million), representing approximately 2.8% and approximately 2.5% of the Group's total revenue, respectively. In light of the stable demand of environmental improvement and protection related services in the PRC, revenue of the Target Group remained at approximately RMB70.0 million (equivalent to approximately HK$79.5 million) for the nine months ended 30 September 2022. Leveraging on the Target Group's network, Licence, and Qualifications, the Group can diversify its existing business and develop the environmental improvement and protection related construction services; and sewage and reclaimed water treatment services. The Board considers that the Acquisition is able to broaden the Group's income sources and thereby improves its financial performance and achieves better returns for the Shareholders.

According to the report on the Development of China's Environmental Protection Industry for 2016-2021 and data issued by Qianzhan Industry Institute* (前瞻產業研究院), a research institute which primarily provides business information consulting; planning and database services in the PRC which is listed on the National Equities Exchange and Quotations (Stock Code: 839599), revenue of the environmental service industry market in the PRC increased from approximately RMB1,100 billion in 2016 to approximately RMB2,200 billion in 2021. It is expected to increase to approximately RMB2,500 billion in 2022 and further increase to over RMB4,400 billion in 2027 which is expected to have a CAGR of approximately 12% on the environmental service industry market in the PRC from 2022 to 2027. Based on the report issued by Qianzhan Industry Institute* (前瞻產業研究院) in 2021, water pollution prevention was the largest component of the environmental service industry market in the PRC. As such, the Company considers that there is a growth potential on the principal business of the Target Group.

On the other hand, ecological and environmental protection guidelines and policies such as the Urban Waste Sorting and Treatment Facility Development Scheme for the 14th Five-Year Plan Period and the Urban Wastewater Treatment and Recycling Program for the 14th Five-Year Plan Period is expected to continue to underscore the PRC government's commitment and determination to address environmental issues, develop ecological conservation and achieve sustainable development, regulating relevant industries and companies as well as leading them towards high-quality growth. The Company considers the environmental improvement and protection related construction service and sewage and reclaimed water treatment services of the Target Company will be benefited by the support of the PRC government and the prospect of such industry is generally optimistic.

Taking into account (i) the continuous implementation of the Group's diversified development strategy; (ii) the stable revenue stream contributed by the Target Group as seen from its historical combined financial performance; and (iii) the potential growth of the Target Group's business in the PRC in light of the aforesaid factors; the Board (including the independent non-executive Directors) considers that the Acquisition represents an opportunity for the Group to diversify and venture into the environmental improvement and protection related construction services; and sewage and reclaimed water treatment services which contributes to the cash flow and profitability of the Group, and that the terms of the Acquisition are fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

None of the Directors had a material interest in the Share Purchase Agreement and the transactions contemplated thereunder. However, since Mr. Guan Manyu, Ms. Chu Ping (who has resigned as an executive Director of the Company on 28 March 2023) and Mr. Yang Haojiang also holds directorship and/or management positions in the Seller, each of them and their respective associates have voluntarily abstained from voting on the board resolution(s) approving the Share Purchase Agreement and the transactions contemplated thereunder.

The Group has no plan and/or intention to (i) downsize or change the scale of its existing principal businesses and (ii) further diversify its existing business as at the Latest Practicable Date.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group (including Zhejiang Tiantai Water) will be consolidated into the financial statements of the Company.

The Target Group's net profits after taxation attributable to owners of the parent for the three years ended 31 December 2021 and the nine months ended 30 September 2022 were approximately RMB7.8 million, RMB7.3 million, RMB9.6 million and RMB9.3 million (equivalent to approximately HK$8.9 million, HK$8.3 million, HK$10.9 million and HK$10.6 million). Should the Target Group sustain its profitability in the future, the Acquisition is expected to have positive impact on the Enlarged Group's earnings in the coming future. Based on the unaudited pro forma financial information of the Enlarged Group following the Acquisition as set out in Appendix III to this circular, the net asset value is expected to increase mainly due to the net effect resulted from the consolidation of the assets and liabilities of the Target Group of HK$20.8 million as at 30 September 2022; the total assets of the Group following the Acquisition would increase from approximately HK$3,160.4 million to approximately HK$3,554.6 million, while the total liabilities of the Group following the Acquisition would increase from approximately HK$2,591.3 million to approximately HK$2,964.7 million. As such, the Group may increase the liabilities such as the amount due to the immediate holding company (i.e. Consideration payable to the Seller) and the interest-bearing bank borrowings, thus the gearing ratio of the Group following the Acquisition would increase.

The details of the financial effect of the Acquisition on the financial position together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix III to this circular.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Seller is indirectly interested in approximately 72.23% of the entire issued share capital of the Company. Accordingly, the Seller is the controlling shareholder of the Company and hence a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction for the Company which is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An Independent Board Committee comprising three independent non-executive Directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Lau Pak Shing and Mr. Ho Man Yiu Ivan, has been established by the Company to advise and provide recommendation(s) to the Independent Shareholders in respect of the Acquisition. In such connection, TC Capital International Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, the Seller is indirectly interested in 361,150,000 Shares of the Company, which are directly held by its wholly-owned subsidiary, CR Construction Investments Limited, representing approximately 72.23% of the total issued share capital of the Company. In view of the Seller's interests in the Share Purchase Agreement and the transactions contemplated thereunder, CR Construction Investments Limited will abstain from voting at the EGM. Save for the aforementioned and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Share Purchase Agreement and the transactions contemplated thereunder and is required to abstain from voting on the resolution of the Company in approving the Share Purchase Agreement and the transactions contemplated thereunder at the EGM.

None of the Directors had a material interest in the Share Purchase Agreement and the transactions contemplated thereunder. However, since Mr. Guan Manyu, Ms. Chu Ping (who has resigned as an executive Director of the Company on 28 March 2023) and Mr. Yang Haojiang also holds directorship and/or management roles in the Seller, each of them and their respective associates have voluntarily abstained from voting on the board resolution(s) approving the continuation of transactions contemplated under the Share Purchase Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement; (iv) the financial information of the Target Group; (v) the unaudited pro forma financial information of the Enlarged Group; (vi) the valuation report on the Target Company; (vii) a notice convening the EGM; and (viii) other information as required under the Listing Rules.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment of the conditions precedent as set out in the Share Purchase Agreement. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company are therefore reminded to exercise caution when dealing in the securities of the Company.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 to 20 of this circular which contains its recommendation to the Independent Shareholders in relation to the terms of the Share Purchase Agreement.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 21 to 47 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Share Purchase Agreement and the principal factors and reasons taken into account in arriving at its recommendation.

The Directors (including the independent non-executive Directors) consider that the terms of the Share Purchase Agreement are determined after arm's length negotiations between the parties and on normal commercial terms. The Directors also consider that the terms of the Share Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the board of
CR Construction Group Holdings Limited
Guan Manyu
Chairman

The following is the text of a letter of advice from the Independent Board Committee, prepared for the purpose of inclusion in this circular, setting out its recommendation to the Independent Shareholders in relation to the Share Purchase Agreement and the transactions contemplated thereunder:

CR Construction Group Holdings Limited
華營建築集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1582)

31 March 2023

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
IN THE TARGET COMPANY
AND
NOTICE OF THE EGM

We refer to the circular of the Company to the Shareholders dated 31 March 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used herein will have the same meanings as defined in the Circular, unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you on the terms of the Share Purchase Agreement and the transactions contemplated thereunder. TC Capital International Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 21 to 47 of this circular. Your attention is also drawn to the "Letter from the Board" in this circular and the additional information set out in the appendix thereto.

Having considered the terms of the Share Purchase Agreement and taking into account the advice of the Independent Financial Adviser, in particular the principal factors, reasons and recommendations as set out in their letter, we consider that (i) the terms of the Share Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Share Purchase Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Share Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

The Honourable Tse Wai Chun Paul ***JP***	**Mr. Ho Man Yiu Ivan**	**Mr. Lau Pak Shing**

Independent non-executive Directors

Set out below is the text of a letter received from TC Capital International Limited to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the Acquisition contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

TC CAPITAL

31 March 2023

The Independent Board Committee and the Independent Shareholders
CR Construction Group Holdings Limited

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the Acquisition contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 31 March 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

On 31 January 2023, the Company, as purchaser, and China Zhejiang Construction Group (H.K.) Limited (中國浙江建設集團(香港)有限公司) ("**ZCGHK**"), as seller, entered into the Share Purchase Agreement, pursuant to which ZCGHK has conditionally agreed to sell and the Company has conditionally agreed to acquire ZCGHK's 100% equity interest in Zhejiang Construction Investment Environment Engineering Company Limited* (浙江建投環保工程有限公司) (the "**Target Company**") and all its subsidiaries (together with the Target Company, the "**Target Group**") at a consideration of RMB201,000,000 (equivalent to approximately HK$228,409,090) (the "**Consideration**"), which shall be settled by the Company in cash upon completion of the Acquisition pursuant to the terms and conditions of the Share Purchase Agreement (the "**Completion**").

As ZCGHK is the controlling shareholder of the Company, ZCGHK is a connected person to the Company and hence the Acquisition constitutes a connected transaction according to Chapter 14A of the Listing Rules. As one of the highest applicable percentage ratios pursuant to the Listing Rules in respect of the Acquisition exceeds 5%, the Acquisition is subject to the approval by the Independent Shareholders at the EGM. In addition, as one of the highest applicable percentage ratios pursuant to the Listing Rules in respect of the Acquisition also exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

In this respect, an Independent Board Committee comprising all three independent non-executive Directors was established by the Board to advise the Independent Shareholders on whether (i) the terms of the Share Purchase Agreement and the Acquisition contemplated thereunder are fair and reasonable, (ii) the Share Purchase Agreement and the Acquisition contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, (iii) the Acquisition is in the interests of the Group and the Shareholders as a whole, and (iv) the Shareholders should vote in favour of the Acquisition at the EGM. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from the Company and none of circumstances set out in Rule 13.84 of the Listing Rules existed that could reasonably be regarded as a hindrance to our independence to act as the Independent Financial Adviser in respect of the Acquisition. There was no engagement between the Group and us in the past prior to our engagement as the Independent Financial Adviser in respect of the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things, (i) the Share Purchase Agreement, (ii) the valuation report in respect of the valuation of 100% equity interest in the Target Group (the "**Valuation Report**") issued by APAC Asset Valuation and Consulting Limited, an independent valuer (the "**Independent Valuer**"), (iii) the legal due diligence report and opinion on the Target Group prepared by the PRC legal adviser (the "**PRC Legal Adviser**") appointed by the Company (the "**PRC Legal Due Diligence Report & Opinion**"), (iv) relevant market data and information available from public sources, and (v) other information as set out in this letter and the Circular.

We have also relied on all relevant information, opinions and facts supplied and representations made by the Directors and the representatives of the Group (including but not limited to those contained or referred to in this Circular). The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Group.

We consider that we have reviewed sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent due diligence of the information provided by the Directors and/or the representative of the Group, nor have we conducted any form of independent due diligence into the business, affairs, operations, financial position or future prospects of the Group, the Target Group and ZCGHK.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Share Purchase Agreement and the Acquisition contemplated thereunder, we have considered the following principal factors and reasons:

1. Background of and reasons for the Acquisition

1.1 Information on the Group

As stated in the Letter from the Board, as at the date of this Circular, the Group is principally engaged in contractor services for building construction works and repair, maintenance, alteration and addition works projects across public and private sectors in Hong Kong, Malaysia and the United Kingdom. The Group principally acts as a main contractor and is responsible for (i) overall management of the projects, (ii) formulating work programmes, (iii) engaging subcontractors and supervising their works, (iv) sourcing construction materials, (v) communication and coordination with its customers and their consultant teams, and (vi) safeguarding compliance with safety, environmental and other contractual requirements.

1.2 Information on the Target Group

As set out in the Letter from the Board, the Target Group, comprising 6 companies, is principally engaged in the construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC. For details of the 6 companies comprising the Target Group, please refer to the Letter from the Board.

Set forth below are the revenue breakdown of the Target Group for the three years ended 31 December 2021 and the nine months ended 30 September 2021 and 2022 (the "**Relevant Period**") extracted from the accountants' report of the Target Group (the "**Accountants' Report**"):

	For the year ended 31 December			For the nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Construction, rehabilitation and other services	87,581	73,460	47,454	35,193	22,863
Sewage and reclaimed water treatment services	18,110	33,035	46,388	33,921	37,964
Water distribution services	2,873	3,539	6,535	4,637	5,359
Finance income from service concession arrangements	3,393	4,746	4,997	3,759	3,813
	111,957	114,780	105,374	77,510	69,999

Set forth below are certain other financial information of the Target Group for the Relevant Period extracted from the Accountants' Report on the Target Group:

	For the year ended/ as at 31 December			For the nine months ended/ as at 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	111,957	114,780	105,374	77,510	69,999
Profit for the year/period attributable to owners of the parent	7,770	7,320	9,618	7,764	9,250
Non-current assets	127,519	144,764	140,714	N/A	150,248
Current assets	125,984	165,349	185,807	N/A	196,700
Current liabilities	92,272	113,337	121,889	N/A	89,968
Non-current liabilities	—	28,000	26,000	N/A	25,000
Total equity	161,231	168,776	178,632	N/A	231,980

According to the Accountants' Report, the Target Group was profit-making during the Relevant Period. We understand from the Group that the Target Group's profit increased during the Relevant Period principally due to (i) the stable demand of environmental protection and improvement related services in the PRC, and (ii) higher gross profit margin generated from sewage and reclaimed water treatment services. The Group expects the profitability of the Target Group shall remain steadily upward in a foreseeable future in view of the water pollution prevention being the largest component of the environmental service industry market in the PRC. The Target Group also had a healthy balance sheet during the Relevant Period with positive net current assets and increasing level of equity.

As discussed with the management of the Company, they have performed due diligence on the Target Group by engaging the PRC Legal Adviser to conduct legal due diligence and prepare the PRC Legal Due Diligence Report & Opinion which covers due diligence work on, among others, legal structure, ownership, business license, material properties and assets, leases, potential liabilities, and taxes of the Target Group. We have obtained and reviewed the credentials of the PRC Legal Adviser and are satisfied with the competence of the PRC Legal Adviser in respect of the preparation of the PRC Legal Due Diligence Report & Opinion. We have obtained and reviewed the PRC Legal Due Diligence Report & Opinion and noted that certain deficiencies identified by the PRC Legal Adviser might affect the Target Group's operation and financial position, which are set out below together with the reasons why the PRC Legal Adviser considers such deficiencies are not material from legal perspective.

Deficiency/risk	Reasons why the PRC Legal Adviser considers such deficiency or risk are not material from legal perspective	Date of occurrence of such deficiency or risk
Changes in the directors, supervisors and senior management has not been filed to the relevant authority	(i) According to the relevant regulation, the maximum penalty for such non-compliance is RMB50,000 only if the Target Group refused to rectify such non-compliance upon the order of the relevant authority; and (ii) the risk of being penalised by the relevant authority for such non-compliance is low because (a) the relevant authority has not ordered the Target Company to rectify such non-compliance; and (b) the Target Company will file the change of the directors, supervisors and senior management to the relevant authority upon Completion of the Acquisition.	November 2021

Deficiency/risk	Reasons why the PRC Legal Adviser considers such deficiency or risk are not material from legal perspective	Date of occurrence of such deficiency or risk
Deficiencies in obtaining environmental protection approval for certain construction projects	The risk of being penalised by the relevant authority for such non-compliance is low because (a) the relevant approval for some construction projects have been subsequently obtained; (b) the relevant government undertakes not to impose any penalty to the Target Group for the rest of the construction projects which has not obtained the environmental protection approval; (c) no penalty was imposed to the Target Group by the relevant authority in respect to such non-compliance; and (d) no notification of investigation was received by the Target Group from the relevant authority in respect to such non-compliance.	April 2019
Proportion of despatched labours exceeds the statutory rate	(i) According to the relevant regulation, the number of despatched labours in an entity shall not exceed 10% of its total number of employees; (ii) the relevant non-compliance was related to 21 employees as of 30 September 2022; (iii) according to the relevant regulation, the maximum penalty for such non-compliance is RMB5,000 to RMB10,000 for each relevant labour only if the Target Group refused to rectify such non-compliance upon the order of the relevant authority; and (iv) the risk of being penalised by the relevant authority for such non-compliance is low because (a) the relevant authority has not ordered the Target Company to rectify such non-compliance; and (b) the Target Company agrees to rectify such non-compliance.	July 2020

Deficiency/risk	Reasons why the PRC Legal Adviser considers such deficiency or risk are not material from legal perspective	Date of occurrence of such deficiency or risk
Unpaid housing provident funds for certain employees	(i) The relevant non-compliance was related to 6 employees only as of 30 September 2022; (ii) according to the relevant regulation, the maximum penalty for such non-compliance is RMB50,000 for each relevant labour only if the Target Group refused to rectify such non-compliance upon the order of the relevant authority; and (iii) the risk of being penalised by the relevant authority for such non-compliance is low because (a) the relevant authority has not ordered the Target Company to rectify such non-compliance; and (b) the Target Company had obtained compliance confirmation from the relevant authority stating the Target Company was not penalised with respect to the relevant regulations.	November 2019
Deficiencies in filing the purchase of precursor chemicals, explosive hazardous chemicals and special equipment	(i) The filing of purchase of precursor chemicals and explosive hazardous chemicals on the Integrated Intelligent Management Platform for Key Items of the Department of Public Security of Zhejiang Province* (浙江省公安機關重點物品集成智治平台) have been subsequently provided; (ii) according to the relevant regulation, the maximum penalty for failure in filing the purchase of special equipment is RMB100,000 only if the Target Group refused to rectify such non-compliance upon the order of the relevant authority; and (iii) the risk of being penalised by the relevant authority for the failure in filing the purchase of special equipment is low because (a) no penalty was imposed to the Target Group by the relevant authority in respect to such non-compliance; and (b) no notification of investigation was received by the Target Group from the relevant authority in respect to such non-compliance.	August 2017

We concur with the PRC Legal Adviser's view that the above deficiencies associated with the Target Group are not material in nature from legal perspective as such identified deficiencies either (i) are unlikely to result in penalties from the relevant government authority according to the PRC Legal Adviser, (ii) are not subject to a rectification order from the relevant government authority, (iii) had received corresponding compliance confirmation from the relevant government authority, (iv) are not subject to material penalties, or (v) are rectified subsequent to the issuance of the PRC Legal Due Diligence Report & Opinion.

We are also of the view that such deficiencies will not have material adverse impact on the operation and financial position of the Target Group nor impose any risk on the Company in suffering any material losses from the Acquisition on the basis of (i) the above view of the PRC Legal Adviser and us, and (ii) the fact that pursuant to the Share Purchase Agreement, ZCGHK undertakes to indemnify the Company for any losses that may be incurred after the Acquisition, if, among others: (a) any relevant government authority investigates any illegal behaviour of the Target Group prior to the Completion of the Acquisition, and (b) any relevant government authority or third party investigates the compliance or legal responsibility of the Target Group with respect to bidding, tendering, or construction project supervision, or if the Target Group is unable to recover payments or is required to bear breach of contract liabilities due to the invalidity of contracts signed before the Acquisition.

Furthermore, we are given to understand by the representatives of the Company that the Target Group will implement remedial plans to address the identified deficiencies upon the Completion of the Acquisition.

1.3 Information on ZCGHK

As set out in the Letter from the Board, ZCGHK is a company incorporated in Hong Kong with limited liability, with an indirect interest of approximately 72.23% of the entire issued share capital of the Company and is one of the controlling shareholders of the Company. ZCGHK is directly wholly-owned by Zhejiang Construction Group (H.K.) Holdings Limited (浙江省建設集團(香港)控股有限公司), another controlling shareholder of the Company, which is directly wholly-owned by Zhejiang Construction Investment Group Co., Ltd.* (浙江省建設投資集團股份有限公司) ("**Zhejiang Construction**"), which is also a controlling shareholder of the Company and a company listed on Shenzhen Stock Exchange (SZSE Security Code: 002761). As at the Latest Practicable Date, Zhejiang Construction is principally engaged in building construction business, engineering related services and investment in infrastructure projects.

1.4 Market outlook of Chinese wastewater treatment market

As the Target Group is principally engaged in construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC, we are of the view that the outlook of the Chinese wastewater treatment market is of material importance to us in formulating our opinion in respect of the reasons for the Acquisition.

In order to strengthen the protection of the ecological environment, actively make up for the shortcomings and overcome the weaknesses in the field of urban wastewater treatment, and comprehensively improve the quality of wastewater collection and treatment, in January 2022, China issued the ''Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure'' (the ''**Guidance**''), which expressly stated that the construction of environmental infrastructure in cities and towns shall be accelerated, and it is necessary to improve wastewater collection and treatment and recycling facilities, promote full coverage of urban wastewater pipelines, and promote the ''integration of plants and networks'' for domestic wastewater collection and treatment facilities; meanwhile, it shall implement preferential fiscal and tax policies on environmental treatment, environmental services and other relevant sectors, and actively create a standardised and open market environment. During the ''14th Five-Year Plan'' period, the Chinese government has allocated RMB23.7 billion in funding for water pollution prevention and control, which represents an increase of approximately 9.2%. The Guidance also proposed that China shall increase the wastewater treatment capacity by 20 million cubic metres per day, reach a wastewater treatment rate of over 95% in counties, and achieve a wastewater recycling rate of over 25% in water-scarce cities at the prefecture level and above by 2025. As a result, the wastewater treatment industry will remain to have a positive outlook during the ''14th Five-Year Plan'' period.

The Guidance clearly states the policy direction of sewage treatment in China's environmental protection industry and provides a powerful policy guide for the Target Group, which operates in the sewage treatment industry, in the fields of upgrading and renovation, environmental governance and other relevant areas. Moreover, since the Target Group operates in the environmental treatment sector as defined in the Guidance, it benefits from the preferential policies such as the Guidance and enjoys the relevant industrial policy advantages and tax advantages. Hence, we are of the view that the Target Group will benefit from the Guidance throughout the ''14th Five-Year Plan'' period.

1.5 Financial effects of the Acquisition

Earnings

Upon Completion, the Company will own the entire equity interest in the Target Company, and accordingly, the financial results of the Target Group, including but not limited to the revenue, costs and profit will be consolidated into the statement of profit or loss of the Company. According to the Accountants' Report, the Target Group's net profits after taxation attributable to owners of the parent were approximately RMB7.8 million, RMB7.3 million, RMB9.6 million and RMB9.3 million (equivalent to approximately HK$8.9 million, HK$8.3 million, HK$10.9 million and HK$10.6 million) for the three years ended 31 December 2021 and the nine months ended 30 September 2022. Should the Target Group sustain its profitability in the future, the Acquisition is expected to have positive impact on the earnings of the Group and the Target Company (collectively, the "**Enlarged Group**") in the coming future.

Furthermore, as discussed in the above sub-section headed "1.2 Information on the Target Group", the Acquisition is expected to enhance the Group's overall profitability by referencing to the historical financial performance and future prospect of the Target Group. Having considered the foregoing, we concur with the Directors' view that the Acquisition would have a positive impact on the Group's financial performance in the long run.

Net assets value

Upon Completion, the Company will own the entire equity interest in the Target Company, and accordingly, the assets and liabilities of the Target Group will be consolidated into the statement of financial position of the Company. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the net asset value of the Enlarged Group is expected to increase mainly due to the net effect resulted from the consolidation of the assets and liabilities of the Target Group of approximately HK$20.8 million as at 30 September 2022. The total assets of the Group following the Acquisition would increase from approximately HK$3,160.4 million to approximately HK$3,554.6 million, while the total liabilities of the Group following the Acquisition would increase from approximately HK$2,591.3 million to approximately HK$2,964.7 million. The liabilities of the Group such as the amount due to immediate holding company (i.e. Consideration payable to ZCGHK) and interest-bearing bank borrowings may increase, thus the gearing ratio of the Group after the Acquisition would increase.

Shareholders should note that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial positions of the Group will be upon Completion.

1.6 Experience of the Directors and management of the Group

As set out in the Letter from the Board, the Directors and management of the Group possess the relevant experience in environmental related projects which generally includes the Target Group's business under the supervision of Mr. Guan Manyu, Mr. Li Kar Yin and Mr. Chan Tak Yiu, who are the executive Directors of the Company, the Group has participated in (i) an environmental related project in relation to subcontracting construction works for waste electrical and electronic equipment treatment and recycling facility in Hong Kong with a contract sum of approximately HK$256.4 million during 2016 to 2017; and (ii) a project for the centralised general research lab complex in relation to sewage and reclaimed water treatment of an university in Hong Kong with a contract sum of approximately HK$1.3 billion in 2021 (the "**Relevant Projects**"). With respect to the main role and responsibilities of each individual, Mr. Chan acted as the general manager of the Relevant Projects to oversee the construction progress and liaise with the subcontractors, whereas Mr. Guan and Mr. Li mainly provided strategic directions and attended the progress meetings of the Relevant Projects from time to time.

