

Accountants' Report

Henan Zheng Zhi Yue Real Estate Co., Ltd

Years ended 31 December 2020, 2021 and 2022 and  
the four months ended 30 April 2023



Ernst & Young  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong

安永會計師事務所  
香港鰂魚涌英皇道979號  
太古坊一座27樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XINGYE WULIAN SERVICE GROUP CO. LTD.

### Introduction

We report on the historical financial information of Henan Zheng Zhi Yue Real Estate Co., Ltd (the "Target Company") set out on pages 4 to 29, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2020, 2021 and 2022 and the four months ended 30 April 2023 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2020, 2021 and 