We have obtained and reviewed the underlying documents of the Relevant Projects and noted that Mr. Guan, Mr. Li and Mr. Chan were involved in the Relevant Projects and had the roles and responsibilities as stated in the paragraph above. As advised by the representative of the Company, the Group acted as a main contractor of the Relevant Projects. We are further advised by the representative of the Company that Mr. Guan and Mr. Li have relevant construction experience in the PRC. Thus, we have obtained and reviewed the credentials of Mr. Guan and noted that (i) he worked for Zhejiang Construction from August 1999 to August 2001, at which his last position was a foreman and was responsible for detail coordination in site progress as well as quality, technical and safety matters for certain construction sites, (ii) he was admitted as a first class registered constructor (一級註冊建造師) in specialty of construction engineering in Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) in November 2007, and (iii) he was admitted as a senior engineer (高級工程師) in specialty of construction engineering in Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in December 2009. We have also obtained and reviewed a meeting minute of China Resources Construction (Holdings) Company Limited and noted that Mr. Li was a member of the board of directors in December 2004 and was responsible for overseeing certain construction projects in the PRC as well as providing strategic directions and attending progress meetings of such projects. Mr. Li was also a director of CR Construction Company Limited, an indirect wholly-owned subsidiary of the Company, while serving as a director of China Resources Construction (Holdings) Company Limited during the same period. Although the Relevant Projects only involved construction works of environmental and sewage and reclaimed water treatment related facilities while the Target Group's business also involves rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure, we consider that the relevant Directors and management of the Group are capable of overseeing and managing the Target Group's business in particular to construction work in the PRC.

Furthermore, the Company intends to nominate a chief engineer from the Target Company, whom possesses years of experience in the operation and management of wastewater treatment plants and other environmental-related facilities and infrastructure, for appointment as a senior management of the Company upon the Acquisition in order to oversee and manage the operation of the Target Group. We have obtained and reviewed the resume of the abovementioned senior management and noted that (i) she has been working in the water treatment engineering industry for 20 years, (ii) she has been working for the Target Company since 2015 and serving as the project leader for several projects related to the construction and rehabilitation of sewage and reclaimed water treatment plants, water distribution plants and other environmental related facilities and infrastructure in the PRC, (iii) she was in charge of and actively participated in numerous construction and scientific research projects in Zhejiang Province which were focused on sewage treatment technology, and held the position of project leader for these initiatives, and (iv) she is admitted as a chief senior engineer (正高級工程師) in Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳). In view of the above, we consider that the new senior management to be appointed by the Company is capable of overseeing and managing the Target Group's business to a significant extent.

1.7 Conclusion on reasons for the Acquisition

Having considered the Target Group operates in different industry with the Group as set out in the above sub-sections headed "1.1 Information on the Group" and "1.2 Information on the Target Group", we are of the view that the Acquisition is not in the ordinary and usual course of business of the Company.

Nevertheless, in view of (i) the prospect of Chinese wastewater treatment market is sound as discussed in the above sub-section headed "1.4 Market outlook of Chinese wastewater treatment market", (ii) the Acquisition shall enhance the Group's overall profitability by referencing to the historical financial performance and future prospect of the Target Group as discussed in the above sub-section headed "1.2 Information on the Target Group", (iii) the Acquisition shall broaden the Group's income stream and revenue base, (iv) the Directors and management of the Group, as well as the new senior management to be appointed by the Company, possess relevant experience in the construction and operation of sewage and reclaimed water treatment plants, water distribution plants and other environmental related projects, and are familiar with the PRC construction market and sewage treatment industry as discussed in the above sub-section headed "1.6 Experience of the Directors and management of the Group", and (v) that there will be no negative financial effect to the Enlarged Group after the Acquisition as discussed in the above sub-section headed "1.5 Financial effects of the Acquisition", we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Share Purchase Agreement

For details on the terms of the Share Purchase Agreement, please refer to the Letter from the Board. We are of the view that the most crucial term of the Share Purchase Agreement is the Consideration which will be particularly discussed and opined by us below. We do not aware of any other unusual term in the Share Purchase Agreement.

Consideration

According to the Letter from the Board, the Consideration of RMB201.0 million was determined by the Parties after arm's length negotiation on normal commercial terms, with reference to, among other things: (i) the effective business valuation of the Target Group as at 30 September 2022 (the "**Valuation Date**"), being approximately RMB230.6 million, with reference to (a) the independent preliminary business valuation of the Target Group based on market approach of approximately RMB245.0 million, assuming 80% equity interest of Zhejiang Tiantai Water has been combined to the Target Company as at 30 September 2022 (which did not take into account the consideration payable by the Target Company of approximately RMB14.4 million in respect of the acquisition of 80% equity interest of Zhejiang Tiantai Water incurred on 30 December 2022), and hence (b) the consideration payable by the Target Company of approximately RMB14.4 million in respect of the acquisition of 80% equity interest of Zhejiang Tiantai Water, (ii) the business prospects of the industry in which the Target Group operates, and (iii) the reasons and benefits of the Acquisition as set out in the Letter from the Board.

For further details of the basis of determination of the Consideration, please refer to the Letter from the Board.

(i) Evaluation of qualification of the Independent Valuer

We have reviewed the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussed the same with the Independent Valuer. In particular, we noted that the person signing the Valuation Report, being the director of the Independent Valuer, is a Chartered Financial Analyst (CFA) charter holder and a certified Financial Risk Manager (FRM) with 9 years of experience in handling valuations (including company equity valuation), and his valuation work has covered a range of different industries including manufacturing, financial services, mineral resources, forestry, information technology, pharmaceutical, casinos and gaming, etc. Based on the above, we are satisfied with the competence of the Independent Valuer in respect of the preparation of the Valuation Report.

We have also reviewed the Independent Valuer's terms of engagement including its scope of work and discussed with the Independent Valuer the work it has performed as regards to the Valuation Report. We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

(ii) Evaluation of valuation methodology

Valuation methodologies

As set out in the Valuation Report and based on our discussions with the Independent Valuer, the Guideline Public Company Method (as defined below) under market approach is adopted in deriving the appraised fair value of the Target Group as of the Valuation Date.

As set out in the Valuation Report, the Independent Valuer has conducted the valuation in accordance with the International Valuation Standards. According to our independent research, we understand that International Valuation Standards are standards for undertaking valuation assignments using generally recognised concepts and principles that promote transparency and consistency in valuation practice and is one of the acceptable valuation standards for valuation of properties under Rule 5.05 of the Listing Rules and therefore we considered International Valuation Standards are appropriate valuation standard for the valuation of the Target Group.

As set out in the Valuation Report, in arriving the value of the Target Group, the Independent Valuer has considered three accepted approaches, namely income approach, cost approach and market approach.

As set out in the Valuation Report, the cost approach is considered inappropriate for appraising the fair value of the Target Group as the cost approach ignores the economic benefits of ownership of the business. The income approach is also considered inappropriate for appraising the fair value of the Target Group as the cash flow projections for the sewage and water treatment business of the Target Group would require numerous assumptions on projected growth or changes in revenue streams, cost of revenue, operating expenses, administrative expenses, projected movements in working capital balances, and expected capital expenditure. Such assumptions and estimations are therefore not easily verifiable, supportable or reliably measured. The Independent Valuer therefore adopted the market approach in deriving the appraised fair value of the Target Group.

We have reviewed the International Valuation Standards (effective 31 January 2022) which we independently obtained from public sources, and confirmed that income approach, cost approach and market approach are the only main approaches used in valuation. We have also confirmed with the Independent Valuer that the International Valuation Standards (effective 31 January 2022) is the latest version as at the date of the Valuation Report.

According to paragraph 10.8 of the International Valuation Standards, "although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value". Furthermore, According to paragraph 20.2 of the International Valuation Standards, "the market approach should be applied and afforded significant weight under the following circumstances: (a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value, (b) the subject asset or substantially similar assets are actively publicly traded, and/or (c) there are frequent and/or recent observable transactions in substantially similar assets''.

According to paragraph 40.2 of the International Valuation Standards, ''the income approach should be applied and afforded significant weight under the following circumstances: (a) the income-producing ability of the asset is the critical element affecting value from a participant perspective, and/or (b) reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables''.

According to paragraph 60.2 of the International Valuation Standards, ''the cost approach should be applied and afforded significant weight under the following circumstances: (a) participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the subject asset immediately, (b) the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible, and/or (c) the basis of value being used is fundamentally based on replacement cost, such as replacement value''.

Having considered our independent review of the International Valuation Standards and in particular to the abovementioned paragraphs of the International Valuation Standards and the facts that (i) there are listed companies engaged in similar business of the Target Group available and hence able to meet circumstance (b) under paragraph 20.2 of the International Valuation Standards and unable to meet circumstance (b) under paragraph 40.2 of the International Valuation Standards, and (ii) the Target Group is income generating and hence unable to meet circumstance (b) under paragraph 60.2 of the International Valuation Standards, we concur with the Independent Valuer that market approach is appropriate in the valuation of the Target Group.

In view of the unavailability of the necessary inputs for the valuation under the income approach such as profit and cash flow forecasts for the upcoming years of the Target Group, we are unable to cross-check the valuation using the income approach.

In addition, upon our discussion with the Independent Valuer, we understood that the cost approach is based on the estimates of the fair value of assets and liabilities of the subject business, which is appropriate for the valuation of businesses that do not have a high proportion of intangibles, such as businesses of investment holding, banking, property development, etc. The cost approach ignores the economic benefits of ownership of the business, which is generally reflected as intangibles such as goodwill that is not recognised in financial reports until the occurrence of merger and acquisitions. Although we concur with the Independent Valuer that the cost approach is considered inappropriate for appraising the fair value of the Target Group due to the aforementioned factors, we took reference to the total equity value and net assets of the Target Group attributable to owners of the parent as at 30 September 2022 of approximately RMB216.7 million, which according to the Independent Valuer, can be considered as closely approximating the total cost of the net assets (i.e. assets minus liabilities) of the Target Group, and noted that after taken into account the consideration payable by the Target Company of approximately RMB14.4 million in respect of the acquisition of 80% equity interest of Zhejiang Tiantai Water incurred on 30 December 2022, the effective business valuation of the Target Group as at 30 September 2022 under this "**alternative cost approach**" (the "**IFA's Cross-Checking Approach**") would be approximately RMB202.3 million, which is close to the Consideration of RMB201.0 million.

As further set out in the Valuation Report, the market approach generally involves two valuation methods, namely (i) the guideline public company method, which involves the use of the valuation multiples applicable to the subject companies to assess the fair value of the valuation target (the "**Guideline Public Company Method**"), and (ii) the comparable transactions method, which involves the direct comparison of other transactions that may be considered similar to the subject transaction regarding the equity of the valuation target (the "**Comparable Transactions Method**"). As set out in the Valuation Report, the Comparable Transactions Method is considered not appropriate due to the lack of public information on recent comparable transactions in the market. The Independent Valuer therefore adopted the Guideline Public Company Method in deriving the appraised fair value of the Target Group under market approach.

We have reviewed the International Valuation Standards (effective 31 January 2022) which we independently obtained from public sources and confirmed that the Guideline Public Company Method and the Comparable Transactions Method are the only methods under market approach.

We have conducted independent research and, on a best effort basis, reviewed the circulars published on the website of the Stock Exchange which satisfy the following criteria, including but not limited to, (i) the transactions involve the acquisition of equity interest of a privately held company with business operation, (ii) the principal business of the acquiree involves construction, rehabilitation and operation of sewage and reclaimed water treatment plants and/or water distribution plants and/or other environmental related facilities and infrastructure, (iii) over 90% of the acquiree's revenue was derived from the PRC, (iv) the acquiree is profit-making during the valuation period, and (v) the circulars are despatched between 1 October 2021 and 30 September 2022 (the "**Selected Period**"), being the Valuation Date, and representing a twelve-month period which we consider to be a recent and reasonable period and be demonstrative for the prevailing market practice. Based on our independent research, there was no comparable transaction which was able to meet all of the above criteria. Given the fact that no recent comparable transaction can be identified, we concur with the Independent Valuer that the Comparable Transactions Method is not appropriate for the valuation of the Target Group.

Having taken into account the above, we concur with the Independent Valuer that the Guideline Public Company Method under market approach is the only appropriate method for appraising the fair value of the Target Group.

Selection criteria

As set out in the Valuation Report, we understand that the detailed selection of the comparable companies for the valuation of the Target Group (the "**Comparable Companies**") under the Guideline Public Company Method involves two major screening processes. Firstly, it includes the company that, according to Bloomberg, (i) its country of domicile is China, (ii) is listed on the stock exchanges of Hong Kong and China, (iii) is classified as engaging in waste management, water utilities, water sewage, environmental engineering and consulting services, and particularly excluded the company which is engaging in unrelated businesses such as production of environmental protection equipment and household garbage disposal. Secondly, among these preliminary shortlisted companies, the Independent Valuer only selected the company that, based on its website and/or latest published annual report, (a) over 50% of its revenue was derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering in aggregate, (b) over 90% of its revenue was derived from the PRC, (c) has service concession rights derived from build-operate-transfer ("**BOT**") and/or public-private-partnership ("**PPP**") projects of book values of more than RMB10 million as investment costs, and (d) have an average daily trading volume of not less than 0.5% of its total shares outstanding for every trading day within one year before the Valuation Date, and have suspended trading of no more than 30 days within one year before the Valuation Date.

In regard to point (iii) above, we have discussed with the Independent Valuer and understand that the Independent Valuer had particularly excluded the company that more than 10% of its revenue was derived from businesses that are not similar to the main businesses of the Target Group e.g. water supply, real estate property management, lighting technology overall solution and sanitation cleaning equipment, etc. This criterion was implemented by the Independent Valuer to ensure that each of the irrelevant business segments of the selected Comparable Companies contributes no more than 10% of their revenue, so as to ensure that the valuation multiples of the selected Comparable Companies would not be distorted by the valuation of the businesses irrelevant to the Target Group to a material extent.

The following table sets forth the details of the Comparable Companies as at the Valuation Date:

Name	Stock Code	Principal Business	Percentage of revenue derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering	Price-to-earnings ("P/E") multiple
Anhui Zhonghuan Environmental Protection Technology Co Ltd	300692 CH	Provision of sewage treatment services, municipal water sewage treatment services, engineering designing, construction and investment services.	100.0%	12.10
Penyao Environmental Protection Co Ltd	300664 CH	Provision of environmental engineering services, domestic sewage and industrial wastewater treatment, and other related services.	69.3%	12.58
QiaoYin City Management Co Ltd	002973 CH	Provision of environmental engineering and consulting services, including leachate transportation and treatment, biomass waste treatment, and other services.	100.0%	16.72
BGT Group Co Ltd	300774 CH	Operation of water management engineering businesses, contracting water treatment systems, boiler supply water systems, condensate water treatment systems, reclaimed water reuse systems, zero discharge treatment systems, and other systems.	95.8%	28.90

Name	Stock Code	Principal Business	Percentage of revenue derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering	Price-to-earnings ("P/E") multiple
GANSU DAYU Water-saving Group Co Ltd	300021 CH	Involved in environmental protection aspects related to agricultural field, such as rural sewage treatment and water treatment.	64.3%	26.33
CSD Water Service Co Ltd	603903 CH	Provision of integrated water services, wastewater facility investment, water system integration, entrusted management, and technical services.	74.0%	14.66
CECEP Guozhen Environmental Protection Technology Co Ltd	300388 CH	Operation of water sewage networks, provision of industrial wastewater treatment, domestic sewage treatment, black odor water treatment, and other services, and operation of import and export, investment, and other businesses.	91.0%	12.35
Fujian Haixia Environmental Protection Group Co Ltd	603817 CH	Involved in environmental protection businesses, including the provision of sewage treatment, landfill leachate treatment, solid waste treatment, waste materials recycling, and other services.	89.5%	18.71

Name	Stock Code	Principal Business	Percentage of revenue derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering	Price-to-earnings ("P/E") multiple
WELLE Environmental Co Ltd	300190 CH	Engaged in environmental engineering, environmental equipment, project operation and construction operation transfer, and provision of solutions for solid waste treatment, wastewater treatment, and exhaust gas purification.	98.4%	22.36
Beijing GeoEnviron Engineering & Technology Inc	603588 CH	Involved in environmental technology research and general pollution control solutions, provision of custom and integrated services including design, consulting, construction, supply and installation of material and projects management.	96.0%	18.75
Anhui Tongyuan Environment Energy Saving Co Ltd ('**Anhui Tongyuan**')	688679 CH	Provision of environment services, including solid waste pollution barrier repairing, solid waste treatment and disposal, water environment repairing, and other services.	98.9%	47.56

Name	Stock Code	Principal Business	Percentage of revenue derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering	Price-to-earnings ("P/E") multiple
CEC Environmental Protection Co Ltd ("**CEC**")	300172 CH	Engaged in development, design, manufacture and marketing of industrial water treatments, and provision of industrial water treatment, condensate recovery, wastewater treatment and automation control systems.	96.9%	31.79
Median				**18.73**

Sources: Bloomberg and the latest annual reports of the Comparable Companies

Considering (i) the Target Group is principally engaged in construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC, (ii) the Target Group had all of its revenue derived from the businesses of construction, rehabilitation, and operation of water and waste treatment and environmental protection related facilities for the year ended 31 December 2021, (iii) the Target Group had all of its revenue derived from the PRC for the year ended 31 December 2021, (iv) the Target Group had service concession rights derived from BOT and PPP projects of book values of more than RMB10 million as investment costs for the year ended 31 December 2021, and (v) paragraph 30.13 of the International Valuation Standards suggests valuers that in choosing publicly-traded comparables, "securities that are actively traded provide more meaningful evidence than thinly-traded securities", we are of the view that the above selection criteria adopted by the Independent Valuer in identifying the Comparable Companies under the Guideline Public Company Method are appropriate. We have also reviewed the list of the Comparable Companies and based on our independent research, we noted that each of the Comparable Companies meets the abovementioned selection criteria.

Valuation of the Target Group

As set out in the Valuation Report, a valuation matrix namely P/E multiple is adopted in arriving the enterprise value of the Target Group.

As set out in the Valuation Report, we understand that under the Guideline Public Company Method, there are several generally accepted valuation multiples in arriving the equity value of a company, including P/E multiple, price-to-book ("**P/B**") multiple and price-to-sales ("**P/S**") multiple. P/E multiple is adopted because P/E multiple is commonly used for valuing businesses for which the ability to generate earnings is the key value indicator and is the most appropriate multiple in this case considering the Target Group is recording profits. P/B multiple is not adopted as P/B multiple is common for asset intensive industries which is not the case for the Target Group. P/S multiple is not adopted neither as it ignores the cost structure of the Target Group and hence the profitability of the Target Group, and is not commonly used if the subject business is recording profits.

To justify the appropriateness of using P/E multiple, P/B multiple and P/S multiple by the Independent Valuer in the valuation of the Target Group, we have reviewed a CFA Institute publication titled "Equity Valuation — Market-Based Valuation: Price and Enterprise Value Multiples" written by Jerald E. Pinto, PhD, CFA, Elaine Henry, PhD, CFA, Thomas R. Robinson, PhD, CFA, CAIA, and John D. Stowe, PhD, CFA. (the "**Valuation Publication**").

According to the Valuation Publication, analysts have offered several circumstances for the use of P/B multiple in valuing companies, including but not limited to, (i) when the earning per share of a company is zero or negative, (ii) when a company is composed chiefly of liquid assets, such as finance, investment, insurance, and banking institution, and (iii) when a company is not expected to continue as a going concern. In addition, it mentioned some drawbacks of using P/B multiple in valuing companies e.g. it does not consider human capital, reputation of a company nor intangible assets that are generated internally. Given (i) the Target Group is profit making, (ii) the Target Group is not engaged in finance, investment, insurance and banking, (iii) the Target Group is expected to continue as a going concern, and (iv) the drawbacks of P/B multiple, we concur with the Independent Valuer that P/B multiple is not appropriate in valuing the Target Group.

According to the Valuation Publication, analysts have offered several circumstances for the use of P/S multiple in valuing companies e.g. when the earning per share of a company is negative. In addition, it mentioned some drawbacks of using P/S multiple in valuing companies, including but not limited to, (i) a business may show high growth in sales even when it is not operating profitably which is judged by earnings, and (ii) it does not incorporate financing and cost structure of a company. Given (i) the Target Group is profit making, and (ii) the drawbacks of P/S multiple, we concur with the Independent Valuer that P/S multiple is not appropriate in valuing the Target Group.

According to the Valuation Publication, several rationales support the use of P/E multiples in valuation of a company, including but not limited to, (i) earning power is a chief driver of investment value, and (ii) some surveys show that P/E ranks first among price multiples used in market-based valuation and that it is the most popular valuation metric when making investment decisions. It mentioned the major drawback of using P/E multiple is that P/E multiple does not make economic sense with a zero, negative, or insignificantly small earning per share. Given (i) the Target Group is profit making, and (ii) the inappropriateness of using P/B multiple and P/S multiple in valuing the Target Group as discussed above, we concur with the Independent Valuer that the P/E multiple is the most appropriate method for appraising the fair value of the Target Group.

As set out in the Valuation Report, the appraised value of the Target Group is derived from (i) applying the median of the P/E multiples of the 12 Comparable Companies to the adjusted profit after taxation attributable to all common shareholders (excluding the non-operating other income) of the Target Group for the trailing twelve months as at the Valuation Date to derive the operating equity value of the Target Group, (ii) adding back non-operating assets of the Target Group and deducting the non-operating liabilities of the Target Group to derive the aggregate operating and non-operating value of the Target Group, (iii) applying a discount for lack of marketability, and (iv) applying a control premium.

P/E multiple

As stated in the Valuation Report, the median of the P/E multiples of the Comparable Companies is considered a better representation of the middle point of a dataset than average, as it is less influenced by biases towards large and small values than average for small sample sizes. Based on our calculation, we noted that the average of the P/E multiples of the Comparable Companies is approximately 21.90, which is even higher than the median of the P/E multiples of approximately 18.73, as the average of the P/E multiples is affected by the higher P/E multiples of two Comparable Companies, namely Anhui Tongyuan and CEC, with P/E multiples of approximately 47.56 and 31.79 respectively. Therefore, we concur with the Independent Valuer's view that the application of median of the P/E multiples is appropriate and consider it is more conservative.

We reviewed the calculations of the P/E multiples of the 12 Comparable Companies to verify the P/E multiples adopted by the Independent Valuer in the Valuation Report.

Discount for lack of marketability

As set out in the Valuation Report, privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. The Independent Valuer therefore applied a discount for lack of marketability ("**DLOM**") of 20.6% to reflect the difference in the marketability of the shares of the Target Group and that of the Comparable Companies.

According to paragraph 30.17(a) of the International Valuation Standards, DLOM is one of the most common adjustments made in the market approach and therefore we concur with the Independent Valuer to apply DLOM in the valuation of the Target Group.

We noted that the Independent Valuer determined the DLOM of 20.6% with reference to the 2021 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability (the "**Stout Study**") which included an examination of 763 private placement transactions of unregistered common stocks, with and without registration rights, issued by publicly traded companies from July 1980 to December 2020. The DLOM applied in the valuation of the Target Group was referenced to the average discount for all 763 transactions in the Stout Study.

We have obtained the Stout Study from the website of Business Valuation Resources, LLC (https://www.bvresources.com), reviewed the DLOM and the bases of determination and assumptions set out therein, and confirmed with the Independent Valuer that the Stout Study is the latest publicly available source of the DLOM as at the date of the Valuation Report.

We further conducted desktop research and, on a best effort basis, reviewed the circulars published on the website of the Stock Exchange which satisfy the following criteria, including but not limited to, (i) the transactions involve the acquisition of equity interest of a privately held company with business operation, (ii) there are valuation reports prepared by the independent valuers, and (iii) the circulars are despatched within the Selected Period. Based on the above selection criteria, we noted from the respective circulars that (i) 18 out of 31 transactions which meet all of the above selection criteria had applied DLOM in their valuation, and (ii) among these 18 transactions, 11 of them took reference to the Stout Study in applying DLOMs in their valuation with a range from 5.0% to 50.0%.

Having considered the foregoing, we are of the view that it's common to apply DLOM in the valuation and concur with the Independent Valuer that the DLOM of 20.6% applied is fair and reasonable as it falls within range of the DLOMs applied in other recent transactions.

Control premium

As set out in the Valuation Report, as the 100% equities of the Target Group represents a fully control on the operations of their businesses, it is common to consider a control premium to account for the fully control of the business. The Independent Valuer therefore applied a premium (the "**Control Premium**") of 27.6% to reflect the price premium for controlling interests of the Target Group.

According to paragraph 30.17(b) of the International Valuation Standards, Control Premium is one of the most common adjustments made in the market approach. According to the Factset Mergerstat/BVR Control Premium Study (3rd Quarter 2022) (the "**Mergerstat Study**") published by FactSet Mergerstat, LLC., an equity control premium is defined as the additional consideration that an investor would pay over a marketable minority equity value (i e., current publicly traded stock prices) to own a controlling interest in the common stock of a company. As the Guideline Public Company Method involves the application of valuation multiples derived from day-to-day public stock trading markets to the fundamental data of the valuation target and these valuation multiples stem from minority interest transactions, the Guideline Public Company Method is generally considered to produce a minority value only. Therefore, when valuing a controlling interest using the Guideline Public Company Method as the starting point, applying a Control Premium would be appropriate. Having considered the foregoing and since the Acquisition represents 100% of the equity interest of the Target Company, we are of the view that the use of Control Premium is reasonable.

As set out in the Valuation Report, the Independent Valuer determined the Control Premium of 27.6% with reference to the Mergerstat Study and the Control Premium of 27.6% was the median of equity control premiums of 527 trailing-twelve-months cases of controlling interest acquisitions or privatisations which involved publicly traded and privately held companies worldwide in the third quarter of 2022 based on the Mergerstat Study.

We have obtained an extract of the Mergerstat Study from the Independent Valuer and reviewed the Control Premium set out therein. We noted that the average equity control premium for 527 trailing-twelve-months cases of controlling interest acquisitions or privatisations in the third quarter of 2022 was 55.5%, which is higher than the Control Premium of 27.6% applied in the valuation of the entire equity interest in the Target Company. Hence, we are of the view that the Control Premium of 27.6% is conservative.

Furthermore, based on our research, FactSet Mergerstat, LLC is an independent information provider for merger and acquisition transaction data. As advised by the Independent Valuer, the Mergerstat Study is a widely used and accepted source among valuers for analysis of control premium.

We further conducted desktop research and, on a best effort basis, reviewed the circulars published on the website of the Stock Exchange which satisfy the following criteria, including but not limited to, (i) the transactions involve the acquisition of 51% or more equity interests of a privately held company with business operation, (ii) there are valuation reports prepared by the independent valuers, (iii) the Guideline Public Company Method under the market approach is adopted in the valuation reports as the Control Premium is typically applied in the Guideline Public Company Method as mentioned above, and (iv) the circulars are despatched within the Selected Period. Based on the above selection criteria, we noted from the respective circulars that (i) 7 out of 10 transactions which meet all of the above selection criteria had applied Control Premium in their valuation, and (ii) among these 7 transactions, all of them took reference to the Mergerstat Study in applying Control Premiums in their valuation with a range from 20.2% to 33.9%. The Control Premium applied in the valuation of the entire equity interest in the Target Company, being 27.6%, falls within the range of the Control Premiums applied in the 7 transactions.

Having considered the foregoing, we are of the view that it's common to apply Control Premium in the valuation using the Guideline Public Company Method under the market approach and concur with the Independent Valuer that the Control Premium of 27.6% applied in the valuation of the entire equity interest in the Target Company is fair and reasonable.

Conclusion of our views on the valuation of the Target Group

Based on the above valuation methodologies and calculation, a preliminary business valuation of the Target Group of RMB245.0 million has been concluded, assuming 80% equity interest of Zhejiang Tiantai Water has been combined to the Target Company as at 30 September 2022. Nevertheless, such preliminary valuation did not take into account the consideration payable by the Target Company of approximately RMB14.4 million in respect of its acquisition of 80% equity interest of Zhejiang Tiantai Water incurred on 30 December 2022. After further deduction of such consideration payable by the Target Company of approximately RMB14.4 million, the appraised fair value of the Target Group was approximately RMB230.6 million.

We have reviewed the above calculations with respect to the valuation of the Target Group. We have also reviewed and discussed with the Independent Valuer the other key bases and assumptions adopted for the valuation of the Target Group. During our discussions with the Independent Valuer, we did not identify any major factors which cause us to doubt the reasonableness of such assumptions adopted in the Valuation Report. Therefore, we concur with the view of the Independent Valuer that the methodologies, bases and assumptions adopted in the Valuation Report are fair and reasonable.

(iii) Conclusion on the terms of the Share Purchase Agreement

Based on our evaluation of the qualification of the Independent Valuer and the valuation methodology as discussed above and taking into account that the Consideration of RMB201.0 million (i) represents a slight discount of approximately 12.8% to the appraised fair value of the Target Group of approximately RMB230.6 million, and (ii) is similar to the valuation under the IFA's Cross-Checking Approach of approximately RMB202.3 million, we consider the Consideration and hence the terms of the Share Purchase Agreement are determined on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, despite the Acquisition is not in the ordinary and usual course of business of the Group, we are of the view that (i) the terms of the Share Purchase Agreement are fair and reasonable, (ii) the Acquisition is on normal commercial terms or better, and (iii) the Acquisition is in the interests of the Group and the Shareholders as a whole.

Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition at the upcoming EGM.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Keiven Chan
Director

Mr. Keiven Chan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2018. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.cr-construction.com.hk/).

(a) annual report of the Group for the year ended 31 December 2020 published on 8 April 2021 (pages 87 to 151) (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0408/2021040801022.pdf)

(b) annual report of the Group for the year ended 31 December 2021 published on 7 April 2022 (pages 98 to 168) (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0407/2022040700443.pdf)

(c) annual results announcement of the Group for the year ended 31 December 2022 published on 23 March 2023 (pages 1 to 22) (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0323/2023032301230.pdf)

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2023, being the latest practicable date for the purpose of this indebtedness statement of the Enlarged Group prior to the printing of this circular, the total indebtedness of the Enlarged Group was as follows:

	As at 31 January 2023
	HK$'000
Interest-bearing bank borrowings — secured[1]	28,169
Interest-bearing bank borrowings — unsecured[2]	620,000
Loan from an intermediate holding company[3]	19,874
Lease liabilities	48,024
	716,067

1 The interest-bearing bank borrowings are secured by the pledge of receivables and future revenue entitlement under certain service concession arrangement, bears interest at Over-5-Year Loan Prime Rate ("**LPR**") per annum and are without personal and corporate guarantees.

2 The interest-bearing bank borrowings are unsecured, bears interest at 1.4% to 1.7% above Hong Kong Interbank Offered Rate ("**HIBOR**") per annum and are without personal and corporate guarantees. The interest-bearing bank borrowings are repayable within one month if excluding the inclusion of the repayment on demand clauses.

3 The loan from the intermediate holding company is unsecured, interest free and is repayable subject to the terms and repayment conditions set out in the deed of assignment and settlement for the acquisition of a subsidiary under common control in the prior periods.

Contingent liabilities

As at 31 January 2023, the performance bonds of the Enlarged Group of approximately HK$1,846,393,000 were given by banks in favour of the Enlarged Group's customers as security for the due performance and observance of the Enlarged Group's obligation under the contracts entered into between the Enlarged Group and their customers.

In the ordinary course of the Enlarged Group's construction business, the Enlarged Group has been subject to a number of claims due to personal injuries suffered by employees of the Enlarged Group or of the Enlarged Group's subcontractors in accidents arising out of and in the course of their employment. The directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Enlarged Group.

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts and loans, other loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantee or other material contingent liabilities, at the close of business on 31 January 2023.

The Board has confirmed that, save as disclosed above, there has not been any material change in the indebtedness or contingent liabilities of the Enlarged Group since 31 January 2023.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Enlarged Group including the internally generated funds, the currently available facilities and the transactions contemplated under the Share Purchase Agreement, and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its normal business for at least the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirmed that they are not aware of any material adverse change in the financial position of the Group since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into consolidated financial statements of the Group.

Looking forward to the completion of Acquisition, the Enlarged Group will continue with the existing principal businesses. The Acquisition can diversify the Group's existing business and develop the environmental improvement and protection related construction services and sewage and reclaimed water treatment services through the Target Group in the PRC, which will provide opportunities to diversify the revenue stream and improve the profitability of the Enlarged Group.

The global economy has shown signs of recovery with the relaxation of COVID19-related travel restrictions and quarantine requirements over the world for the coronavirus outbreak 2019. The revenue of the Enlarged Group for the year ended 31 December 2022 has demonstrated an increase in comparison to that for the year ended 31 December 2021.

From late April to May 2022, the Enlarged Group had been awarded 2 new projects with a contract sum of approximately HK$92 million and HK$210 million, respectively, were the first two construction projects of the Enlarged Group to build with Modular Integrated Construction (MiC) method which is expected to create new business opportunities in the building construction sector, the Directors are of the view that such construction method represents a good opportunity for the Enlarged Group to diversify its existing business operation, thereby broadening the revenue stream of the Enlarged Group and is in the interests of the Enlarged Group.

From July and early August 2022, the Enlarged Group has been further awarded 3 new projects in relation to a building construction contract with an original contract sum of approximately HK$299.0 million and 2 RMAA contracts with aggregate original contract sum of approximately HK$2.2 million. The Enlarged Group will continue to ensure projects are completed on time with the highest quality and implement various cost-effective measures to improve its competitiveness. The Enlarged Group remains optimistic about the prospects of the construction industry in Hong Kong, Malaysia and the United Kingdom.

In late December 2022, the Enlarged Group had been further awarded a new project with a contract sum of approximately HK$2.1 billion, which was the third construction projects of the Enlarged Group to build with MiC method.

Since certain construction and rehabilitation projects with large contract sum were completed in prior period, there was a decrease in revenue of the Target Group for the nine months ended 30 September 2022 as compared to the nine months ended 30 September 2021. Nevertheless, for the nine months ended 30 September 2022, the Target Group had undertaken a portfolio of over 10 sewage treatment and related projects, which principally scatter across different cities in the Zhejiang Provinces in the PRC. The Enlarged Group is generally optimistic about the outlook and the prospects of the industry of the Target Group in the PRC.

Principal Risks and Uncertainties

There are certain risks relating to the Enlarged Group's operations which could harm the Enlarged Group's business, financial conditions and operating results. Some of the relatively material risks relating to the Enlarged Group are summarised as follows:

Business risks

The Enlarged Group's revenue is mainly derived from projects which are not recurrent in nature and we are subject to the risks associated with competitive tendering process. There is no guarantee on (i) the Enlarged Group's continuous success in project tenders or quotation and the Enlarged Group's sustainability and financial performance may be materially and adversely affected; (ii) the Enlarged Group operates under various registration, licenses and certifications and the loss of or failure to obtain or renew any or all of these registrations, licenses and/or certifications could materially and adversely affect the Enlarged Group's business; (iii) the Enlarged Group determined the tender price based on the estimated construction time and costs which may deviate from the actual implementation of a project due to cost overruns and/or other related construction risks; and (iv) failure to maintain safe construction sites and/or implement our safety management system may lead to the occurrence of personal injuries, property damages, fatal accidents or suspension of relevant licenses to operate.

Industry and market risks

The construction industry and the environmental construction industry are highly competitive. First, there are a significant number of industry players who provide similar services as ours. Second, the Enlarged Group's revenue was derived from projects located in Hong Kong, the PRC, Malaysia and the United Kingdom. If Hong Kong, the PRC, Malaysia and the United Kingdom experience any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on the construction industry in general, the Group's overall business and results of operations may be materially and adversely affected.

Financial Review of the Group

Revenue

The total revenue of the Group increased by approximately HK$1,376.5 million or approximately 28.1% from approximately HK$4,890.1 million for the year ended 31 December 2021 to approximately HK$6,266.6 million for the year ended 31 December 2022.

Building Construction Works

The revenue generated from the building construction works increased by approximately HK$880.0 million or approximately 21.4% from approximately HK$$4,115.3 million for the year ended 31 December 2021 to approximately HK$4,995.3 million for the Reporting Period. The increase was mainly due to the increase in revenue generated from newer projects and existing projects to the Group during the year ended 31 December 2022.

RMAA Works

The revenue generated from the RMAA works surged by approximately HK$496.5 million or approximately 64.1% from approximately HK$774.8 million for the year ended 31 December 2021 to approximately HK$1,271.3 million for the year ended 31 December 2022. The increase was mainly attributable to an existing project which had substantial work progress during the year ended 31 December 2022.

Contract Costs

The Group's contract costs primarily consisted of subcontracting costs, material costs, direct staff costs and site overheads. The contract costs of the Group increased by approximately HK$1,333.7 million or approximately 28.3% from approximately HK$4,712.3 million for the year ended 31 December 2021 to approximately HK$6,046.0 million for the year ended 31 December 2022. Such increase was in line with the increase in revenue and was mainly attributable to the increase in subcontracting costs, material costs, direct staff costs and site overheads for newer projects and existing projects during the year ended 31 December 2022.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from approximately HK$177.8 million for the year ended 31 December 2021 to approximately HK$220.6 million for the Reporting Period. The Group's gross profit margin was approximately 3.6% and 3.5% for each of the two years ended 31 December 2021 and 2022, respectively.

Building Construction Works

The gross profit of building construction works was approximately HK$147.2 million for the year ended 31 December 2022, representing a slight increase of approximately HK$5.6 million from approximately HK$141.6 million for the year ended 31 December 2021. The gross profit margin decreased from approximately 3.4% for the year ended 31 December 2021 to approximately 2.9% for the year ended 31 December 2022.

RMAA Works

The gross profit of RMAA works was approximately HK$73.4 million for the year ended 31 December 2022, representing an increase of approximately HK$37.2 million from the gross profit of approximately HK$36.2 million for the year ended 31 December

2021. The gross profit margin increased by approximately 1.1 percentage points from approximately 4.7% for the year ended 31 December 2021 to approximately 5.8% for the year ended 31 December 2022. The increase in the gross profit and gross profit margin for the year ended 31 December 2022 was mainly due to additional cost incurred for variation orders for a project during the prior period, while the respective revenue was only certified during the year ended 31 December 2022.

Other Income

The other income of the Group decreased by approximately HK$25.8 million, from approximately HK$29.7 million for the year ended 31 December 2021 to approximately HK$3.9 million for the Reporting Period. The decrease was mainly attributable to the decrease in service fee for consultancy services provided in relation to construction.

Administrative Expenses

Administrative expenses of the Group slightly decreased from approximately HK$130.5 million for the year ended 31 December 2021 to approximately HK$128.9 million for the year ended 31 December 2022. The decrease was mainly due to the decrease in staff cost.

Other Operating Expenses, net

The other operating expenses of the Group increased by approximately HK$8.5 million, from approximately HK$4.2 million for the year ended 31 December 2021 to approximately HK$12.7 million for the year ended 31 December 2022. The increase was primarily due to the increase in expected credit losses provisioning on trade receivables and contract assets according to HKFRS 9.

Finance Costs

The finance costs of the Group increased from approximately HK$11.7 million for the year ended 31 December 2021 to approximately HK$18.6 million for the year ended 31 December 2022. The increase was mainly due to the increase in the Hong Kong Interbank offered Rate (HIBOR) on bank loans and the discounted amounts of retention payables arising from the passage of time.

Income Tax Expenses

The income tax expense decreased by approximately HK$4.7 million, or representing approximately 37.6%, from approximately HK$12.4 million for the year ended 31 December 2021 to approximately HK$7.7 million for the year ended 31 December 2022. The decrease was mainly due to the utilisation of tax losses for offsetting against assessable profits. The effective tax rates were approximately 20.4% and 12.0% for each of the two years ended 31 December 2021 and 2022, respectively.

Net Profit

The profit for the year of the Group increased by approximately HK$7.9 million, or approximately 16.3%, from approximately HK$48.6 million for the year ended 31 December 2021 to approximately HK$56.5 million for the year ended 31 December 2022. The net profit margin for the two years ended 31 December 2021 and 2022 were approximately 1.0% and 0.9%, respectively.

If excluding the restatement resulted from the acquisition of CR Construction (U.K.) Investments Company Limited, the previously reported net profit and net profit margin of the Group would amount to approximately HK$47.6 million and 1.0% for the year ended 31 December 2021, respectively.

Liquidity and Capital Resources

Net Current Assets

As at 31 December 2022, the Group reported net current assets of approximately HK$516.8 million, as compared with approximately HK$505.7 million as at 31 December 2021. As at 31 December 2022, the Group's cash and cash equivalents were approximately HK$93.3 million, representing an increase of approximately HK$24.2 million as compared to approximately HK$69.1 million as at 31 December 2021.

Borrowings

The Group had interest-bearing bank borrowings of approximately HK$170.0 million as at 31 December 2022 (2021: HK$130.0 million).

Borrowings were denominated in Hong Kong dollars and interests on borrowings were mainly charged at floating rate. The Group did not employ any financial instrument for hedging purpose for the year ended 31 December 2022.

Gearing Ratio

As at 31 December 2022, the gearing ratio of the Group, which is calculated by dividing net debt by the total capital plus net debt, was approximately 14.9% (2021: approximately 16.4%). Net debt includes interest-bearing bank borrowings, amounts due to an intermediate holding company and loans from an intermediate holding company, less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company.

Capital Structure

The Shares of the Company were successfully listed on the Stock Exchange on 16 October 2019. There has been no change in the capital structure of the Group since then.

Treasury Policy

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. The Group's liquidity and financing requirements are frequently reviewed. The Board closely monitors the Group's liquidity position to ensure that the Group can meet its funding requirements for business development.

Charges on assets

As at 31 December 2020, 2021 and 2022 there was no charge over any asset of the Group.

Foreign Exchange Exposure and Exchange Rate Risk

The Group operates in Hong Kong, Malaysia and the United Kingdom and most of the transactions are denominated in Hong Kong Dollars, Malaysian ringgit and Great British Pound. The Group currently does not have a foreign currency hedging policy. However, the Board closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should that need arise.

Employees and Emoluments Policy

The Group had a total of 757 employees as at 31 December 2022 (31 December 2021: 773). Total staff costs of the Group (excluding the Directors' remuneration) for the year ended 31 December 2022 were approximately HK$393.5 million (2021: approximately HK$402.1 million). If excluding the restatement resulted from the acquisition of CR Construction (U.K.) Investments Company Limited, the Group had a total of 740 employees as at 31 December 2022, and total staff costs of the Group (excluding the Directors' remuneration) for the year ended 31 December 2021 were approximately HK$377.9 million. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of employees. The salary and benefit level of the employees of the Group are competitive and individual performance is rewarded through the Group's salary, bonus and other cash subsidies system. The Group conducts review on salary adjustment, discretionary bonuses and promotions based on the performance of each employee twice a year. The emoluments of the Directors and the senior management are decided by the Board with reference to the recommendation from the remuneration committee of the Company, having considered factors such as the Group's financial performance and the individual performance of the Directors, etc.

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors of the Company will not be varied in consequence of the Acquisition.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures — Acquisition of a target company in the United Kingdom

On 30 January 2022, the Company and the Seller, one of the controlling shareholders of the Company, entered into a share purchase agreement pursuant to which the Company has agreed to acquire and the Seller has agreed to sell the entire issued share capital of CR Construction (U.K.) Investments Company Limited for an aggregate consideration of HK$9.2 million, which was satisfied by cash. CR Construction (U.K.) Investments Company Limited had a U.K. subsidiary, which was principally engaged in the provision of (i) project management services to construction industry; and (ii) the construction services in the United Kingdom. The said acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Future Plans for Material Investments or Capital Assets

The Group may from time to time consider appropriate new business opportunities as and when appropriate, in order to enhance its shareholders' value. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 31 December 2022.

Contractual Obligations

The Group had capital commitments of approximately HK$0.4 million as at 31 December 2022 (2021: approximately HK$1.9 million).

Please refer to the Appendix IV — Management Discussion And Analysis Of the Target Group for more details of the financial review of the Target Group for the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022.

The following is the text of a report on the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of this circular.

EY 安永

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CR CONSTRUCTION GROUP HOLDINGS LIMITED

We report on the historical financial information of Zhejiang Construction Investment Environment Engineering Company Limited (the "**Target Company**") and its subsidiaries, and Zhejiang Tiantai Construction Investment Water Company Limited (the "**Zhejiang Tiantai Water**") (collectively, the "**Target Group**") set out on pages II-4 to II-65, which comprises the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for each of the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022 (the "**Relevant Periods**"), and the combined statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021, and 30 September 2022, 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-4 to II-65 forms an integral part of this report, which has been prepared for inclusion in the circular of CR Construction Group Holdings Limited (the "**Company**") dated 31 March 2023 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information 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 ("**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 the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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 purposes of the accountants' report, a true and fair view of the combined financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022, and of the combined financial performance and combined cash flows of the Target Group for the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of Interim Comparative Financial Information

We have reviewed the interim comparative financial information of the Target Group which comprises the combined statement of profit or loss and other comprehensive income, combined statement of changes in equity and combined statement of cash flows for the nine months ended 30 September 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Target Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2023

I. HISTORICAL FINANCIAL INFORMATION

Preparation of 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 Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	*6*	111,957	114,780	105,374	77,510	69,999
Contract costs		(89,201)	(92,745)	(79,081)	(57,965)	(49,032)
Gross profit		22,756	22,035	26,293	19,545	20,967
Other income	*6*	559	1,707	3,387	2,222	2,954
Administrative expenses		(14,547)	(15,008)	(17,688)	(12,161)	(12,988)
Other operating income/ (expense), net		451	(537)	(449)	(90)	237
Finance costs	*8*	(296)	(385)	(1,357)	(1,044)	(978)
PROFIT BEFORE TAX	*7*	8,923	7,812	10,186	8,472	10,192
Income tax expense	*11*	(1,079)	(267)	(330)	(535)	(494)
PROFIT FOR YEAR/ PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		7,844	7,545	9,856	7,937	9,698
ATTRIBUTABLE TO:						
Owners of the parent		7,770	7,320	9,618	7,764	9,250
Non-controlling interests		74	225	238	173	448
		7,844	7,545	9,856	7,937	9,698

(B) COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*13*	3,851	3,986	3,465	2,837
Right-of-use assets	*14(a)*	—	—	374	265
Operating concessions	*15*	32,853	33,630	32,382	31,446
Other intangible assets	*16*	77	212	233	212
Receivables under service concession arrangements	*15*	89,700	106,113	103,693	115,084
Prepayments, deposits and other receivables	*19*	25	—	—	—
Deferred tax assets	*24*	1,013	823	567	404
Total non-current assets		127,519	144,764	140,714	150,248
CURRENT ASSETS					
Contract assets	*17*	8,078	45,547	47,964	36,763
Receivables under service concession arrangements	*15*	3,651	4,258	3,933	4,053
Trade receivables	*18*	12,020	9,760	11,584	11,662
Prepayments, deposits and other receivables	*19*	8,618	7,285	6,383	4,038
Amounts due from the immediate holding company	*30(b)*	2,548	4,479	7,177	53,729
Amounts due from fellow subsidiaries	*30(b)*	50,784	23,982	40,230	33,382
Amounts due from a related party	*30(b)*	—	173	173	—
Loan to a fellow subsidiary	*30(b)*	—	29,500	29,500	29,500
Tax recoverable		6	12	—	—
Restricted bank balance	*20*	150	349	261	367
Cash and cash equivalents	*20*	40,129	40,004	38,602	23,206
Total current assets		125,984	165,349	185,807	196,700

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES					
Trade payables	*21*	21,517	17,702	25,622	11,423
Other payables and accruals	*22*	58,565	87,515	89,348	72,510
Interest-bearing bank borrowings	*23*	—	1,000	2,000	2,000
Amounts due to fellow subsidiaries	*30(b)*	11,042	5,932	4,009	3,065
Tax payable		1,148	1,188	910	970
Total current liabilities		92,272	113,337	121,889	89,968
NET CURRENT ASSETS		33,712	52,012	63,918	106,732
TOTAL ASSETS LESS CURRENT LIABILITIES		161,231	196,776	204,632	256,980
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	*23*	—	28,000	26,000	25,000
Total non-current liabilities		—	28,000	26,000	25,000
Net assets		161,231	168,776	178,632	231,980
EQUITY					
Equity attributable to owners of the parent					
Paid-up capital	*25*	150,000	150,000	150,000	181,000
Reserves	*26*	10,099	17,419	27,037	35,687
		160,099	167,419	177,037	216,687
Non-controlling interests		1,132	1,357	1,595	15,293
Total equity		161,231	168,776	178,632	231,980

(C) COMBINED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the parent						
	Notes	Paid-up capital RMB'000 (note 25)	Merger reserve# RMB'000 (note 26)	Statutory reserve# RMB'000 (note 26)	Accumulated profit/ (losses)# RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		100,000	8,400	347	(6,418)	102,329	1,058	103,387
Capital injection	25	50,000	—	—	—	50,000	—	50,000
Profit for the year and total comprehensive income for the year		—	—	—	7,770	7,770	74	7,844
Transfer to statutory reserve		—	—	138	(138)	—	—	—
At 31 December 2019 and 1 January 2020		150,000	8,400	485	1,214	160,099	1,132	161,231
Profit for the year and total comprehensive income for the year		—	—	—	7,320	7,320	225	7,545
Transfer to statutory reserve		—	—	506	(506)	—	—	—
At 31 December 2020 and 1 January 2021		150,000	8,400	991	8,028	167,419	1,357	168,776
Profit for the year and total comprehensive income for the year		—	—	—	9,618	9,618	238	9,856
Transfer to statutory reserve		—	—	972	(972)	—	—	—
At 31 December 2021 and 1 January 2022		150,000	8,400	1,963	16,674	177,037	1,595	178,632
Capital injection	25	31,000	—	—	—	31,000	—	31,000
Contribution from non-controlling shareholders		—	—	—	—	—	13,250	13,250
Dividends paid	12	—	—	—	(600)	(600)	—	(600)
Profit for the period and total comprehensive income for the period		—	—	—	9,250	9,250	448	9,698
Transfer to statutory reserve		—	—	948	(948)	—	—	—
At 30 September 2022		181,000	8,400	2,911	24,376	216,687	15,293	231,980
At 1 January 2021		150,000	8,400	991	8,028	167,419	1,357	168,776
Profit for the period and total comprehensive income for the period (unaudited)		—	—	—	7,764	7,764	173	7,937
Transfer to statutory reserve		—	—	793	(793)	—	—	—
At 30 September 2021 (unaudited)		150,000	8,400	1,784	14,999	175,183	1,530	176,713

These reserve accounts comprise the combined reserves of RMB10,099,000, RMB17,419,000, RMB27,037,000 and RMB35,687,000 in the combined statements of financial position as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

(D) COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		8,923	7,812	10,186	8,472	10,192
Adjustments for:						
Finance costs	*8*	296	385	1,357	1,044	978
Bank interest income	*6*	(200)	(312)	(365)	(268)	(348)
Interest income on a loan to a fellow subsidiary	*6*	—	(491)	(1,693)	(1,234)	(1,266)
Depreciation of property, plant and equipment	*7*	883	1,102	1,272	891	755
Depreciation of right-of-use assets	*7*	—	—	60	24	109
Amortisation of operating concessions	*7*	940	1,145	1,248	936	936
Amortisation of other intangible assets	*7*	16	68	83	64	92
Impairment/(reversal of impairment) of receivables under service concession arrangements	*7*	28	5	(1)	—	4
Impairment/(reversal of impairment) of trade receivables	*7*	(417)	(71)	183	99	(4)
Impairment/(reversal of impairment) of contract assets	*7*	(58)	284	205	—	(191)
		10,411	9,927	12,535	10,028	11,257
Decrease/(increase) in receivables under service concession arrangements		(30,620)	(17,025)	2,746	1,974	(11,515)
Decrease/(increase) in trade receivables		(6,022)	2,331	(2,007)	(19,708)	(74)
Decrease/(increase) in contract assets		(435)	(37,753)	(2,622)	(3,174)	11,392
Decrease/(increase) in prepayments, deposits and other receivables		543	1,333	902	(132)	2,345
Increase/(decrease) in trade payables		3,493	(3,174)	7,920	1,151	(14,199)
Increase/(decrease) in other payables and accruals		30,888	28,950	1,833	1,182	(16,838)
Increase in amounts due from the immediate holding company		(636)	(1,931)	(2,698)	(21,111)	(46,552)
Decrease/(increase) in amounts due from/(to) fellow subsidiaries		(23,505)	21,692	(18,027)	(5,672)	6,043
Decrease/(increase) in amounts due from a related party		—	(173)	—	—	173
Cash generated from/(used in) operations		(15,883)	4,177	582	(35,462)	(57,968)
Interest element on lease liabilities		—	—	(6)	—	—
Income tax paid		(266)	(43)	(340)	(335)	(271)
Net cash flows from/(used in) operating activities		(16,149)	4,134	236	(35,797)	(58,239)

	Notes	Year ended 31 December 2019 RMB'000	2020 RMB'000	2021 RMB'000	Nine months ended 30 September 2021 RMB'000 (Unaudited)	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Bank interest received		200	312	365	268	348
Interest income received on loan to a fellow subsidiary		—	491	1,549	1,127	1,127
Additions of operating concessions		(6,032)	(2,563)	—	—	—
Additions to other intangible assets		(103)	(178)	(104)	(57)	(71)
Purchases of items of property, plant and equipment	13	(1,653)	(1,237)	(751)	(726)	(127)
Advance of a loan to a fellow subsidiary		—	(29,500)	(29,500)	(29,500)	(29,500)
Repayment of a loan to a fellow subsidiary		—	—	29,500	29,500	29,500
Decrease/(increase) in restricted bank balance		—	(199)	88	(28)	(106)
Net cash flows from/(used in) investing activities		(7,588)	(32,874)	1,147	584	1,171
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital injection		50,000	—	—	—	31,000
Capital contributions from non-controlling shareholders		—	—	—	—	13,250
New bank loan		10,000	29,500	—	—	—
Repayment of bank loan		(10,000)	(500)	(1,000)	(500)	(1,000)
Interest paid		(296)	(385)	(1,351)	(1,041)	(978)
Dividends paid		—	—	—	—	(600)
Principal portion of lease payments	27(b)	—	—	(434)	—	—
Net cash flows from/(used in) financing activities		49,704	28,615	(2,785)	(1,541)	41,672
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		25,967	(125)	(1,402)	(36,754)	(15,396)
Cash and cash equivalents at beginning of year/period		14,162	40,129	40,004	40,004	38,602
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		40,129	40,004	38,602	3,250	23,206
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		40,129	40,004	38,602	3,250	23,206
Cash and cash equivalents as stated in the combined statement of financial position	20	40,129	40,004	38,602	3,250	23,206

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Target Company is a limited liability company established in the People's Republic of China (the "**PRC**") on 17 July 2014. The registered office address and principal place of business of the Target Company is located at 10th Floor, No.52 Wensan West Road, Xihu District, Hangzhou, Zhejiang Province. During the Relevant Periods, the Target Group were engaged in the construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.

The Target Company is a wholly-owned subsidiary of Zhejiang Construction Investment Group Co., Ltd. ("**Zhejiang Construction**"), a company established and listed in PRC. In the opinion of the Directors, Zhejiang State-owned Capital Operation Company Limited, a company established in the PRC, is the ultimate holding company of the Target Company.

As at the date of this report, the Target Company had direct interests in its subsidiaries, which are private limited liability companies established in PRC, the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of equity attributable to the Target Company Direct	Indirect	Principal activities
Changshan Construction Investment Water Company Limited* *(note a)*	PRC/Mainland China 20 March 2017	RMB300,000	100	—	Sewage and reclaimed water treatment services
Changxing Construction Investment Water Company Limited* *(note a)*	PRC/Mainland China 1 December 2016	RMB1,000,000	100	—	Sewage and reclaimed water treatment services
Changxing Construction Investment Environmental Technology Company Limited* *(note a)*	PRC/Mainland China 14 July 2017	RMB10,000,000	100	—	Environmental improvement related construction services, sewage and reclaimed water treatment services, and water distribution services
Zhejiang Tiantai Construction Environment Technology Company Limited* *(note b)*	PRC/Mainland China 23 March 2022	RMB44,170,000	70	—	Sewage and reclaimed water treatment services
Zhejiang Tiantai Construction Investment Water Company Limited* *(note a)*	PRC/Mainland China 9 August 2016	RMB12,000,000	80	—	Sewage and reclaimed water treatment services

* The English names of these companies established in the PRC represent the best effort made by the management of the Target Company to directly translate the Chinese names as they did not register any official English names.

Notes:

(a) The statutory financial statements for the year ended 31 December 2019 and 2020 were prepared under PRC Generally Accepted Accounting Principles ("**PRC GAAP**") and were audited by Pan-China Certified Public Accountants LLP, certified public accountants registered in the PRC, and the statutory financial statements for the year ended 31 December 2021 prepared under PRC GAAP were audited by Da Hua Certified Public Accountants (Special General Partnership), certified public accountants registered in the PRC.

(b) No audited financial statements have been prepared as the company was newly established in 2022.

2.1 BASIS OF PRESENTATION

Pursuant to the completion of the acquisition of 80% of the equity interest of Zhejiang Tiantai Water on 4 January 2023 (the "**Acquisition**"), the Target Company became the holding company of the Zhejiang Tiantai Water and hence the Target Company and its subsidiaries including Zhejiang Tiantai Water now comprising the Target Group. The companies now comprising the Target Group were under the common control of the controlling shareholder before and after the Acquisition. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Acquisition had been completed at the beginning of the Relevant Periods.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the Relevant Periods and the period covered by the Interim Comparative Financial Information include the results and cash flows of all companies now comprising the Target Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The combined statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Acquisition.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholder prior to the Acquisition are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated in full on consolidation.

Non-controlling interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2.2 BASIS OF PREPARATION

The Historical Financial Information and the Interim Comparative Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong.

All HKFRSs effective for the accounting period commencing from the Relevant Periods, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Financial Information.

The Historical Financial Information and the Interim Comparative Financial Information have been prepared under the historical cost convention.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1,5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")* [2,4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "**2022 Amendments**")* [2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

The adoption of the new and revised HKFRSs is not expected to have a significant financial effect on the financial statements of the Target Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The financial information of the subsidiary is prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of the subsidiary are combined from the date on which the Target Group obtains control, and continue to be combined until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on combination.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Target Group determined whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group 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); and

(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 parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 20%
Plant and machinery	10% to 19%
Furniture and fixtures	14% to 19%
Computers	14% to 32%
Motor vehicles	10% to 19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of the reporting period.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Target Group assesses at contract inception whether a 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.

Target Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Building	3 years

If ownership of the leased asset transfers to the Target Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target

Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Target Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Service concession arrangements

A service concession arrangement refers to a contractual service arrangement granted by a government authority in Mainland China (the "**Grantor**") to allow the Target Group to operate an infrastructure to provide service to the public. Such arrangement involves the Target Group to develop, finance, operate, and maintain the public-service infrastructure for a specified period of time for a service fee. At the end of the service period, the Target Group is obliged to hand over the infrastructure to the Grantor in a specified condition for little or no incremental consideration.

Such service concession arrangement is governed by a contract between the Target Group and the relevant Grantor which sets out, inter alia, performance standards, the mechanism for service fee adjustment, specific obligations of the Target Group for the maintenance of the infrastructure and arrangement for arbitrating disputes.

Consideration given by the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Target Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the construction services rendered and/or the consideration paid and payable by the Target Group for the right to charge users of the public service; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Target Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Target Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Target Group ensuring that the infrastructure meets the specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Target Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets" below.

If the Target Group is paid partly by a financial asset and partly by an intangible asset, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or rehabilitation services

Revenue and costs relating to construction or rehabilitation services are accounted for in accordance with the policy set out for "Revenue recognition" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the infrastructure it operates to a specified level of serviceability and/or (b) to restore the infrastructure to a specified condition before it is handed over to the Grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the infrastructure, except for any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible asset (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Target Group of 30 years.

Computer software

Purchased computer software licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 2 to 5 years.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest (''**SPPI**'') on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ''pass-through'' arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group recognises an allowance for expected credit losses (''**ECLs**'') for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Group considers a financial asset in default based on historical pattern and credit risk management practices of the Target Group. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component, the Target Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries and interest-bearing bank borrowings.

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, 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 between the Target Group and the customer at contract inception. When the contract contains a financing component which provides the Target Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Depending on the terms of the contract and the laws that apply to the contract, control of the assets may be transferred over time or at a point of time.

The Target Group has satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

(i) The customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs.

(ii) The Target Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

(iii) The Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, the Target Group recognises revenue at the point in time at which the performance obligation is satisfied.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depicts the Target Group's performance in satisfying the performance obligation:

(i) direct measurements of the value transferred by the Target Group to the customer; or

(ii) the Target Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

When the Target Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to 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. In determining the transaction price, the Target Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

(a) Construction and rehabilitation services

For construction and rehabilitation services, the Target Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced and thus the Target Group satisfies a performance obligation and recognises revenue over time.

Revenue from the construction services under a service concession arrangement is estimated on a cost plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered.

(b) Sewage and reclaimed water treatment services

Revenue is recognised over the service period when the customers simultaneously receive and consume the benefits over the period of the services rendered by the Target Group.

(c) Water distribution services

The Target Group recognises revenue from water distribution services at the point in time when control of the water is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the water and the Target Group has a present right to payment and the collection of the consideration is probable.

Revenue from other sources

Finance income from service concession arrangements is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Target Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Other employee benefits

Defined contribution schemes

The Target Group has joined a number of defined contribution pension schemes organised by certain provincial or municipal governments in the PRC for certain of its employees, the assets of which are held separately from those of the Target Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to profit or loss as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Historical Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Construction and rehabilitation services

The Target Group recognises revenue for construction and rehabilitation services according to the percentage of completion of the individual contracts of construction and rehabilitation work. The Target Group's management estimates the percentage of completion of construction and rehabilitation work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and rehabilitation service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Target Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction and rehabilitation service contract as the contract progresses.

Determination of fair value of contract revenue in respect of the construction and rehabilitation services rendered

Revenue from the construction and rehabilitation of sewage and reclaimed water treatment plants under the terms of a Build-Operate-Transfer ("**BOT**") and Rehabilitation-Operate-Transfer ("**ROT**") contracts is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The construction and rehabilitation margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

(i) the peer firm must be in the field of the construction and rehabilitation of infrastructure, majoring in sewage and reclaimed water treatment facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Provision for expected credit losses for receivables under service concession arrangements, trade receivables and contract assets

The policy for provision for expected credit losses on receivables under service concession arrangements, trade receivables and contract assets of the Target Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. The information about the ECLs on the Target Group's receivables under service concession arrangements, trade receivables and contract assets is disclosed in notes 15, 18 and 17 to the Historical Financial Information, respectively.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Target Group has only one reportable operating segment, which is the construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC. Accordingly, no segment information is presented.

Geographical information

(a) Revenue from external customers

No geographical information is presented as all of the Target Group's revenue from external customers was derived from customers located in the PRC during the Relevant Periods.

(b) Non-current assets

No geographical information is presented as the majority of the Target Group's non-current assets were located in the PRC as at 31 December 2019, 2020 and 2021 and 30 September 2022.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Target Group's revenue for each reporting period during the Relevant Periods is set out below:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Customer A	39,896	13,569	*	*	*
Customer B	26,924	23,366	10,365	8,691	7,189
Customer C	*	33,836	*	*	*
Customer D	*	*	35,780	32,110	*
Customer E	*	*	*	*	7,339
Customer F	*	*	*	*	16,399

* Nil or less than 10% of the Target Group's revenue.

6. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue from contracts with customers					
Construction, rehabilitation and other services	87,581	73,460	47,454	35,193	22,863
Sewage and reclaimed water treatment services	18,110	33,035	46,388	33,921	37,964
Water distribution services	2,873	3,539	6,535	4,637	5,359
	108,564	110,034	100,377	73,751	66,186
Revenue from other sources					
Finance income from service concession arrangements	3,393	4,746	4,997	3,759	3,813
	111,957	114,780	105,374	77,510	69,999

Revenue from contracts with customers

(a) Disaggregated revenue information

As described in note 3 to the Historical Financial Information, revenue of sewage and reclaimed water treatment services, construction, rehabilitation and other services is recognised over time. Revenue of water distribution services is recognised at a point in time.

Please refer to the table above for the disclosure of disaggregated revenue.

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of the year/period:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sewage water treatment services	—	6,195	2,640	2,456	—

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the contract liabilities regarding unsatisfied performance obligations as at end of the Relevant Periods resulting from sewage water treatment services amounted to RMB8,835,000, RMB2,640,000, nil and nil, respectively. The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) expected to be recognised as revenue within one year amounted to RMB6,195,000, RMB2,640,000, nil and nil as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively.

(b) ***Performance obligations***

Information about the Target Group's performance obligations is summarised below:

Construction and rehabilitation services

The performance obligation is satisfied over time as services are rendered and payment is due 60 days to 180 days from the date of billing.

Sewage and reclaimed water treatment services and water distribution services

The performance obligation is satisfied over time as services are rendered and payment is due 60 days to 180 days from completion of the services.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Amounts expected to be recognised as revenue:					
Within one year	64,512	18,246	28,189	51,142	150,308
After one year	783,988	731,022	732,780	769,502	728,402
	848,500	749,268	760,969	820,644	878,710

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to construction and rehabilitation services and service concession arrangements. The amounts disclosed above do not include variable consideration which is constrained.

An analysis of other income is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Bank interest income	200	312	365	268	348
Interest income on a loan to a fellow subsidiary	—	491	1,693	1,234	1,266
Government grants*	300	702	1,267	658	811
Others	59	202	62	62	529
	559	1,707	3,387	2,222	2,954

* The government grants represent the subsidies for the incurred operating expenses arising from research and development activities, which are recognised as other income when the incurred operating expenses fulfilled the conditions attached.

7. PROFIT BEFORE TAX

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

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Contract costs		89,201	92,745	79,081	57,965	49,032
Depreciation of property, plant and equipment	*13*	883	1,102	1,272	891	755
Less: Amounts included in contract costs		(242)	(343)	(385)	(271)	(273)
		641	759	887	620	482
Depreciation of right-of-use assets*	*14(c)*	—	—	60	24	109
Amortisation of operating concessions*	*15*	940	1,145	1,248	936	936
Amortisation of other intangible assets	*16*	16	68	83	64	92
Less: Amounts included in contract costs		(1)	(34)	(37)	(27)	(36)
		15	34	46	37	56
Lease payments not included in the measurement of lease liabilities		350	885	1,743	1,540	1,870
Less: Amounts included in contract costs	*14(c)*	(210)	(813)	(1,699)	(1,505)	(1,847)
	14(c)	140	72	44	35	23

		Year ended 31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Employee benefit expense (including directors' remuneration *(note 9)*):						
Salaries, allowances and benefits in kind		14,578	14,990	16,720	11,729	11,368
Pension scheme contributions		3,311	2,663	4,562	3,158	3,685
		17,889	17,653	21,282	14,887	15,053
Less: Amount included in contract costs		(7,299)	(5,651)	(6,617)	(4,820)	(4,656)
		10,590	12,002	14,665	10,067	10,397
Auditor's remuneration		26	31	28	21	21
Impairment/(reversal of impairment) of receivables under service concession arrangements**	*15*	28	5	(1)	—	4
Impairment/(reversal of impairment) of trade receivables**	*18*	(417)	(71)	183	99	(4)
Impairment/(reversal of impairment) of contract assets**	*17*	(58)	284	205	—	(191)

* These items are included in "Contract costs" on the face of the combined statements of profit or loss and other comprehensive income.

** The items are included in "Other operating income/(expense), net" on the face of the combined statements of profit or loss and other comprehensive income.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on bank borrowings	296	385	1,351	1,041	978
Interest on lease liabilities	—	—	6	3	—
Total finance costs	296	385	1,357	1,044	978

9. DIRECTORS' REMUNERATION

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	1,457	2,181	1,885	1,414	1,536
Pension scheme contributions	272	264	361	287	322
	1,729	2,445	2,246	1,701	1,858

(a) Independent non-executive directors

No independent non-executive directors were appointed and there were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

(b) Directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019				
Directors				
Mr. Yu Lisheng	—	619	108	727
Mr. He Xinjun	—	333	37	370
Mr. Li Changhao	—	80	22	102
Mr. Fang Qun	—	—	—	—
Mr. Xu Feng	—	—	—	—
Ms. Fang Peizhen	—	425	105	530
	—	1,457	272	1,729
Year ended 31 December 2020				
Directors				
Mr. Yu Lisheng	—	765	88	853
Mr. He Xinjun	—	765	86	851
Mr. Zhu Song	—	465	60	525
Mr. Fang Qun	—	—	—	—
Ms. Fang Peizhen	—	186	30	216
	—	2,181	264	2,445

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021				
Directors				
Mr. Yu Lisheng	—	689	122	811
Mr. He Xinjun	—	713	121	834
Mr. Zhu Song	—	483	118	601
	—	1,885	361	2,246
Nine months ended 30 September 2022				
Directors				
Mr. Yu Lisheng	—	562	109	671
Mr. He Xinjun	—	580	108	688
Mr. Zhu Song	—	394	105	499
	—	1,536	322	1,858
Nine months ended 30 September 2021 (unaudited)				
Directors				
Mr. Yu Lisheng	—	517	97	614
Mr. He Xinjun	—	535	96	631
Mr. Zhu Song	—	362	94	456
	—	1,414	287	1,701

Notes:

(1) Mr. Li Changhao resigned as an executive director with effect from 4 April 2019.

(2) Mr. Xu Feng resigned as an executive director with effect from 28 August 2019.

(3) Mr. He Xinjun was appointed as an executive director with effect from 7 September 2019.

(4) Mr. Zhu Song was appointed as an executive director with effect from 9 April 2020.

(5) Mr. Fang Qun resigned as an executive director with effect from 30 April 2020.

(6) Ms. Fang Peizhen resigned as an executive director with effect from 30 April 2020.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant periods.

During the Relevant Periods and the period covered by the Interim Comparative Financial Information, no remuneration was paid by the Target Group to the directors as an inducement to join or upon joining the Target Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022 and 30 September 2021 included 3, 4, 3, 3 and 3 directors, respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining non-director, highest paid employees for the Relevant Periods and the period covered by the Interim Comparative Financial Information are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	851	529	947	710	974
Pension scheme contributions	211	85	252	189	208
	1,062	614	1,199	899	1,182

The numbers of the non-director, highest paid employees whose remuneration fell within the following band are as follows:

	Number of employees				
	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
Nil to HK$1,000,000	2	1	2	2	2
	2	1	2	2	2

11. INCOME TAX

During the Relevant Periods and the period covered by the Interim Comparative Financial Information, no provision for Hong Kong profits tax was made as the Target Group did not generate any assessable profit arising in Hong Kong. The income tax provisions in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, the Target Company and certain of its subsidiaries enjoy income tax exemptions and reductions because (1) these companies are engaged in the operations of sewage and reclaimed water treatment; and/or (2) they are recognised as high and new technology entity and qualified for a 15% concessionary corporate income tax rate; and/or (3) they are recognised as small and micro-sized enterprises that are qualified for a 20% concessionary corporate income tax rate for a prescribed period of time pursuant to the notices issued by the Ministry of Finance and the State Taxation Administration of Mainland China.

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current — Mainland China	258	77	74	59	331
Deferred *(note 24)*	821	190	256	476	163
Total tax charge for the year/period	1,079	267	330	535	494

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax position at the effective tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before tax	8,923	7,812	10,186	8,472	10,192
Tax at PRC statutory rate of 25%	2,231	1,953	2,547	2,118	2,548
Lower tax rates of specific provinces or enacted by local authorities	(663)	(598)	(678)	(618)	(632)
Income not subject to tax	(18)	(45)	—	—	(39)
Expenses not deductible for tax	44	86	52	34	42
Tax concession	(515)	(1,129)	(1,591)	(999)	(1,425)
Tax charge at the effective rate (31 December 2019: 12.1%; 31 December 2020: 3.4%; 31 December 2021: 3.2%; 30 September 2021: 6.3%; 30 September 2022: 4.8%)	1,079	267	330	535	494

12. DIVIDENDS

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Dividends	—	—	—	—	600

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Computers *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2019						
At 1 January 2019:						
Cost	782	1,132	642	166	1,305	4,027
Accumulated depreciation	(315)	(224)	(136)	(36)	(235)	(946)
Net carrying amount	467	908	506	130	1,070	3,081
At 1 January 2019, net of accumulated depreciation	467	908	506	130	1,070	3,081
Additions	247	594	104	57	651	1,653
Depreciation provided during the year	(238)	(187)	(132)	(37)	(289)	(883)
At 31 December 2019, net of accumulated depreciation	476	1,315	478	150	1,432	3,851
At 31 December 2019:						
Cost	1,029	1,726	746	223	1,956	5,680
Accumulated depreciation	(553)	(411)	(268)	(73)	(524)	(1,829)
Net carrying amount	476	1,315	478	150	1,432	3,851
31 December 2020						
At 31 December 2019 and 1 January 2020:						
Cost	1,029	1,726	746	223	1,956	5,680
Accumulated depreciation	(553)	(411)	(268)	(73)	(524)	(1,829)
Net carrying amount	476	1,315	478	150	1,432	3,851
At 1 January 2020, net of accumulated depreciation	476	1,315	478	150	1,432	3,851
Additions	407	55	65	54	656	1,237
Depreciation provided during the year	(258)	(260)	(151)	(46)	(387)	(1,102)
At 31 December 2020, net of accumulated depreciation	625	1,110	392	158	1,701	3,986
At 31 December 2020:						
Cost	1,436	1,781	811	277	2,612	6,917
Accumulated depreciation	(811)	(671)	(419)	(119)	(911)	(2,931)
Net carrying amount	625	1,110	392	158	1,701	3,986

	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Computers *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2021						
At 31 December 2020 and 1 January 2021:						
Cost	1,436	1,781	811	277	2,612	6,917
Accumulated depreciation	(811)	(671)	(419)	(119)	(911)	(2,931)
Net carrying amount	625	1,110	392	158	1,701	3,986
At 1 January 2021, net of accumulated depreciation	625	1,110	392	158	1,701	3,986
Additions	14	226	71	33	407	751
Depreciation provided during the year	(338)	(271)	(162)	(54)	(447)	(1,272)
At 31 December 2021, net of accumulated depreciation	301	1,065	301	137	1,661	3,465
At 31 December 2021:						
Cost	1,450	2,007	882	310	3,019	7,668
Accumulated depreciation	(1,149)	(942)	(581)	(173)	(1,358)	(4,203)
Net carrying amount	301	1,065	301	137	1,661	3,465
30 September 2022						
At 31 December 2021 and 1 January 2022:						
Cost	1,450	2,007	882	310	3,019	7,668
Accumulated depreciation	(1,149)	(942)	(581)	(173)	(1,358)	(4,203)
Net carrying amount	301	1,065	301	137	1,661	3,465
At 1 January 2022, net of accumulated depreciation	301	1,065	301	137	1,661	3,465
Additions	—	43	63	21	—	127
Depreciation provided during the period	(63)	(212)	(113)	(36)	(331)	(755)
At 30 September 2022, net of accumulated depreciation	238	896	251	122	1,330	2,837
At 30 September 2022:						
Cost	1,450	2,050	945	331	3,019	7,795
Accumulated depreciation	(1,212)	(1,154)	(694)	(209)	(1,689)	(4,958)
Net carrying amount	238	896	251	122	1,330	2,837

14. LEASES

The Target Group as a lessee

(a) Right-of-use assets

The carrying amounts of the Target Group's right-of-use assets and the movements during the year are as follows:

	Building
	RMB'000
At 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020 and 1 January 2021	—
Additions	434
Depreciation charge	(60)
At 31 December 2021 and 1 January 2022	374
Depreciation charge	(109)
At 30 September 2022	265

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year/period are as follows:

	RMB'000
At 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020 and 1 January 2021	—
New leases	434
Accretion of interest recognised during the year	6
Payments	(440)
At 31 December 2021, 1 January 2022 and 30 September 2022	—

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on lease liabilities	—	—	6	3	—
Depreciation of right-of-use assets (included in cost of sales)	—	—	60	24	109
Expense relating to short-term leases (included in administrative expense)	140	72	44	35	23
Expense relating to short-term leases (included in contract costs)	210	813	1,699	1,505	1,847
Total amount recognised in profit or loss	350	885	1,809	1,567	1,979

(d) The total cash outflow for leases is disclosed in note 27(c) to the Historical Financial Information.

15. SERVICE CONCESSION ARRANGEMENTS

The Target Group has entered into several service concession arrangements with certain governmental authorities in Zhejiang Province, Mainland China on a ROT, a BOT or a Transfer-Operate-Transfer ("**TOT**") basis in respect of its sewage and reclaimed water treatment as well as water distribution services. These service concession arrangements generally involve the Target Group as an operator in (i) rehabilitating or constructing sewage and reclaimed water treatment plants and water distribution facilities (collectively, the "**Facilities**") for those arrangements on a ROT and BOT basis; (ii) obtaining the Facilities for the arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 25 to 30 years (the "**Service Concession Periods**"), and the Target Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Target Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as Grantors will control and regulate the scope of services that the Target Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Target Group and the relevant governmental authority in Zhejiang Province, Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Target Group, specific obligations imposed on the Target Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

A summary of the major terms of the principal service concession arrangements as at 30 September 2022 is as follows:

No.	Name of company as operator*	Nature of the project	Location	Name of Grantor*	Type of Service concession arrangement	Service concession period
1	Changxing Construction Investment Environmental Technology Company Limited	Sewage Treatment Plant in Meishan Town, Changxing County	Huzhou, Zhejiang Province, PRC	Government of Meishan Town, Changxing County	TOT on sewage treatment	30 years from 2017 to 2047
2	Zhejiang Construction Investment Environment Engineering Company Limited	Upgrade of Sewage Treatment Plant in Meishan Town, Changxing County	Huzhou, Zhejiang Province, PRC	Government of Meishan Town, Changxing County	BOT on sewage treatment	30 years from 2017 to 2047
3	Changxing Construction Investment Environmental Technology Company Limited	Water Plant in Meishan Town, Changxing County	Huzhou, Zhejiang Province, PRC	Government of Meishan Town, Changxing County	ROT on water distribution	30 years from 2017 to 2047
4	Changxing Construction Investment Environmental Technology Company Limited	Extension of Water Plant in Meishan Town, Changxing County	Huzhou, Zhejiang Province, PRC	Government of Meishan Town, Changxing County	BOT on water distribution	30 years from 2017 to 2047

No.	Name of company as operator*	Nature of the project	Location	Name of Grantor*	Type of Service concession arrangement	Service concession period
5	Zhejiang Construction Investment Environment Engineering Company Limited	Reclaimed Water Treatment Station in Meishan Town, Changxing County	Huzhou, Zhejiang Province, PRC	Changxing Xinneng Construction Development Company Limited	BOT on reclaimed water treatment	30 years from 2019 to 2049
6	Changxing Construction Investment Water Company Limited	Hemei Sewage Treatment Plant in Changxing County	Huzhou, Zhejiang Province, PRC	Government of Heping Town, Changxing County	TOT on sewage treatment	30 years from 2016 to 2046
7	Zhejiang Tiantai Construction Investment Water Company Limited	Cangshan Sewage Treatment Plant	Taizhou, Zhejiang Province, PRC	State-Owned Assets Affairs Center of Tiantai County	BOT on sewage treatment	30 years from 2017 to 2047
8	Zhejiang Tiantai Construction Environment Technology Company Limited	Cangshan Sewage Treatment Plant Phase II	Taizhou, Zhejiang Province, PRC	State-Owned Assets Affairs Center of Tiantai County	BOT on sewage treatment	25 years from 2022 to 2047

* The English names of these governmental authorities and companies established in the PRC represent the best effort made by the management of the Target Company to directly translate the Chinese names as they did not register any official English names.

At 31 December 2019, 2020, 2021 and 30 September 2022, certain receivables under service concession arrangements of the Target Group with aggregate carrying amounts of nil, RMB41,210,000, RMB40,598,000 and RMB39,803,000, respectively, and the relevant future revenue entitlement under the service concession arrangement were pledged to secure certain bank loans granted to the Target Group with the amount of nil, RMB29,000,000, RMB28,000,000 and RMB27,000,000 (note 23).

As further explained in the accounting policy for "Service concession arrangements" set out in note 3 to the Historical Financial Information, the consideration paid by the Target Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Target Group's service concession arrangements:

(a) Operating concessions

31 December 2019

	RMB'000
At 1 January 2019:	
Cost	26,947
Accumulated amortisation	(78)
Net carrying amount	26,869
At 1 January 2019, net of accumulated amortisation	26,869
Additions	6,924
Amortisation provided during the year	(940)
At 31 December 2019, net of accumulated amortisation	32,853
At 31 December 2019:	
Cost	33,871
Accumulated amortisation	(1,018)
Net carrying amount	32,853

31 December 2020

At 31 December 2019 and 1 January 2020:	
Cost	33,871
Accumulated amortisation	(1,018)
Net carrying amount	32,853
At 1 January 2020, net of accumulated amortisation	32,853
Additions	1,922
Amortisation provided during the year	(1,145)
At 31 December 2020, net of accumulated amortisation	33,630
At 31 December 2020:	
Cost	35,793
Accumulated amortisation	(2,163)
Net carrying amount	33,630

31 December 2021

	RMB'000
At 31 December 2020 and 1 January 2021:	
Cost	35,793
Accumulated amortisation	(2,163)
Net carrying amount	33,630
At 1 January 2021, net of accumulated amortisation	33,630
Amortisation provided during the year	(1,248)
At 31 December 2021, net of accumulated amortisation	32,382
At 31 December 2021:	
Cost	35,793
Accumulated amortisation	(3,411)
Net carrying amount	32,382

30 September 2022

At 31 December 2021 and 1 January 2022:	
Cost	35,793
Accumulated amortisation	(3,411)
Net carrying amount	32,382
At 1 January 2022, net of accumulated amortisation	32,382
Amortisation provided during the period	(936)
At 30 September 2022, net of accumulated amortisation	31,446
At 30 September 2022:	
Cost	35,793
Accumulated amortisation	(4,347)
Net carrying amount	31,446

As at 31 December 2019, 2020 and 2021 and 30 September 2022, contract assets which were presented as operating concession rights amounted to RMB6,924,000, nil, nil, and nil, respectively. Contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Target Group receives no payment from the Grantors during the construction period and receives service fees when the relevant provision of services are rendered.

(b) Receivables under service concession arrangements

		As at 31 December			As at 30 September
		2019	**2020**	**2021**	**2022**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Receivables under service concession arrangements		93,379	110,404	107,658	119,173
Impairment	*(i)*	(28)	(33)	(32)	(36)
		93,351	110,371	107,626	119,137
Portion classified as current assets		(3,651)	(4,258)	(3,933)	(4,053)
Non-current portion		89,700	106,113	103,693	115,084

As at 31 December 2019, 2020 and 2021 and 30 September 2022, contract assets which were presented as receivables under service concession arrangements amounted to RMB11,112,000, nil, nil, and RMB13,137,000, respectively. The remaining amounts of receivables under service concession arrangements at the end of reporting period were due from the Grantors in respect of the Target Group's water distribution and sewage and reclaimed water treatment operations.

Note:

(i) The movements in the loss allowance for impairment of the Target Group's receivables under service concession arrangements are as follows:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	—	28	33	32
Impairment losses	28	5	(1)	4
At end of year/period	28	33	32	36

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information.

16. OTHER INTANGIBLE ASSETS

	Software
	RMB'000
31 December 2019	
At 1 January 2019:	
Cost	37
Accumulated amortisation	(22)
Net carrying amount	15
At 1 January 2019, net of accumulated amortisation	15
Additions	78
Amortisation provided during the year	(16)
At 31 December 2019, net of accumulated amortisation	77
At 31 December 2019:	
Cost	115
Accumulated amortisation	(38)
Net carrying amount	77

	Software
	RMB'000
31 December 2020	
At 31 December 2019 and 1 January 2020:	
Cost	115
Accumulated amortisation	(38)
Net carrying amount	77
At 1 January 2020, net of accumulated amortisation	77
Additions	203
Amortisation provided during the year	(68)
At 31 December 2020, net of accumulated amortisation	212
At 31 December 2020:	
Cost	318
Accumulated amortisation	(106)
Net carrying amount	212

	Software
	RMB'000
31 December 2021	
At 31 December 2020 and 1 January 2021:	
Cost	318
Accumulated amortisation	(106)
Net carrying amount	212
At 1 January 2021, net of accumulated amortisation	212
Additions	104
Amortisation provided during the year	(83)
At 31 December 2021, net of accumulated amortisation	233
At 31 December 2021:	
Cost	422
Accumulated amortisation	(189)
Net carrying amount	233

	Software
	RMB'000
30 September 2022	
At 31 December 2021 and 1 January 2022:	
Cost	422
Accumulated amortisation	(189)
Net carrying amount	233
At 1 January 2022, net of accumulated amortisation	233
Additions	71
Amortisation provided during the period	(92)
At 30 September 2022, net of accumulated amortisation	212
At 30 September 2022:	
Cost	493
Accumulated amortisation	(281)
Net carrying amount	212

17. CONTRACT ASSETS

		As at 31 December			As at 30 September
		2019	2020	2021	2022
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets	*(a)*	8,080	45,833	48,455	37,063
Impairment		(2)	(286)	(491)	(300)
		8,078	45,547	47,964	36,763

Note:

(a) Contract assets mainly consist of the Target Group's rights to consideration for works completed and services provided but unbilled amounts resulting from construction and rehabilitation contracts as well as sewage and reclaimed water treatment services. The contract assets are transferred to trade receivables when the rights become unconditional. The increase in contract assets for the years ended 2020 and 2021 and nine months ended 30 September 2022 was the result of the increase in the provision of construction and rehabilitation services at the end of each of the year and the period.

The expected timing of recovery or settlement for contract assets as at the end of year/period is as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	8,078	45,547	47,964	36,763

Allowances for expected credit losses on contract assets of RMB2,000, RMB286,000, RMB491,000 and RMB300,000 were recognised as at 31 December 2019, 2020 and 2021 and 30 September 2022, respectively. The Target Group's trading terms and credit policy with customers are disclosed in note 18.

The movements in the loss allowance for impairment of contract assets are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	60	2	286	491
Impairment losses/(reversal of impairment losses)	(58)	284	205	(191)
At end of year/period	2	286	491	300

An impairment analysis is performed at the end of the reporting period using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Target Group's contract assets using a provision matrix:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
Expected credit loss rate	0.0%	0.6%	1.0%	0.8%
Gross carrying amount *(RMB'000)*	8,080	45,833	48,455	37,063
Expected credit losses *(RMB'000)*	2	286	491	300

18. TRADE RECEIVABLES

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	12,104	9,773	11,780	11,854
Impairment	(84)	(13)	(196)	(192)
	12,020	9,760	11,584	11,662

The Target Group's trading terms with its customers are on credit. The Target Group's credit period with customers is 60 to 180 days. The Target Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	5,613	3,207	2,867	896
1 to 2 months	1,413	246	120	1,785
2 to 3 months	—	486	512	201
3 to 12 months	1,234	4,101	7,055	7,436
Over 1 year	3,760	1,720	1,030	1,344
	12,020	9,760	11,584	11,662

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	501	84	13	196
Impairment losses	(417)	(71)	183	(4)
At end of year/period	84	13	196	192

The fluctuation in the loss allowance during the Relevant Periods was mainly due the fluctuation in trade receivables which were past due for over one year.

An impairment analysis is performed at the end of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Target Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due				
	Current	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.0%	0.0%	0.0%	0.3%	16.1%	0.7%
Gross carrying amount *(RMB'000)*	10,535	117	251	710	491	12,104
Expected credit losses *(RMB'000)*	3	—	—	2	79	84

As at 31 December 2020

		Past due				
	Current	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.0%	0.0%	0.2%	0.4%	20.0%	0.1%
Gross carrying amount *(RMB'000)*	6,016	192	1,266	2,294	5	9,773
Expected credit losses *(RMB'000)*	1	—	2	9	1	13

As at 31 December 2021

		Past due				
	Current	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.0%	0.0%	0.0%	3.5%	17.6%	1.7%
Gross carrying amount *(RMB'000)*	10,158	4	197	404	1,017	11,780
Expected credit losses *(RMB'000)*	3	—	—	14	179	196

As at 30 September 2022

		Past due				
	Current	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**Over 1 year**	**Total**
Expected credit loss rate	0.0%	0.0%	0.1%	1.7%	17.1%	1.6%
Gross carrying amount *(RMB'000)*	4,695	4,582	998	528	1,051	11,854
Expected credit losses *(RMB'000)*	1	1	1	9	180	192

The Target Group applies the simplified approach to the provision for expected credit losses prescribed by HKFRS 9 which permits the use of the lifetime expected loss provision for all trade receivables.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	189	503	633	760
Deposits and other receivables	8,454	6,782	5,750	3,278
	8,643	7,285	6,383	4,038
Less: Non-current portion	(25)	—	—	—
	8,618	7,285	6,383	4,038

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at the end of each Relevant Periods, the loss allowance was assessed to be minimal.

20. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	40,279	40,353	38,863	23,573
Less: Restricted bank balance *(note (a))*	(150)	(349)	(261)	(367)
Cash and cash equivalents	40,129	40,004	38,602	23,206

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Note:

(a) The Target Group's restricted bank balance as at 31 December 2019, 2020 and 2021 and 30 September 2022 included bank balances of RMB150,000, RMB349,000, RMB261,000, and RMB367,000, respectively, pledged to bank for the issuance of guarantees to secure certain projects and power supply.

21. TRADE PAYABLES

An ageing analysis of the trade payables, based on the invoice date, at the end of the Relevant Periods is as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	9,114	6,872	5,293	2,822
1 to 2 months	365	159	9,285	449
2 to 3 months	—	—	335	691
Over 3 months	12,038	10,671	10,709	7,461
	21,517	17,702	25,622	11,423

The trade payables are non-interest-bearing and are normally settled within six months.

22. OTHER PAYABLES AND ACCRUALS

		As at 31 December			As at 30 September
		2019	2020	2021	2022
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	*(a)*	8,835	2,640	—	—
Other payables		11,658	17,732	25,957	26,393
Accruals		38,072	67,143	63,391	46,117
		58,565	87,515	89,348	72,510

Other payables are non-interest-bearing and there are generally no credit terms.

Note:

(a) Details of contract liabilities are as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sewage water treatment services	8,835	2,640	—	—

The decrease in contract liabilities during the reporting period was mainly due to the decrease in short-term advances received from the customer in relation to the provision of sewage treatment services.

23. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2019		
	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Current portion of long-term bank loans — secured	N/A	N/A	—
Non-current			
Bank loans — secured	N/A	N/A	—
			—

	As at 31 December 2020		
	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Current portion of long-term bank loans — secured	4.65	2021	1,000
Non-current			
Bank loans — secured	4.65	2022–2034	28,000
			29,000

	As at 31 December 2021		
	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Current portion of long-term bank loans — secured	4.65	2022	2,000
Non-current			
Bank loans — secured	4.65	2023–2034	26,000
			28,000

	As at 30 September 2022		
	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Current portion of long-term bank loans — secured	4.65	2022–2023	2,000
Non-current			
Bank loans — secured	4.65	2023–2034	25,000
			27,000

Notes:

All of the Target Group's bank borrowings are denominated in RMB.

All of the Target Group's bank borrowings as at 31 December 2020 and 2021 and 30 September 2022 are secured by the pledge of receivables and future revenue entitlement under certain service concession arrangement (note 15).

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	—	1,000	2,000	2,000
In the second year	—	2,000	2,000	2,000
In the third to fifth years, inclusive	—	6,000	6,000	6,000
Beyond five years	—	20,000	18,000	17,000
	—	29,000	28,000	27,000

24. DEFERRED TAX ASSETS

	Impairment provision	Loss available for offsetting against future taxable profits	Net total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	82	1,752	1,834
Deferred tax credited to profit or loss during the year	(62)	(759)	(821)
At 31 December 2019 and 1 January 2020	20	993	1,013
Deferred tax charged/(credited) to profit or loss during the year	33	(223)	(190)
At 31 December 2020 and 1 January 2021	53	770	823
Deferred tax charged/(credited) to profit or loss during the year	69	(325)	(256)
At 31 December 2021 and 1 January 2022	122	445	567
Deferred tax credited to profit or loss during the period	(29)	(134)	(163)
At 30 September 2022	93	311	404

The Target Group has tax losses arising in Mainland China of RMB6,247,000, RMB4,555,000, RMB2,687,000 and RMB2,070,000 during the year ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2022, respectively, that will expire in one to five years for offsetting against future taxable profits.

25. PAID-UP CAPITAL

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Paid-up capital	150,000	150,000	150,000	181,000

A summary of movements in the Target Group's paid-up capital is as follows:

	Notes	*RMB'000*
At 1 January 2019		100,000
Capital injection	*(a)*	50,000
At 31 December 2019, 1 January 2020, 31 December 2020, 1 January 2021, 31 December 2021 and 1 January 2022		150,000
Capital injection	*(b)*	31,000
At 30 September 2022		181,000

Notes:

(a) The capital injection was in the form of cash and was paid on 13 August 2019.

(b) The capital injection was in the form of cash and was paid on 22 April 2022.

26. RESERVES

The amounts of the Target Group's reserves and the movements therein for the Relevant Periods are presented in the combined statement of changes in equity on page II-8 to the Historical Financial Information.

For the purpose of the preparation of the combined statements of financial position, the balances of the merger reserve at 31 December 2019, 2020 and 2021 and 30 September 2022 represent the paid up capital of a subsidiary attributable to the shareholder prior to the business acquisition under common control.

Pursuant to the relevant laws and regulations, a portion of the profits of the Target Group's subsidiary which is established/registered in Mainland China has been transferred to reserve funds which are restricted as to use.

27. NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, prepayments for non-current assets of RMB25,000 were transferred to other intangible assets. During the year ended 31 December 2021, the Target Group had non-cash additions to right-of-use assets and lease liabilities of RMB434,000 in respect of lease arrangements for properties.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings	Lease liabilities
	RMB'000	*RMB'000*
At 1 January 2019	—	—
Changes from financing cash flows	(296)	—
Interest expenses	296	—
At 31 December 2019, and 1 January 2020	—	—
Changes from financing cash flows	28,615	—
Interest expenses	385	—
At 31 December 2020 and 1 January 2021	29,000	—
Changes from financing cash flows	(2,351)	(434)
New leases	—	434
Interest expenses	1,351	6
Interest paid classified as operating cash flows	—	(6)
At 31 December 2021 and 1 January 2022	28,000	—
Changes from financing cash flows	(1,978)	—
Interest expenses	978	—
At 30 September 2022	27,000	—
At 1 January 2021	29,000	—
Changes from financing cash flows	(1,541)	—
Interest expenses	1,041	—
At 30 September 2021 (unaudited)	28,500	—

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Within operating activities	—	—	6	—	—
Within financing activities	—	—	434	—	—
	—	—	440	—	—

28. CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021 and 30 September 2022, performance bonds of approximately nil, RMB876,000, RMB1,684,000 and RMB16,542,000, respectively, were given by banks in favour of the Target Group's customers as security for the due performance and observance of the Target Group's obligation under the contracts entered into between the Target Group and their customers. If the Target Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. The Target Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contract works, which are expected to be completed on or before 31 December 2024.

At the end of the reporting period, the directors do not consider it is probable that such claim will be made against the Target Group.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group did not have any significant guarantees or any litigations or claims of material importance, pending or threatened.

29. COMMITMENTS

The Target Group had the following capital commitments at the end of each Relevant Periods:

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
New service concession arrangements on: BOT basis	11,970	—	—	34,477

30. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Group had the following transactions with related parties during the Relevant Periods:

		Year ended31 December			Nine months ended 30 September	
		2019	**2020**	**2021**	**2021**	**2022**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
The immediate holding company						
Consultancy service fee paid	*(i)*	—	—	66	66	—
Construction service fee received	*(ii)*	—	3,007	1,203	1,203	—

		Year ended31 December			Nine months ended 30 September	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fellow subsidiaries						
Purchase of materials and equipment	*(iii)*	2,841	78	—	—	5,933
Construction service fee paid	*(iv)*	—	1,616	—	—	900
Consultancy service fee received	*(i)*	83	—	53	25	195
Construction service fee received	*(ii)*	40,330	11,121	35,780	32,110	3,354
Sewage operation and maintenance fee received	*(ii)*	280	3,743	6,567	6,305	5,853
Management fees paid	*(v)*	919	138	174	129	233
Interest income received	*(vi)*	—	491	1,693	1,234	1,266
A related party						
Consultancy service fee received	*(i)*	—	163	163	—	—

Notes:

(i) The consultancy service fee was charged in accordance with the terms of the agreements entered into between the Target Group and the immediate holding company, fellow subsidiaries and a related party.

(ii) The service fee received from the immediate holding company, and fellow subsidiaries were made according to the prices and conditions offered to the major customers of the Target Group.

(iii) The purchase of materials and equipment were made according to the prices and conditions offered by those companies to their major customers.

(iv) The construction service fee paid to the fellow subsidiaries were made according to the prices and conditions offered by those companies to their major customers.

(v) The management fees paid to a fellow subsidiary were made according to the prices and conditions offered by the fellow subsidiary to its major customers.

(vi) The interest income from a loan to a fellow subsidiary is unsecured and interest bearing at 6.0% per annum.

(b) At the end of each of the Relevant Periods, the provisions for impairment of amounts due from the immediate holding company, fellow subsidiaries and a related party were assessed to be immaterial based on ECLs.

At 31 December 2019, 2020, 2021 and 30 September 2022, the Target Group had loans to a fellow subsidiary, Zhejiang Jianshe Decoration Group Co., Ltd. (formerly known as Zhejiang Wulin Construction Decoration Group Co., Ltd), with amounts of nil, RMB29,500,000, RMB29,500,000 and RMB29,500,000, respectively, which bore interest at 6.0% per annum.

Except for the loan to a fellow subsidiary, the outstanding balances are unsecured, interest-free, and repayable on demand.

(c) Compensation of key management personnel of the Target Group

The compensation of key management personnel of the Target Group for the Relevant Periods represented the directors' emoluments as disclosed in note 9 to the Historical Financial Information.

(d) Commitments with related parties

On 30 June 2022, the Target Group entered into construction materials and equipment purchase agreements with Zhejiang Zhejian Industrial Development Co., Ltd. (the "**Zhejiang Zhejian**"), a fellow subsidiary, for constructing Cangshan Sewage Treatment Plant Phase II. The amounts of total purchases from Zhejiang Zhejian for the reporting period is included in note 30(a) to the Historical Financial Information. The Target Group expects total purchases from Zhejiang Zhejian to be approximately RMB24,918,000 on or before 31 December 2024.

On 12 July 2022, the Target Group entered into steel purchase agreement with Zhejiang Jianshe Trading & Logistics Co., Ltd. (the "**Zhejiang Jianshe**"), a fellow subsidiary, for constructing Cangshan Sewage Treatment Plant Phase II. The amounts of total purchases from Zhejiang Jianshe for the reporting period is included in note 30(a) to the Historical Financial Information. The amounts of total purchase from Zhejiang Jianshe expects to be approximately RMB5,500,000 on or before 31 December 2024.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

	Financial assets at amortised cost			
	As at 31 December			**As at 30 September**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	12,020	9,760	11,584	11,662
Receivables under service concession arrangements	93,351	110,371	107,626	119,137
Financial asset included in prepayment, deposits and other receivables	1,714	1,529	890	504
Amounts due from the immediate holding company	2,548	4,479	7,177	53,729
Amounts due from fellow subsidiaries	50,784	23,982	40,230	33,382
Amounts due from a related party	—	173	173	—
Loan to a fellow subsidiary	—	29,500	29,500	29,500
Restricted bank balance	150	349	261	367
Cash and cash equivalents	40,129	40,004	38,602	23,206
	200,696	220,147	236,043	271,487

	Financial liabilities at amortised cost			
	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	21,517	17,702	25,622	11,423
Financial liabilities included in other payables and accruals	43,664	75,242	77,722	60,856
Amounts due to fellow subsidiaries	11,042	5,932	4,009	3,065
Interest-bearing bank borrowings — current	—	1,000	2,000	2,000
Interest-bearing bank borrowings — non-current	—	28,000	26,000	25,000
	76,223	127,876	135,353	102,344

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Target Group's financial instruments as at the end of each of the Relevant Periods, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts				Fair values			
	As at 31 December			As at 30 September	As at 31 December			As at 30 September
	2019	2020	2021	2022	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	29,000	28,000	27,000	—	29,097	28,083	27,572

Management has assessed that the fair values of trade receivables, receivables under service concession arrangements, financial assets included in prepayments, deposits and other receivables, restricted bank balance, cash and cash equivalents, trade payables, balances with the immediate holding company, fellow subsidiaries and a related party, a loan to a fellow subsidiary and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in the Target Group's own non-performance risk for interest-bearing bank borrowings as at the end of the reporting period were assessed to be insignificant.

Fair value hierarchy

The Target Group did not have any financial assets and liabilities measured at fair value as at 31 December 2019, 2020 and 2021 and 30 September 2022.

During the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2022, there were no transfers of fair value measurement between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Target Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of each of the Relevant Periods in which they occur.

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	—	—	—

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	29,097	—	29,097

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	28,083	—	28,083

As at 30 September 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	27,572	—	27,572

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments include trade receivables, receivables under service concession arrangements, financial assets included in prepayments, deposits and other receivables, amounts due from the immediate holding company, fellow subsidiaries and a related party, a loan to a fellow subsidiary, restricted bank balance, cash and cash equivalents, trade payables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries and interest-bearing bank borrowings.

The main risks arising from the Target Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Target Group's exposure to the risk of changes in market interest rates relates primarily to the Target Group's bank loans with floating interest rates. The interest rates and terms of repayments of the bank loans are disclosed in note 23. The Target Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for the Target Group's variable rate bank loans at the end of the reporting period and the Target Group assumed that the amount outstanding at the end of the reporting period was outstanding for the whole reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Target Group's post-tax profit and equity for the years ended 31 December 2019, 2020 and 2021 and nine months ended 30 September 2021 and 2022 would have decreased/increased by nil, RMB40,000, RMB143,000, RMB107,000 (unaudited) and RMB103,000, respectively. This is mainly attributable to the Target Group's exposure to interest rates on its bank loans with variable rates.

Credit risk

The Target Group trades mainly with municipal governments and state-owned enterprise in different counties which are not expected to have significant credit risk. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant.

The credit risk of the Target Group's other financial assets, which comprise contract assets, trade receivables, receivables under service concession arrangements, amount due from the immediate holding company and fellow subsidiaries, a loan to a fellow subsidiary, financial assets included in prepayments, deposits and other receivables, restricted bank balance and cash and cash equivalents arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

The Target Group has applied the simplified approach to providing for impairment for expected credit losses ("**ECLs**") prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information.

Maximum exposure and year/period-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Target Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification as at the end of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets*	—	—	—	8,080	8,080
Trade receivables*	—	—	—	12,104	12,104
Receivables under service concession arrangements	93,379	—	—	—	93,379
Amounts due from the immediate holding company	2,548	—	—	—	2,548
Amounts due from fellow subsidiaries	50,784	—	—	—	50,784
Financial assets included in prepayments, deposits, and other receivables — Normal**	1,714	—	—	—	1,714
Restricted bank balance	150	—	—	—	150
Cash and cash equivalents — Not yet past due	40,129	—	—	—	40,129
	188,704	—	—	20,184	208,888

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets*	—	—	—	45,833	45,833
Trade receivables*	—	—	—	9,773	9,773
Receivables under service concession arrangements	110,404	—	—	—	110,404
Amounts due from the immediate holding company	4,479	—	—	—	4,479
Amounts due from fellow subsidiaries	23,982	—	—	—	23,982
Amounts due from a related party	173	—	—	—	173
Loan to a fellow subsidiary	29,500	—	—	—	29,500
Financial assets included in prepayments, deposits, and other receivables — Normal**	1,529	—	—	—	1,529
Restricted bank balance	349	—	—	—	349
Cash and cash equivalents — Not yet past due	40,004	—	—	—	40,004
	210,420	—	—	55,606	266,026

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets*	—	—	—	48,455	48,455
Trade receivables*	—	—	—	11,780	11,780
Receivables under service concession arrangements	107,658	—	—	—	107,658
Amounts due from the immediate holding company	7,177	—	—	—	7,177
Amounts due from fellow subsidiaries	40,230	—	—	—	40,230
Amounts due from a related party	173	—	—	—	173
Loan to a fellow subsidiary	29,500	—	—	—	29,500
Financial assets included in prepayments, deposits, and other receivables — Normal**	890	—	—	—	890
Restricted bank balance	261	—	—	—	261
Cash and cash equivalents — Not yet past due	38,602	—	—	—	38,602
	224,491	—	—	60,235	284,726

As at 30 September 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract assets*	—	—	—	37,063	37,063
Trade receivables*	—	—	—	11,854	11,854
Receivables under service concession arrangements	119,173	—	—	—	119,173
Amounts due from the immediate holding company	53,729	—	—	—	53,729
Amounts due from fellow subsidiaries	33,382	—	—	—	33,382
Loan to a fellow subsidiary	29,500	—	—	—	29,500
Financial assets included in prepayments, deposits, and other receivables — Normal**	504	—	—	—	504
Restricted bank balance — Not yet past due	367	—	—	—	367
Cash and cash equivalents — Not yet past due	23,206	—	—	—	23,206
	259,861	—	—	48,917	308,778

* For trade receivables and contract assets to which the Target Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 and 17 to the Historical Financial Information, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of funds generated from operations.

The maturity profile of the Target Group's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Less than 1 year	More than 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019				
Trade payables	21,517	—	—	21,517
Financial liabilities included in other payables and accruals	43,664	—	—	43,664
Amounts due to fellow subsidiaries	11,042	—	—	11,042
	76,223	—	—	76,223

	On demand	Less than 1 year	More than 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020				
Trade payables	17,702	—	—	17,702
Financial liabilities included in other payables and accruals	75,242	—	—	75,242
Interest-bearing bank borrowings	—	2,351	39,302	41,653
Amounts due to fellow subsidiaries	5,932	—	—	5,932
	98,876	2,351	39,302	140,529

	On demand	Less than 1 year	More than 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2021				
Trade payables	25,622	—	—	25,622
Financial liabilities included in other payables and accruals	77,722	—	—	77,722
Interest-bearing bank borrowings	—	3,291	34,011	37,302
Amounts due to fellow subsidiaries	4,009	—	—	4,009
	107,353	3,291	34,011	144,655

	On demand	Less than 1 year	More than 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 September 2022				
Trade payables	11,423	—	—	11,423
Financial liabilities included in other payables and accruals	60,856	—	—	60,856
Interest-bearing bank borrowings	—	3,221	32,114	35,335
Amounts due to fellow subsidiaries	3,065	—	—	3,065
	75,344	3,221	32,114	110,679

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders or return capital to shareholders. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payables and accruals, interest-bearing bank borrowings, amounts due to fellow subsidiaries, less restricted bank balance and cash and cash equivalents. Capital represents equity attributable to equity holders of the Target Group. The gearing ratios as at the end of the Relevant Periods were as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	21,517	17,702	25,622	11,423
Other payables and accruals	58,565	87,515	89,348	72,510
Interest-bearing bank borrowings	—	29,000	28,000	27,000
Amounts due to fellow subsidiaries	11,042	5,932	4,009	3,065
Less: Restricted bank balance	(150)	(349)	(261)	(367)
Cash and cash equivalents	(40,129)	(40,004)	(38,602)	(23,206)
Net debt	50,845	99,796	108,116	90,425
Equity attributable to owners of the parent	160,099	167,419	177,037	216,687
Capital and net debt	210,944	267,215	285,153	307,112
Gearing ratio	24%	37%	38%	29%

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 30 September 2022.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of CR Construction Group Holdings Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), and Zhejiang Construction Investment Environment Engineering Company Limited (the "**Target Company**") and its subsidiaries, and Zhejiang Tiantai Construction Investment Water Company Limited ("**Zhejiang Tiantai Water**") (collectively, the "**Target Group**") (the Group and the Target Group are hereafter collectively referred to as the "**Enlarged 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 (the "**Directors**") in accordance with Rule 4.29 of the Listing Rules and is solely prepared for the purpose to illustrate the effect of the proposed acquisition of the Target Company (the "**Acquisition**") to the Group as if the Acquisition has been completed on 31 December 2022.

The Unaudited Pro Forma Financial Information is prepared based on (i) the consolidated statement of financial position of the Group as at 31 December 2022 which has been extracted from the Company's published preliminary results announcement for the year ended 31 December 2022; and (ii) the audited combined statement of financial position of the Target Group as at 30 September 2022 which have been extracted from the financial information of the Target Group thereon set out in Appendix II to the circular dated 31 March 2023 ("**Circular**"), after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the proposed Acquisition been completed on 31 December 2022. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group, as incorporated by reference in Appendix I to this Circular, and that of the Target Group, as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

The Unaudited Pro Forma Financial Information

	The Group as at 31 December 2022	The Target Group as at 30 September 2022	The Target Group as at 30 September 2022	Pro forma adjustments			Unaudited pro forma of the Enlarged Group
	HK$'000	*RMB'000*	*HK'$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3(a))*	*(note 3(b))*	*(note 4)*	
NON-CURRENT ASSETS							
Property, plant and equipment	25,998	2,837	3,224	—	—	—	29,222
Right-of-use assets	48,322	265	301	—	—	—	48,623
Operating concessions	—	31,446	35,734	—	—	—	35,734
Other intangible assets	—	212	241	—	—	—	241
Receivables under service concession arrangements	—	115,084	130,777	—	—	—	130,777
Prepayments and deposits	9,169	—	—	—	—	—	9,169
Deferred tax assets	3,500	404	459	—	—	—	3,959
Total non-current assets	86,989	150,248	170,736	—	—	—	257,725
CURRENT ASSETS							
Contract assets	2,064,030	36,763	41,776	—	—	—	2,105,806
Receivables under service concession arrangements	—	4,053	4,606	—	—	—	4,606
Trade receivables	861,294	11,662	13,252	—	—	—	874,546
Prepayments, deposits and other receivables	49,010	4,038	4,589	—	—	—	53,599
Amounts due from the immediate holding company	—	53,729	61,056	—	—	(61,056)	—
Amounts due from an intermediate holding company	—	—	—	—	—	61,056	61,056
Amounts due from fellow subsidiaries	—	33,382	37,934	—	—	—	37,934
Loan to a fellow subsidiary	—	29,500	33,523	—	—	—	33,523
Tax recoverable	5,754	—	—	—	—	—	5,754
Restricted bank balance	—	367	417	—	—	—	417
Cash and cash equivalents	93,278	23,206	26,370	—	—	—	119,648
Total current assets	3,073,366	196,700	223,523	—	—	—	3,296,889

	The Group as at 31 December 2022	The Target Group as at 30 September 2022	The Target Group as at 30 September 2022	Pro forma adjustments			Unaudited pro forma of the Enlarged Group
	HK$'000	*RMB'000*	*HK'$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3(a))*	*(note 3(b))*	*(note 4)*	
CURRENT LIABILITIES							
Trade and retention payables	1,491,780	11,423	12,981	—	—	—	1,504,761
Other payables and accruals	848,985	72,510	82,398	14,400	—	—	945,783
Interest-bearing bank borrowings	170,000	2,000	2,273	—	—	—	172,273
Amounts due to an intermediate holding company	4,187	—	—	—	228,409	—	232,596
Amounts due to fellow subsidiaries	—	3,065	3,483	—	—	—	3,483
Loans from an intermediate holding company	18,988	—	—	—	—	—	18,988
Lease liabilities	18,765	—	—	—	—	—	18,765
Tax payable	3,905	970	1,102	—	—	—	5,007
Total current liabilities	2,556,610	89,968	102,237	14,400	228,409	—	2,901,656
NET CURRENT ASSETS	516,756	106,732	121,286	(14,400)	(228,409)	—	395,233
TOTAL ASSETS LESS CURRENT LIABILITIES	603,745	256,980	292,022	(14,400)	(228,409)	—	652,958
NON-CURRENT LIABILITIES							
Provision	5,700	—	—	—	—	—	5,700
Lease liabilities	28,953	—	—	—	—	—	28,953
Interest-bearing bank borrowings	—	25,000	28,409	—	—	—	28,409
Total non-current liabilities	34,653	25,000	28,409	—	—	—	63,062
Net assets	569,092	231,980	263,613	(14,400)	(228,409)	—	589,896

	The Group as at 31 December 2022	The Target Group as at 30 September 2022	The Target Group as at 30 September 2022	Pro forma adjustments			Unaudited pro forma of the Enlarged Group
	HK$'000	*RMB'000*	*HK'$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3(a))*	*(note 3(b))*	*(note 4)*	
EQUITY							
Equity attributable to equity holders of the Company							
Share capital	5,000	181,000	205,682	—	(205,682)	—	5,000
Reserves	564,092	35,687	40,553	(13,771)	(22,727)	—	568,147
	569,092	216,687	246,235	(13,771)	(228,409)	—	573,147
Non-controlling interests	—	15,293	17,378	(629)	—	—	16,749
Total equity	569,092	231,980	263,613	(14,400)	(228,409)	—	589,896

Notes:

1. The figures are extracted from the consolidated statement of financial position of the Group as at 31 December 2022 set out in the published preliminary results announcement for the year ended 31 December 2022.

2. The adjustment represented the inclusion of the assets and liabilities of the Target Group, as extracted from the audited combined statement of financial position of the Target Group as at 30 September 2022, as set out in Appendix II to this Circular.

   For the purpose of this Unaudited Pro Forma Financial Information, the balances stated in Renminbi ("**RMB**") are converted into Hong Kong dollars ("**HK$**") at the rate of HK$1 to RMB0.88. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

3. As the Company, the Target Company and Zhejiang Tiantai Water are ultimately controlled by a controlling shareholder of the Company, the Acquisition is a business combination under common control. Being consistent with the Group's accounting policy for common control combination, the Acquisition is accounted for based on the principles of merger accounting in accordance with merger accounting as if the Acquisition had occurred on the date when the combining entities first came under the control of the controlling shareholder. Accordingly, the assets and liabilities acquired in the Acquisition are stated at their carrying amounts as if such assets and liabilities had been held or incurred by the Group from the later of the date of the relevant transactions giving rise to such assets or liabilities or the date on which the combining entities first came under the control of the controlling shareholder.

   (a) The adjustment represented the consideration payable and recognition of merger reserve of RMB12,672,000 (equivalent to approximately HK$14,400,000) and reclassification of non-controlling interests to reserves of HK$629,000 in relation to the acquisition of 80% of the equity interest of Zhejiang Tiantai Water by the Target Company on 4 January 2023.

(b) The adjustment represented the consideration payable of RMB201,000,000 (equivalent to approximately HK$228,409,000), elimination of the Target Company's paid-up capital of RMB181,000,000 (equivalent to approximately HK$205,682,000) and recognition of merger reserve of RMB20,000,000 (equivalent to approximately HK$22,727,000) on acquisition of the Target Company by the Company.

4. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the amount due from the immediate holding company of the Target Group of RMB53,279,000 (equivalent to approximately HK$61,056,000) were reclassified as an amount due from an intermediate holding company.

5. No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) and the directors determined that such costs are insignificant.

6. No adjustments have been made to adjust any trading results or other transactions of the Enlarged Group subsequent to 31 December 2022.

The following is the text of a report on the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of this circular.

EY 安永

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The Directors
CR Construction Group Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of CR Construction Group Holdings Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), and Zhejiang Construction Investment Environment Engineering Company Limited (the "**Target Company**") and its subsidiaries, and Zhejiang Tiantai Construction Investment Water Company Limited ("**Zhejiang Tiantai Water**") (collectively, the "**Target Group**") (the Group and the Target Group are hereafter collectively referred to as the "**Enlarged Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited 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 Appendix III to the circular dated 31 March 2023 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company (the "**Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2022 as if the Acquisition had taken place at 31 December 2022. As part of this process, the information about the Group's financial position as at 31 December 2022 has been extracted by the Directors from the Company's published preliminary results announcement for the year ended 31 December 2022 and the information about the Target Group's financial position as at 30 September 2022 has been extracted by the Directors from the financial information of the Target Group as set out in Appendix II to the Circular.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with Rule 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 ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

OUR INDEPENDENCE AND QUALITY CONTROL

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 behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and 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 Rule 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 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 Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unaudited financial information of the Group as if the transaction had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited 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 Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited 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 transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited 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 purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2023

This discussion of the financial position and results of operations of the Target Group is based upon and should be read in conjunction with the Accountant's Report on the Target Group set out in Appendix II to this circular.

Unless stated otherwise, terms used herein shall have the same meanings as those defined in the circular.

1. BUSINESS OVERVIEW

The Target Company is a limited liability company established in the PRC on 17 July 2014 and is a direct wholly-owned subsidiary by the Seller as at the Latest Practicable Date. It is principally engaged in construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC. For the nine months ended 30 September 2022, the Target Group had undertaken a portfolio of over 10 sewage treatment and related projects, which principally scatter across different cities in the Zhejiang Provinces in the PRC.

As at the Latest Practicable Date, the Target Group has obtained and possessed the following qualifications and licences: construction industry enterprise qualification (municipal public works construction general contracting level three, fire protection facilities engineering professional contracting level two, and ungraded special engineering (structural reinforcement)* (建築業企業資質證書(市政公用工程施工總承包三級；消防設施工程專業承包二級；特種工程(結構補強)專業承包不分等級) and safe production licence (construction engineering)* (安全生產許可證(建築施工)) (collectively, the "**Licences**"); high tech enterprise certificate* (高新技術企業證書), quality management system certification* (質量管理體系認證), environmental management system certification* (環境管理體系認證), Zhejiang Province environmental pollution prevention and control project special design service registration evaluation* (浙江省環境污染防治工程專項設計服務登記評價), Zhejiang Province environmental protection Evaluation of general contracting service capabilities of pollution control projects* (浙江省環境污染治理工程總承包服務能力評價), evaluation of soil and groundwater ecological restoration engineering capabilities* (土壤和地下水生態修復工程能力評價) and life garbage treatment and recycling engineering capacity evaluation certificates* (生活垃圾處理及資源化工程能力評價) (collectively, the "**Qualifications**").

2. FINANCIAL REVIEW

The following sets forth the management discussion and analysis of the Target Group for the three years ended 31 December 2021 and the nine months ended 30 September 2022 (collectively, the "**Relevant Periods**"), which is based on the financial information of the Target Group as set out in Appendix II to this circular.

Revenue

The Target Group recorded revenue of approximately RMB112.0 million, RMB114.8 million, RMB105.4 million and RMB70.0 million for the Relevant Periods, respectively.

The revenue of the Target Group is mainly derived from construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.

The revenue increased to approximately RMB114.8 million for the year ended 31 December 2020 from approximately RMB112.0 million for the year ended 31 December 2019, mainly due to the increase in revenue generated from sewage and reclaimed water treatment services as a result of securing more sewage and reclaimed water treatment projects from the government authorities during the year ended 31 December 2020, which was offset by the decrease in the revenue generated from the construction, rehabilitation and other services resulting from the decrease in projects with large contract sum during the year ended 31 December 2020.

The revenue decreased to approximately RMB105.4 million for the year ended 31 December 2021, mainly due to (i) the completion of certain sewage standpipe reconstruction and household connection projects in Damaiyu Street, Yuhuan City and the secondary protection zone of Changtan Reservoir projects in 2020; and (ii) the decrease in number of construction and rehabilitation projects as the Target Group focused on its resources to develop the sewage and reclaimed water treatment projects during the year ended 31 December 2021.

For the nine months ended 30 September 2022, since certain construction and rehabilitation projects with large contract sum were completed in prior period, the revenue decreased to approximately RMB70.0 million as compared to RMB77.5 million for the corresponding period.

Contract costs

The contract costs of the Target Group amounted to approximately RMB89.2 million, RMB92.7 million RMB79.1 million and RMB49.0 million during the Relevant Periods, respectively. The changes in contract costs during the Relevant Periods are in line with the changes of the revenue.

Gross profit and gross profit margin

The gross profit of the Target Group amounted to approximately RMB22.8 million, RMB22.0 million, RMB26.3 million and RMB21.0 million during the Relevant Periods.

The gross profit margin of the Target Group was approximately 20.3%, 19.2%, 25.0% and 30.0% during the Relevant Periods, respectively.

For the year ended 31 December 2021 and for the nine months ended 30 September 2022, since the Target Group secured more sewage and reclaimed water treatment projects which generally entailed higher gross profit margins than construction and rehabilitation projects, gross profit margins of the Target Group in these two periods were higher than those for the two years ended 31 December 2019 and 2020.

Other income

Other income of the Target Group mainly consists of bank interest income, interest income arising from a loan granted to a fellow subsidiary of the Target Group and government grants. During the Relevant Periods, other income of the Target Group was approximately RMB0.6 million, RMB1.7 million, RMB3.4 million and RMB3.0 million, respectively. The significant increase in other income for the two years ended 31 December 2020 and 2021 was mainly attributable to the increase in (i) interest income on a loan granted to a fellow subsidiary of the Target Group; and (ii) the government grant, which represented the subsidies for the operating expenses incurred for the research and development activities, which are recognised as other income when the incurred operating expenses fulfilled the conditions attached.

Administrative expenses

Administrative expenses of the Target Group mainly represented staff salaries, welfare and bonus for the administrative staff and directors' remuneration, professional fees, other taxes and surcharges and depreciation expenses. For the Relevant Periods, administrative expenses were approximately RMB14.5 million, RMB15.0 million, RMB17.7 million and RMB13.0 million, respectively. The Target Group recorded a relatively higher administrative expenses for the year ended 31 December 2021 as a result of the increase in basic salaries of the staff during that year.

Other operating income/(expense), net

Other operating income/(expense) of the Target Group mainly represented the increase or decrease in the expected credit losses primarily derived from trade receivables and contract assets during the Relevant Periods. For the year ended 31 December 2019 and for the nine months ended 30 September 2022, the Target Group recorded an other operating income of approximately RMB0.5 million and RMB0.2 million, respectively. For the two years ended 31 December 2020 and 2021, the Target Group recorded an other operating expense of approximately RMB0.5 million and RMB0.4 million, respectively.

An impairment analysis is performed at the end of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Finance costs

The Target Group recorded finance costs of approximately RMB0.3 million, RMB0.4 million, RMB1.4 million and RMB1.0 million during the Relevant Periods, respectively. The Target Group recorded a higher finance costs for the year ended 31 December 2021 and the nine months ended 30 September 2022, mainly attributable to the impact of finance costs derived from the bank borrowings financed during the year ended 31 December 2020. For the nine months ended 30 September 2022, the decrease in finance costs was mainly due to the repayment of certain bank borrowings during the period.

Income tax expense

The Target Group recorded income tax expense of approximately RMB1.1 million, RMB0.3 million, RMB0.3 million and RMB0.5 million during the Relevant Periods, respectively. The Target Group recorded a relatively higher income tax expense for the year ended 31 December 2019 since the Target Group have focused to develop the sewage and reclaimed water treatment projects since 2020 and increased the research and development expenditures related to the sewage and reclaimed water treatment projects. Therefore, the Target Group obtained more tax exemptions and concessions for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022. As such, the income tax expense decreased accordingly.

Profit for the year/period

The Target Group recorded profit of approximately RMB7.8 million, RMB7.5 million, RMB9.9 million and RMB9.7 million during the Relevant Periods, respectively.

Liquidity and capital resources

During the Relevant Periods, the Target Group mainly financed its operation by the cash flow from operation during the Relevant Periods. As at 31 December 2019, 2020, 2021 and 30 September 2022, the cash and cash equivalents were approximately RMB40.1 million, RMB40.0 million, RMB38.6 million and RMB23.2 million, respectively.

As at 31 December 2019, 2020, 2021 and 30 September 2022, the Target Group recorded net current assets of approximately RMB33.7 million, RMB52.0 million, RMB63.9 million and RMB106.7 million, respectively.

The increase in net current assets to approximately RMB52.0 million as at 31 December 2020 from approximately RMB33.7 million as at 31 December 2019 was mainly attributable to the increase in contract assets, which was partially offset with the decrease in amounts due from fellow subsidiaries for the settlement of the receivables of the construction services provided by the Target Group to the fellow subsidiaries; and (ii) the increase in other payables and accruals, primarily due to the increased accrued costs for the new construction projects during the year. The significant increase in contract assets by approximately RMB37.7 million from RMB8.1 million in 2019 to RMB45.8

million in 2020 was mainly attributable to (i) the slower settlement from the customers due to the outbreak of COVID-19 in 2020; and (ii) the commencement of more large-scale construction and rehabilitation projects in 2020, which had longer duration and settlement period, whilst the projects in 2019 were with shorter duration and settlement period.

The increase in net current assets to approximately RMB63.9 million as at 31 December 2021 from approximately RMB52.0 million as at 31 December 2020 was mainly attributable to the increase in amounts due from fellow subsidiaries as a result of the increase in provision for some construction services to the fellow subsidiaries during the year ended 31 December 2021.

The increase in net current assets to approximately RMB106.7 million as at 30 September 2022 from approximately RMB63.9 million as at 31 December 2021 was mainly attributable to (i) the increase in amounts due from the immediate holding company for the fund transfers to the immediate holding company; (ii) the decrease in trade payables as a result of the settlement of aged trade payables to the suppliers; and (iii) decrease in other payables and accruals primarily due to the settlement of certain accrued expenses.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the Target Group's gearing ratio were approximately 6.8%, 20.7%, 17.9% and 13.0%, respectively. The increase in gearing ratio in 2020 was mainly to the increase in bank borrowings during the year. The decrease in gearing ratios since 2021 was mainly due to the increase in the equity bases as a result of the increase in profit and share capital during these two periods.

Pledge of assets

The Target Group's restricted cash as at 31 December 2019, 2020 and 2021 and 30 September 2022 included bank balances of RMB150,000, RMB349,000, RMB261,000, and RMB367,000, respectively and were pledged to bank for the issuance of guarantees to secure certain projects and power supply.

At 31 December 2019, 2020, 2021 and 30 September 2022, certain receivables under service concession arrangements of the Target Group with aggregate carrying amounts of nil, RMB41,210,000, RMB40,598,000 and RMB39,803,000, respectively, and the relevant future revenue entitlement under the service concession arrangement were pledged to secure certain bank loans granted to the Target Group with the amount of nil, RMB29,000,000, RMB28,000,000 and RMB27,000,000.

Contingent liabilities

As at 31 December 2019, 2020 and 2021 and 30 September 2022, performance bonds of approximately nil, RMB876,000, RMB1,684,000 and RMB16,542,000, respectively, were given by banks in favour of the Target Group's customers as security for the due performance and observance of the Target Group's obligation under the contracts entered into between the Target Group and their customers. If the Target Group fails to provide satisfactory performance to their customers to whom performance bonds have been given, such customers may demand the banks to pay them the sum or sums stipulated in such demand. The Target Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon completion of the contract work. As at the Latest Practicable Date, the Directors do not consider it is probable that such claim will be made against the Target Group.

Capital commitments

As at 31 December 2019, 2020, 2021 and 30 September 2022, the Target Group had the capital commitments for the new service concession arrangements on BOT basis of approximately RMB12.0 million, nil, nil and RMB34.5 million, respectively.

Foreign exchange exposure and exchange rate risk

During the Relevant Periods, the Target Group's operation is in the PRC and it did not have foreign exchange exposure and exchange rate risks. The Target Group did not enter into any foreign currency forward contracts nor have any outstanding foreign currency forward contracts.

Employees and remuneration policies

As at 30 September 2022, the Target Group had 118 employees. The Target Group recruited, employed, promoted and remunerated its employees based on their qualifications, experiences, skills, performances and contributions. The remuneration was also determined with reference to, among others, the market trend. The Target Group had implemented various programs for staff training and development.

Material acquisitions and disposals of assets

In January 2023, the Target Group acquired 80% of issued share capital of Zhejiang Tiantai Water, which is owned as to approximately 80.0% by the Target Company and approximately 20.0% by Tiantai County Qingyuan Water Operation Co., Ltd.* (天台縣清源水務運營有限公司). It is principally engaged in sewage and reclaimed water treatment services, Tiantai County Qingyuan Water Operation Company Limited* (天台縣清源水務運營有限公司) is a limited liability company established in the PRC on 4 November 2013 and is wholly-owned by Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司). It is principally engaged in sewage and reclaimed water treatment services, municipal facilities management, and engineering management services. Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司) is a limited liability company established in the PRC on 25 June 2012 and is wholly-owned by Tiantai State-Owned Assets Capital Management Limited Company* (天台縣國有資本運營有限公司) (which is a stated-owned company). Tiantai County Water Affairs Group Co., Ltd.* (天台縣水務集團有限公司) is principally engaged in source water supply; tap water production and supply; hydropower generation; pipeline engineering construction; water conservancy engineering construction and sewage treatment.

亞太 APAC

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The Directors
CR Construction Group Holdings Limited
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Hong Kong

Date:
Our Ref.: P/HK/2022/VAL/0045

Dear Sirs,

RE: VALUATION IN RESPECT OF THE EQUITY INTEREST IN ZHEJIANG CONSTRUCTION INVESTMENT ENVIRONMENT ENGINEERING COMPANY LIMITED AND ITS SUBSIDIARIES, AND ZHEJIANG TIANTAI CONSTRUCTION INVESTMENT WATER COMPANY LIMITED ON A GROUP BASIS

In accordance with your instructions, we have undertaken a valuation on behalf of CR Construction Group Holdings Limited (the "**Company**") to determine the fair value ("**Fair Value**", to be defined below) of the 100% equity interest ("**Equity**") in Zhejiang Construction Investment Environment Engineering Company Limited ("**Zhejiang Construction Investment**") and its subsidiaries, and Zhejiang Tiantai Construction Investment Water Company Limited ("**Zhejiang Tiantai**") (collectively, the "**Target Group**") as at 30 September 2022 ("**Valuation Date**").

It is noted that Zhejiang Construction Investment has acquired 80% equity interest in Zhejiang Tiantai on 30 December 2022. An accountants' report on the Target Group (inclusive of Zhejiang Tiantai) prepared by Ernst & Young on a combined basis has been provided to us. We are instructed to perform the valuation of the equity interest in the Target Group based on the combined accounts. It is noted to us that the aforementioned acquisition in December 2022 would result in a liability of RMB14,383,200 as consideration payable on the accounts of the Target Group, which is not reflected in the combined financial statements as at 30 September 2022. For the purpose of this report, we are also requested to provide an opinion of value on the equity interest of the Target Group after accounting for the consideration payable to be incurred in December 2022.

The Target Company is a limited liability company incorporated in the People's Republic of China (the "**PRC**") on 17 July 2014. The registered office address and principal place of business of the Target Company is located at 10th Floor, No.52 Wensan West Road, Xihu District, Hangzhou, Zhejiang Province. During the Relevant Periods, the Target Group were engaged in the construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.

The Target Company is a wholly-owned subsidiary of Zhejiang Construction Investment Group Co., Ltd ("**Zhejiang Construction Investment**"), a company incorporated and listed in PRC. In the opinion of the Directors, Zhejiang State-owned Capital Operation Company Limited, a company established in the PRC, is the ultimate holding company of the Target Company.

The purpose of this valuation is to assist the Company in the determination of Fair Value of the Equity of the Target Group based on the historical financial information, underlying assumptions and information provided by the management of Target Group and the Company for internal reference purpose. No third party shall have the right of reliance on this report and neither receipt nor possession of this report by any third party shall create any express or implied third-party beneficiary rights.

We relied upon completeness, accuracy and fair representation of operational, financial information in relation to the financial solutions and data analytics business provided by the Company and the Target Group. The Fair Value of the Equity is subject to a number of assumptions concerning historical financial information and its current financial position. To the extent that any of these assumptions or facts changed, the result of the Fair Value conclusion would be changed accordingly.

STANDARD OF VALUE

According to International Valuation Standard, our opinion of the Fair Value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*".

PREMISE OF VALUE

This report is prepared under the premise that the Target Group is going concerns. This means that it is presumed that in the future, the assemblage of assets, resources and income producing items will continue to generate cash flow.

FINANCIAL OVERVIEW

Based on the draft audited financial statements, the Target Group has nine-month ended 30 September 2022 financial positions as follows: revenue of RMB69,999,000, profit before tax of RMB10,192,000, net earnings attributable to all common shareholders of RMB9,250,000 and net earnings attributable to non-controlling interests of RMB448,000 dated as of 30 September 2022.

According to management of the Target Group, all trade receivable, deposit paid, prepayments, trade payable, accrual charges and tax payable should be settled either on demand or in short period of time and no material timing difference was noted.

The draft audited statement of financial position of the Target Group is summarized in the below table.

Draft Audited Statement of Financial Position at 30 September 2022

	Book Value
	RMB'000
NON-CURRENT ASSETS	
Property, plant and equipment	2,837
Right-of-use assets	265
Operating concessions	31,446
Other intangible assets	212
Receivables under service concession arrangements	115,084
Prepayments, deposits and other receivables	—
Deferred tax assets	404
Total non-current assets	**150,248**
CURRENT ASSETS	
Contract assets	36,763
Receivables under service concession arrangements	4,053
Trade receivables	11,662
Prepayments, deposits and other receivables	4,038
Amounts due from an immediate holding company	53,729
Amounts due from fellow subsidiaries	33,382
Amount due from related parties	—
Loan to a fellow subsidiary	29,500
Tax recoverable	—
Restricted bank balance	367
Cash and cash equivalents	23,206
Total current assets	**196,700**
CURRENT LIABILITIES	
Trade payables	11,423
Other payables and accruals	72,510
Interest-bearing bank borrowings	2,000
Lease liabilities	—
Amounts due to fellow subsidiaries	3,065
Tax payable	970
Total current liabilities	**89,968**

	Book Value
	RMB'000
NET CURRENT ASSETS	106,732
TOTAL ASSETS LESS CURRENT LIABILITIES	256,980
NON-CURRENT LIABILITIES	
Interest-bearing bank borrowings and total non-current liabilities	25,000
Net assets	**231,980**
EQUITY	
Equity attributable to owners of the parent	
Share capital	181,000
Reserves	35,687
Non-controlling interests	15,293
Total equity	**231,980**

ECONOMIC OVERVIEW

As the Target Group is operating within the economy of China, its business is affected by economic conditions and market fluctuations in China. We have reviewed the economic condition of China where the Target Group will derive its future income from.

Both the domestic demands and investments were greatly affected by the pandemic impact in China combined with the volatile international landscape in 2022 (including Russia-Ukraine conflict, surging inflation in the United States and Fed rate hike), resulting in poor economic growth.

In 2022, under the triple pressures of "demand contraction, supply shock and expectation weakening", coupled with a new pandemic impact, China's gross domestic product (GDP) reached RMB121.02 trillion, representing a year-on-year growth of 3.0%, which is not easy to achieve. Among which, the economy grew by 4.8% in the first quarter, 0.4% in the second quarter, 3.9% in the third quarter and 2.9% in the fourth quarter. In 2022, the primary, secondary and tertiary sectors grew by 4.1%, 3.8% and 2.3% respectively.

In 2022, residents' income continued to grow across the country, with national per capita disposable income of RMB36,883, up 2.9% in real terms over the same period last year. Consumption has been closely related to income. Although residents' consumer spending slowed down, basic living consumption has maintained steady. In 2022, the national per capita consumer spending amounted to RMB24,538, representing an decrease of 0.2% in real terms over the same period of the previous year.

In 2022, China's consumer price index (CPI) went up by 2.0%, including 1.1% in the first quarter and 2.3% in the second quarter, 2.6% in the third quarter and 1.8% in the fourth quarter. Affected by factors such as rising international commodity prices and the Spring Festival, the year-on-year increase in the CPI in the early stage was 0.9%; and then expanded to 2.8% month by month due to the combined effects of the sporadic outbreak of the COVID-19 pandemic in China and the continuance of high energy prices in the global market. However, due to the high base in the same period last year, the year-on-year decrease in CPI was still 2.1% and 1.6% in October and November and grew to 1.8% in December.

INDUSTRY OVERVIEW

China's environmental industry growth

Regarding to the articles of The State Council Information Office of the People's Republic of China, the China's booming environmental protection sector is making an increasing contribution to national economic growth. The environmental protection sector notched up total earnings of 2.18 trillion yuan ($320 billion) in 2021 which accounted for a direct contribution of 1.8% to China's GDP according to the data from the China Association of Environmental Protection Industry.

The earning of the environmental protection industry grew by 11.8% from 2020 to 2021, which was 3.7% points higher than China's overall GDP growth rate and it is foreseeing that the environmental protection industry has been a new source of national economic growth as a strategic emerging industry.

According to a report on China's environmental protection industry in 2021, jointly published by the CAEPI and the MEE's Chinese Academy of Environmental Planning (CAEP). The environmental protection sector is predicted to reach RMB3 trillion by 2025. Large and medium-sized enterprises constitute 3.1% and 24.0% of the sector respectively, while small and micro-enterprises represent 72.9%.

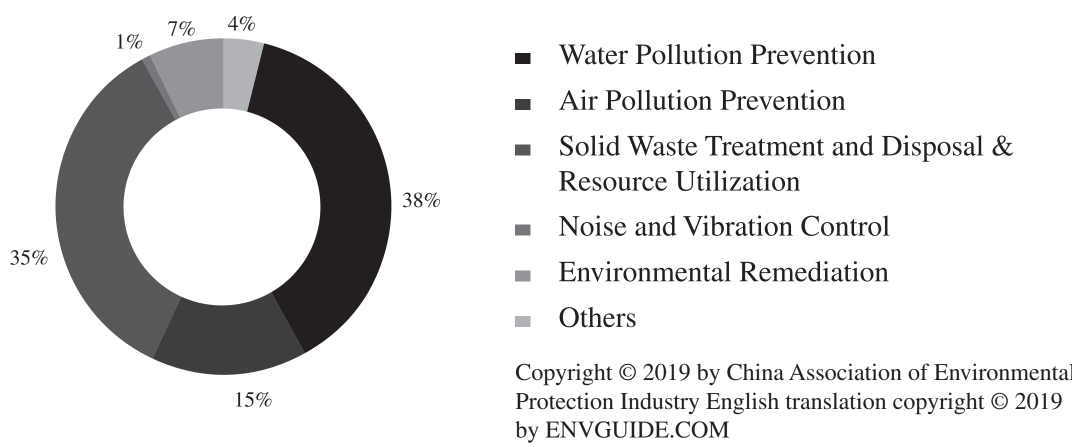
The development of the environmental protection industry has made a marked contribution to environmental and ecological improvement and these environmental improvements are also due to increased funding from the central government, with its spending on environmental protection expected to reach 62.1 billion yuan this year, up by 4.9 billion yuan from 2021.

The central government has consistently increased funds for environmental and ecological conservation despite COVID-19 outbreaks and this demonstrates the great importance the central authorities have attached to the work, and its people-centred development philosophy. The green and energy conservation initiatives proposed in the 14th Five-Year Plan include measures concerning energy-saving and emission reduction, environmental governance, green and low-carbon transformation, the circular economy and energy transition.

China's environmental protection sector

China's environmental protection sector includes equipment manufacturing, engineering and services in a wide range of technology aspects. It encompasses the provision of equipment and services for environmental pollution control and monitoring, the removal of pollutants, waste treatment and energy conservation; the provision of technology and equipment for clean production; and the collection, safe disposal, recycling and recovery of waste resources. It also covers services related to the protection of resources and the natural ecology. The sector could be broadly divided into the following aspects, environmental protection equipment manufacturing, waste-water treatment, air quality control and management, ecology restoration, solid waste treatment and energy conservation services.

According to the statistics from China Association of Environmental Protection Industry in 2017, water pollution treatment and solid waste treatment account for the majority of the distribution of operating income of environmental protection business in China as below chart shown.



Source: China Association of Environmental Protection Industry (Translation: EnvGuide)

China's environmental market competition

According to the studies by the China Association of Environmental Protection Industry (CAEPI), it shows that there are about 90% of enterprises are in the fields of prevention and control of water and air pollution and treatment and utilisation of solid waste resources in China's environmental industry. During the 14th Five-Year Plan period, it is expected that some enterprises would through expansion or acquisition to extend their industry chain and broaden their business scope to become integrated environmental services providers while using smart technologies to lower costs and improve service quality.

China's environmental protection market is growing steadily and according to a report on China's environmental protection industry in 2021, jointly published by the CAEPI and the Chinese Academy of Environmental Planning (CAEP) which is overseen by the Ministry of Ecology and Environment (MEE), in 2020 the total revenue of the sector rose 7.3% year-on-year to RMB1.95 trillion. The contribution to this total from environmental services was RMB1.2 trillion, an increase of 9.7% from the previous year. The environmental protection sector is predicted to reach RMB3 trillion by 2025. Large and medium-sized enterprises would constitute 3.1% and 24.0% of the sector respectively, while small and micro-enterprises represent 72.9%. In 2020, in the wake of the Covid-19 pandemic, the growth rate of the sector's profits slipped for the first time to a single-digit figure. According to People's Daily Online, the number of people engaged in the environmental protection business is about 3 million which is 2.5 times larger than the number before 2011.

Overall speaking, the environmental market in China is still in its development stage, as long as the continuous support and favourable policy adopted by the China Government, it is foreseeable that the industry could grow steadily and there would be more opportunities for both the existing and new enterprises.

Sources:
KPMG: China Economic Monitor 2022Q2
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China Association of Environmental Protection Industry (Translation: EnvGuide)
https://us.envguide.com/the-latest-report-chinas-environmental-protection-industry-development-report-2018-is-released/

Prospective Industry Research Institute (website: Wuxi Yuhe Photoelectric Technology Co., Ltd.)
http://www.wuxiyuhe.com/cn/phone/new.asp?id=52

VALUATION METHODOLOGY

We have conducted the Valuation in accordance with the International Valuation Standard. The valuation procedures employed include an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Group. All the matters we consider essential to the proper understanding of the Valuation are disclosed in our valuation report. In arriving at our assessed value, we have considered three accepted approaches, namely, income approach, cost approach and market approach.

Income approach: provides an indication of value by converting future cash flows to a single current asset value, and is commonly applied to an aggregation of assets consisting of all assets of a business enterprise, including working capital and tangible and intangible assets. Value is derived based upon the present worth of economic benefits of ownership of asset.

Cost approach: provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. Value is established based on cost of reproducing or replacing the asset, less depreciation or amortization from functional and economic obsolescence, if present and measurable.

Market approach: provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available, and incorporating adjustments to be made for any difference between the properties of the comparable assets and the subject asset being appraised.

In this valuation, the cost approach is not appropriate as it ignores the economic benefits of ownership of the business. The income approach is not adopted in this exercise as the cash flow projections for the sewage and water treatment business of the Target Group would require numerous assumptions on projected growth/changes in revenue streams, cost of revenue, operating expenses, administrative expenses, projected movements in working capital balances, and expected capital expenditure. Such assumptions and estimations are therefore not easily verifiable, supportable or reliably measured. We have therefore relied solely on the market approach in this valuation exercise.

The market approach generally involves two valuation methods, namely (i) the guideline public company method, which involve the use of the valuation multiples applicable to the subject companies, to assess the Fair Value of the Equity, and (ii) the comparable transactions method, which involves the direct comparison of other transactions that may be considered similar to the subject transaction regarding the Equity of the Target Group. The comparison transactions method is considered not appropriate due to the lack of public information on recent comparable transactions in the market.

We have adopted the guideline public company method in this exercise, and the multiples applicable to the Target Group are derived with reference to the valuation multiples of the comparable companies ("**Comparable Companies**") of the Target Group.

For the purpose of our valuation, we have also derived the Fair Value of the Equity based on the available information and presently prevailing as well as prospective operating conditions of the business and by taking into consideration other pertinent factors which basically include the followings:

— the market and the business risks;

— the general economic outlook as well as specific investment environment;

— the nature and current financial status;

— the prospective performance;

— the assumptions as stated in the section of Assumptions in this report.

IDENTIFICATION OF SUITABLE COMPARABLE COMPANIES

We have identified relevant Comparable Companies listed on the China stock exchanges based on multiples sets of selection criteria in order to sort out particular companies that are comparable to the subject companies in terms of risks and business nature.

We have adopted for the following screening process in arriving at our initial shortlist of companies to further sort out appropriate Comparable Companies for the Target Group:

— The country of domicile of the shortlisted companies is China according to Bloomberg's classification.

— The shortlisted companies are listed on the stock exchanges of Hong Kong and China.

— The shortlisted companies are categorized as engaging in waste management, water utilities, water sewage, environmental engineering and consulting services according to Bloomberg.

— Companies within the abovementioned industry classifications but are engaging in unrelated businesses such as the production of environmental protection equipment and household garbage disposal are excluded from the shortlist.

Based on information provided to us, the Target Group has all of its revenue derived from businesses of construction, rehabilitation, and operation of water and waste treatment and environmental protection related facilities, has all of its revenue generated in China, and holds significant assets relating to service concession rights on its statements of financial positions. We seek to select a list of Comparable Companies that have that have similar source of revenue as the Target Group, and hold similar key operating assets, while they also have sufficient trading activities prior to the Valuation Date.

From the shortlist of companies derived from the above screening, we further adopted the below selection criteria to arrive at the list of selected Comparable Companies:

— The selected companies should have over 50% of revenue derived from the businesses of water and solid waste treatment, rehabilitation services, environmental protection solutions and environmental engineering aggregately according to their latest published annual reports and company websites.

— The selected companies should have over 90% of revenue generated in China according to their latest published annual reports.

— Similar to the Target Group, the selected companies have service concession rights derived from BOT (build-operate-transfer) or PPP (public-private-partnership) projects of book values of more than RMB10 million as investment costs, according to their latest published annual reports.

— They should have an average daily trading volume of not less than 0.5% of the companies' total shares outstanding for every trading day within one year before the Valuation Date, and have suspended trading of no more than 30 days within one year before the Valuation Date.

Based on the above criteria, it is considered that the Company Companies have been selected on an exhaustive basis.

Details of the Comparable Companies are summarised as below:

Stock Code	Company Short Name	Percentage of Revenue from Similar Businesses as the Target Group (based on Bloomberg and latest annual reports)	Company Description
300692 CH	Anhui Zhonghuan Environmental Protection Technology Co Ltd	100%	Anhui Zhonghuan Environmental Protection Technology Co., Ltd offers sewage treatment services. The Company provides municipal water sewage treatment services. Anhui Zhonghuan Environmental Protection Technology also offers engineering designing, construction, and investment services. Anhui Zhonghuan Environmental Protection Technology operates in China.
300664 CH	Penyao Environmental Protection Co Ltd	69.3%	Penyao Environmental Protection Co., Ltd. provides environmental engineering services. The Company offers domestic sewage, industrial wastewater treatment, and other related services. Penyao Environmental Protection offers services throughout China.

Stock Code	Company Short Name	Percentage of Revenue from Similar Businesses as the Target Group (based on Bloomberg and latest annual reports)	Company Description
002973 CH	QiaoYin City Management Co Ltd	100%	QiaoYin City Management Co., Ltd. provides environmental engineering and consulting services. The Company offers leachate transportation and treatment, biomass waste treatment, and other services. QiaoYin City Management offers services throughout China.
300774 CH	BGT Group Co Ltd	95.8%	BGT Group Co., Ltd. operates water management engineering businesses. The Company contracts water treatment systems, boiler supply water systems, condensate water treatment systems, reclaimed water reuse systems, zero discharge treatment systems, and other systems. BGT Group provides its services throughout China.
300021 CH	GANSU DAYU Water-saving Group Co Ltd	64.3%	GANSU DAYU Water-saving Group Company Ltd. with major business mainly involved in environmental protection aspects related to agricultural field, such as rural sewage treatment and water treatment.

Stock Code	Company Short Name	Percentage of Revenue from Similar Businesses as the Target Group (based on Bloomberg and latest annual reports)	Company Description
603903 CH	CSD Water Service Co Ltd	74%	CSD Water Service Co. Ltd. offers integrated water services. The Company provides waste water facility investment, water system integration, entrusted management, and technical services.
300388 CH	CECEP Guozhen Environmental Protection Technology Co Ltd	90.95%	CECEP Guozhen Environmental Protection Technology Co., Ltd. operates water sewage networks. The Company provides industrial wastewater treatment, domestic sewage treatment, black odor water treatment, and other services. CECEP Guozhen Environmental Protection Technology also operates import and export, investment, and other businesses.
603817 CH	Fujian Haixia Environmental Protection Group Co Ltd	89.5%	Fujian Haixia Environmental Protection Group Co., Ltd. operates as an environmental protection company. The Company provides sewage treatment, landfill leachate treatment, solid waste treatment, waste materials recycling, and other services. Fujian Haixia Environmental Protection Group serves customers throughout China.

Stock Code	Company Short Name	Percentage of Revenue from Similar Businesses as the Target Group (based on Bloomberg and latest annual reports)	Company Description
300190 CH	WELLE Environmental Co Ltd	98.4%	WELLE Environmental Group Co.,Ltd engages in environmental engineering, environmental equipment, project operation and construction operation transfers. The Company provides solutions for solid waste treatment, wastewater treatment, and exhaust gas purification. WELLE Environmental Group expands its businesses in Germany, Thailand, and other countries.
603588 CH	Beijing GeoEnviron Engineering & Technology Inc	96%	Beijing GeoEnviron Engineering & Technology, Inc. focuses on environmental technology research and general pollution control solutions. The Company provides custom and integrated services including design, consulting, construction, supply and installation of material and projects management.

Stock Code	Company Short Name	Percentage of Revenue from Similar Businesses as the Target Group (based on Bloomberg and latest annual reports)	Company Description
688679 CH	Anhui Tongyuan Environment Energy Saving Co Ltd	98.9%	Anhui Tongyuan Environment Energy Saving CO.,LTD. offers environment services. The Company provides solid waste pollution barrier repairing, solid waste treatment and disposal, water environment repairing, and other services. Anhui Tongyuan Environment Energy Saving provides its services throughout China.
300172 CH	CEC Environmental Protection Co Ltd	96.9%	CEC Environmental Protection Co., Ltd. develops, designs, manufactures and markets industrial water treatments. The Company provides industrial water treatment, condensate recovery, wastewater treatment and automation control systems.

Source: Bloomberg and latest financial reports of the Comparable Companies

Under the guideline public company method, there are several generally accepted valuation multiples in arriving the equity value of a company, including price-to-earnings ("**P/E**") multiple, price-to-book ("**P/B**") multiple and price-to-sales ("**P/S**") multiple. P/E multiple is adopted because P/E multiple is commonly used for valuing businesses for which the ability to generate earnings is the key value indicator. P/E multiple is the most appropriate multiple in this case considering the Target Group is recording profits. P/B multiple is not adopted as P/B multiple is common for asset intensive industries which is not the case for the Target Group. P/S multiple is not adopted neither as it ignores the cost structure of the Target Group and hence the profitability of the Target Group, and is not commonly used if the subject business is recording profit.

In this exercise, we have adopted P/E multiple to assess the Fair Value of the Equity. Under this approach, Fair Value of the equity interest attributable to all shareholders is determined by multiplying the adjusted net earnings to a multiplier called P/E multiple with regard to the risks and nature of the business. In estimating the P/E, reference has been made to the historical operating results of some companies with similar business nature and whose ownership interests are publicly traded.

The P/E of the Comparable Companies as at the Valuation Date were summarized below:

P/E of Comparable Companies of the Target Group:

Name	**Stock Code**	**P/E**
Anhui Zhonghuan Environmental Protection Technology Co Ltd	300692 CH	12.10
Penyao Environmental Protection Co Ltd	300664 CH	12.58
QiaoYin City Management Co Ltd	002973 CH	16.72
BGT Group Co Ltd	300774 CH	28.90
GANSU DAYU Water-saving Group Co Ltd	300021 CH	26.33
CSD Water Service Co Ltd	603903 CH	14.66
CECEP Guozhen Environmental Protection Technology Co Ltd	300388 CH	12.35
Fujian Haixia Environmental Protection Group Co Ltd	603817 CH	18.71
WELLE Environmental Co Ltd	300190 CH	22.36
Beijing GeoEnviron Engineering & Technology Inc	603588 CH	18.75
Anhui Tongyuan Environment Energy Saving Co Ltd	688679 CH	47.56
CEC Environmental Protection Co Ltd	300172 CH	31.79
Median		**18.73**

Source: Bloomberg or other public databases

In general, median is considered a better representation of the middle point of a dataset than average, as it is less influenced by biases towards large and small values than average for small sample sizes. Thus, the median P/E of the Comparable Companies was adopted as proxy for the P/E of the Target Group in deriving the company's equity value.

NON-OPERATING ASSETS AND LIABILITIES ADJUSTMENTS

In order to determine the Fair Value of the Equity of the Target Group, assets and liabilities that are not utilised in operating activities of the core business would be generally classified as non-operating assets and liabilities. The values of the non-operating assets would be added to, and those of non-operating liabilities would be deducted from the operating equity value derived from the product of P/E and the adjusted net earnings, in order to arrive at the aggregate Fair Value of Equity (which includes values of both operating and non-operating assets/liabilities).

According to Management, the other receivables, other payables and accruals and amount due to related parties represent advance payments due to or due from associated companies or third parties that arises from operating business activities of the Target Group. Therefore, these balances are considered operating in nature, and are not included in the non-operating assets/ liabilities adjustments.

Per Management, the amounts due from fellow subsidiaries arise from operating business activities (as advance payments), as represented by the Target Group. The remaining balance of the amount due from related parties are the advance payment arising from the synergistic business with the associated company, which is recognized by the Target Group as operating nature. This is considered to have contributed the business operations of the Target Company.

On the other hand, the loans to fellow subsidiaries in the amount of RMB29,500,000 represents debt financing provided by the Target Group to a fellow subsidiary, and is considered non-operating in nature. Per discussion with management, it is further noted that the amounts due from an immediate holding company in the amount of RMB53,729,000 represents a cash pooling arrangement amongst related companies of the Target Group at the level of its immediate holding company as at the Valuation Date.

According to Management, this cash pool is not involved in the current operating business activities of the Target Group, and is therefore considered not related to the core business operation, i.e., not reflected in the value of operation as indicated by the net earnings of the Target Group. This is added back to arrive at the equity value of the Target Group

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. DLOM is commonly considered in the valuations of privately held companies to reflect difference in the marketability of the shares of the subject private companies and that of the selected publicly-traded comparable companies.

A DLOM of 20.6% is estimated with reference to the 2021 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability included an examination of 763 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through December 2020. The adopted DLOM is the average discount implied by these 763 private placement transactions in comparison with the corresponding publicly traded common stocks, and is considered fair and reasonable for the valuation of the Equity of the Target Group.

ADJUSTMENT FOR CONTROL

As the 100% equities of the Target Group represents a fully control on the operations of their businesses, it is common to consider a control premium to account for the fully control of the business. Based on the Company's instructions, we are also requested to prepare the valuation of the Equity on a controlling stake basis. In order to determine the amount of discount required, we have taken into consideration the ownership characteristics of the subject equity, as outlined below:

— representation on the board of directors;

— any contractual restrictions arising from the Agreements;

— organization documents such as shareholder agreements and voting trusts;

— any relevant industry regulations;

— voting rights of the subject equity relation to control of the business;

— the size of the block of shares being valued; and

— concentration of ownership.

In this exercise, we have adopted the control premium of 27.6% with reference to the Factset Mergerstat/BVR Control Premium Study (3rd Quarter 2022) (the "**Mergerstat Study**") published by FactSet Mergerstat, LLC. This is the median of equity control premium of 527 cases of controlling interest acquisitions or privatisations which involved publicly traded and privately held companies worldwide in the twelve-month period between the fourth quarter of 2021 and the third quarter of 2022 based on the Mergerstat Study.

Table 1: The Trailing-twelve-months (TTM) financial information of the Target Group as of Valuation Date (RMB)

	(A)	**(B)**	**(C)**		**(A) – (B) + (C)**
Period	**Year ended 31 Dec 2021**	**9 months ended 30 Sep 2021**	**9 months ended 30 Sep 2022**		**Trailing 12 months ended 30 Sep 2022**
Net profit before tax	RMB10,186,000	RMB8,472,000	RMB10,192,000	(D)	RMB11,906,000
Other income	RMB3,387,000	RMB2,222,000	RMB2,954,000	(E)	RMB4,119,000
Government grant	RMB1,267,000	RMB658,000	RMB811,000	(F)	RMB1,420,000
Income tax expenses	RMB330,000	RMB535,000	RMB494,000	(G)	RMB289,000
Net profit attributable to non-controlling interests	RMB238,000	RMB173,000	RMB448,000	(H)	RMB513,000

Table 2: The Fair Value of the equity of the Target Group as of Valuation Date (RMB)

TTM Net profit before tax (up to the Valuation Date)	(D)	RMB11,906,000
TTM Other income	(E)	RMB4,119,000
TTM Government grant	(F)	RMB1,420,000
TTM Net other income (included bank interest income, others; excluded Government grant) (up to the Valuation Date)	(E) – (F) = (I)	RMB2,699,000
TTM Income tax expenses (up to the Valuation Date)	(G)	RMB289,000
TTM Adjusted net earnings (up to the Valuation Date)	(D) – (I) x 1 – (G)/(D) = (J)	RMB8,983,514
TTM Net earnings attributable to non-controlling interests (up to the Valuation Date)	(H)	RMB513,000
TTM Adjusted net earnings attributable to all common shareholders (up to the Valuation Date)	(J) – (H) = (K)	RMB8,470,514
P/E	(L)	18.73
Equity Value before marketability discount & control premium and before non-operating asset and liability adjustment)	(K) x (L) = (M)	RMB158,652,727
Non-operating Assets	(N)	RMB83,229,000
Non-operating Liabilities	(O)	—
Equity Value before marketability discount & control premium and after non-operating asset and liability adjustment)	(M) + (N) – (O) = (P)	RMB241,881,727
Discount of Lack of Marketability	(Q)	20.6%
Control premium	(R)	27.6%
Equity Value after marketability discount & control premium (after non-operating asset, liability and cash adjustment)	(P) x 1 – (Q) x 1 + (R) = (S)	RMB245,061,020
Shareholding (%)	(T)	100%
Fair Value of the equity of the Target Group	(S) x (T) = (U)	RMB245,061,020
Fair Value of the Equity of the Target Group (rounded to the nearest million)	(V)	RMB245,000,000

After the above adjustments, the fair value of the 100% equity interest in the Target Group attributable to all common shareholders was determined to be RMB245,000,000.

We have been provided with extracts of copies of relevant documents and financial information relating to the Target Group. We have relied upon the aforesaid information in forming our opinion of the Fair Value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the said information which is material to the valuation. We have also been advised by the Company that no material facts have been omitted from the information provided. We have also made relevant inquiries and obtained further information as considered necessary for the purpose of this valuation.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors.

ASSUMPTIONS

In the course of valuation, the following assumptions and caveats have been made. We have based on the followings to conclude the Fair Value of the Equity.

- We have assumed that the accuracy of financial and operational information provided to us by the Company and the Target Group, and relied to a considerable extent on such information in arriving at our opinion of value. It is also assumed that the book values of the assets are fairly recorded and with necessary bad debt or impairment provisions made.

- It is assumed that the provided financial statements of the Target Group has appropriately identified the Government Grants as operating income in accordance with the Accounting Standards for Enterprises No.16-Government Grants.

- According to the representation of the Target Group, the amount due from related parties and amount due to related parties are advance payment by the Target Group or related parties which related to the daily operation and are classified as operating assets or liabilities, while the loan to fellow subsidiaries is considered as non-operating. The amount due from an immediate holding company is a cash pooling arrangement that is assumed to be not directly utilized in the core business of the Target Company as at the Valuation Date.

- Bank interest income and interest income arising from loans of the Target Company are considered non-operating since they are not related to the core business of the Target Group.

- It is assumed that all the receivables and payables balances from the draft audited report have been audited and review by the auditor and the Target Group, corresponding expected credit loss provisions have been calculated and adopted.

- It is assumed that the draft accountant's report (30 September 2022) has appropriately identified the RMB513,000 income as attributable to non-controlling interest for the trailing-twelve-months period. This is to be excluded to arrive at the net income attributable to common owners of the Target Group.

- It is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value.

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation.

- There will be no major changes in the current taxation law in the areas in which the Target Group carry on its business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with.

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing.

- the Target Group will retain their management and technical personnel to maintain their ongoing operations.

- There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business.

- the Target Group will remain free from claims and litigation against the business or its customers that will have a material impact on value.

- the Target Group is unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements.

- The business is not subject to any unusual or onerous restrictions or encumbrances.

- The potential bad debt of the Target Group will not materially affect their business operations.

LIMITING CONDITIONS

We have to a considerable extent relied on the financial data and other related information provided by the Target Group and the Company. We are not in a position to comment on the lawfulness of the business.

Based on the specific instruction from the Company and limited time, no site visit was performed and our valuation was performed on desktop basis only.

In accordance with our standard practice, we must state that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

MANAGEMENT CONFIRMATION OF FACTS

A draft of this report and our calculation has been sent to management of the Company. They have reviewed and orally confirmed to us that facts as stated in this report and calculation are accurate in all material respects. Management confirms that they have performed the necessary due-diligence on the information provided, and understands that any material changes or errors in such information could lead to a substantial change in our valuation result. As of the date of this report, they are not aware of any material matters relevant to our engagement which have been excluded.

Management should also acknowledge that the valuation was carried out using theoretical valuation approaches, and thus could be different from any potential transaction prices. The valuation result should therefore be used for the Company's internal and financial reporting reference only. It is noted that management has reviewed all valuation results and agreed with all relevant valuation inputs and calculations.

REMARKS

Unless otherwise stated, all money amounts in this report are stated in Renminbi ("**RMB**").

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Group, and their respective holding companies, subsidiaries and associated companies, or the value reported herein.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Group, the Company and us.

OPINION OF THE VALUE

Based on the investigation and analysis stated above and, on the method, employed, we are of the opinion that the Fair Value of 100% Equity of the Target Group, on a marketable and controlling basis, was reasonably stated as **RMB245,000,000** as at the Valuation Date.

As discussed in this report, the Target Group would incur a consideration payable of RMB14,383,200 as a result of the acquisition of Zhejiang Tiantai. After accounting for such consideration payable, the Fair Value of 100% Equity of the Target Group would be RMB230,616,800.

Yours faithfully,
For and on behalf of
APAC Asset Valuation and Consulting Limited

Jasper Chan
CFA, FRM
Director

Notes:

Jasper Chan, CFA, FRM

Mr. Jasper Chan is a CFA®charterholder and a certified FRM®with 9 years of experience in handling valuations and financial modelling for financial reporting, merger and acquisition, financial derivatives, intangible assets, biological assets, mine valuations, etc. He also has extensive experience in providing valuation advisory services to private equity funds, and providing litigation support in relation to commercial and matrimonial disputes. His work has covered a range of different industries including manufacturing, financial services, mineral resources, forestry, IT, pharmaceutical, casinos & gaming, etc.

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 aspects and not misleading or deceptive, and there is no other matter the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Director and chief executive

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

Name of Directors	Capacity/ Nature of Interest	Number of ordinary Shares/ underlying Shares (long position)	Approximate percentage of the Company's issued share capital[(1)] *(%)*
Mr. Guan Manyu	Beneficial owner	1,500,000	0.30
Mr. Li Kar Yin	Beneficial owner	1,000,000	0.20
Ms. Chu Ping[(2)]	Beneficial owner	300,000	0.06
Mr. Law Ming Kin	Beneficial owner	500,000	0.10
Mr. Chan Tak Yiu	Beneficial owner	100,000	0.02
Mr. Yang Haojiang	Beneficial owner	500,000	0.10

Notes:

(1) As at the Latest Practicable Date, the number of issued Shares of the Company was 500,000,000 Shares.

(2) Ms. Chu Ping has resigned as an executive Director of the Company on 28 March 2023.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective close associates had registered any interests or short positions in any Shares, underlying Shares in, and debentures of, the Company or any associated corporations as at the Latest Practicable Date, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

(b) Substantial shareholders and other persons

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interests	Number of ordinary Shares/ underlying Shares (long position)	Approximate percentage of the Company's issued share capital[3]
Zhejiang State-owned Capital Operation Company Limited	Interest in a controlled corporation[1]	361,150,000	72.23
Zhejiang Construction Investment Group Co., Ltd. (formerly known as Dohia Group Co., Ltd)	Interest in a controlled corporation[1]	361,150,000	72.23
Zhejiang Construction Group (H.K.) Holdings Limited	Interest in a controlled corporation[1]	361,150,000	72.23
China Zhejiang Construction Group (H.K.) Limited	Interest in a controlled corporation[1]	361,150,000	72.23
CR Construction Investments Limited	Beneficial owner[1]	361,150,000	72.23
Ning Shing (Holdings) Company Limited ("**Ning Shing**")	Beneficial owner[2]	25,000,000	5.00

Notes:

(1) CR Construction Investments Limited directly holds 361,150,000 Shares in the Company. CR Construction Investments Limited is a wholly-owned subsidiary of China Zhejiang Construction Group (H.K.) Limited, which is in turn a wholly-owned subsidiary of Zhejiang Construction Group (H.K.) Holdings Limited. Zhejiang Construction Group (H.K.) Holdings Limited is a wholly-owned subsidiary of Zhejiang Construction Investment Group Co., Ltd. (former known as Dohia Group Co., Ltd). Zhejiang State-owned Capital Operation Company Limited holds 35.90% interests in Zhejiang Construction Investment Group Co., Ltd. By virtue of the SFO, each of China Zhejiang Construction Group (H.K.) Limited, Zhejiang Construction Group (H.K.) Holdings Limited, Zhejiang Construction Investment Group Co., Ltd., and Zhejiang State-owned Capital Operation Company Limited is deemed to have an interest in the Shares held by CR Construction Investments Limited.

(2) Ning Shing directly holds 25,000,000 Shares of the Company. Ning Shing is a state-owned company wholly-owned by the Ningbo Municipal Government established in Hong Kong in May 1995.

(3) As at the Latest Practicable Date, the number of issued Shares of the Company was 500,000,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors or chief executive of the Company had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO. Other than the Directors disclosed in the paragraph headed "4. COMPETING INTEREST", as at the Latest Practicable Date, the Directors and the chief executive of the Company were also not aware of any other Director who was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTEREST

As at the Latest Practicable Date, each of Mr. Guan Manyu, Ms. Chu Ping (who has resigned as an executive Director of the Company on 28 March 2023) and Mr. Yang Haojiang are Directors of the Company and also hold directorships and/or management positions in the Seller. The Seller is a controlling shareholder of the Company and is principally engaged in (i) building construction business in the Asia Pacific region excluding Hong Kong and Macau; (ii) holding interests in companies engaging working capital management in Hong Kong, financial leasing, civil engineering; and (iii) property management in the PRC. As the Seller does not intend to conduct any building construction business in Hong Kong and it has executed the Non-Competition Deed, the Directors are of the view that potential competition, if any, between the business of the Seller and the business of the Group is limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any 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 financial statements of the Company were made up.

6. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors (i) had any direct or indirect interest in any assets which had been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and (ii) was materially interested in any transaction, contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the Share Purchase Agreement; and

(b) the share purchase agreement dated 30 January 2022 entered into between the Company (as purchaser) and China Zhejiang Construction Group (H.K.) Limited (as vendor) in relation to the purchase of the entire issued share capital of CR Construction (U.K.) Investments Company Limited for a total consideration of HK$9,200,000.

Litigation

As at the Latest Practicable Date, the Enlarged Group were not engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Company or any of its subsidiaries.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or advice which is contained in this circular:

Name	Qualification
Rainbow Capital (HK) Limited	A licensed corporation to type 1 (dealing in securities and type 6 (advising on corporate finance) of the regulated activities under the SFO
TC Capital International Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
APAC Asset Valuation and Consulting Limited	Independent Qualified Valuer
Ernst & Young	Certified Public Accountants

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

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name included herein in the form and context in which it appears.

9. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Lau King Ho, an associate and member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom and a Chartered Alternative Investment Analyst by CAIA Association.

(b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands.

(c) The head office and principal place of business in Hong Kong is at Units 3–16, 32/F. Standard Chartered Tower, Millennium City 1, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong

(d) The principal registrar and transfer office of the Company in the Cayman Islands is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(e) The branch share registrar and transfer office of the Company in Hong Kong is 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(f) The English text of this circular shall prevail over the Chinese text in case of inconsistencies.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.crconstruction.com.hk/) during the period of 14 days from the date of this circular up to and including the 14th day thereafter:

(a) the Share Purchase Agreement;

(b) the accountants' report of the Target Company, the text of which is set out in this circular;

(c) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in this circular;

(d) the letter from the Independent Board Committee, the text of which is set out in this circular;

(e) the letter from the Independent Financial Adviser, the text of which is set out in this circular;

(f) the valuation report prepared by the Valuer, the text of which is set out in this circular; and

(g) the written consents from the experts referred to in the paragraph headed "8. Experts and Consents" in this appendix.

CR Construction Group Holdings Limited
華營建築集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1582)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the ''**EGM**'') of CR Construction Group Holdings Limited (the ''**Company**'') will be held at Level 26, Standard Chartered Tower of Millennium No. 388 Kwun Tong Road, Kwun Tong, Kowloon on Friday, 28 April 2023 at 2:30 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as ordinary resolution:

ORDINARY RESOLUTION

1. ''**THAT**:

   (a) the sale and purchase agreement dated 31 January 2023 (the ''**Share Purchase Agreement**'', a copy of which is tabled at the meeting and marked ''A'' and signed by the chairman of the meeting for identification purpose) pursuant to which, among others, the Company has conditionally agreed to acquire and China Zhejiang Construction Group (H.K.) Limited* (中國浙江建設集團(香港)有限公司) has conditionally agreed to sell the entire equity interest in Zhejiang Construction Investment Environment Engineering Company Limited.* (浙江建設環保工程有限公司) (the ''**Acquisition**''), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Acquisition and the transactions contemplated under the Share Purchase Agreement (including any amendment, supplement and/or any waiver of any terms thereunder).''

Yours faithfully,
On behalf of the Board
CR Construction Group Holdings Limited
Guan Manyu
Chairman

Hong Kong, 31 March 2023

Registered Office:
Cricket Square,
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Units 3–16, 32/F
Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. The resolution set out in this notice of EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

2. Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy needs not be a member of the Company.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) should they so wish. If the relevant member attends the EGM, the form of proxy shall be deemed to be revoked.

5. 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 notarially certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be).

6. Whether or not you intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

7. Where there are joint registered holders of any Share, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint registered holders are present at the EGM, whether in person or by proxy, the joint registered holders present whose name stands first on the register of members of the Company in respect of the Shares shall be accepted to the exclusion of the votes of the other registered holders.

8. The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the EGM, from 25 April 2023 to 28 April 2023, both days inclusive, during which period no transfers of shares will be effected. In order to be eligible to attend and vote at the EGM, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 24 April 2023.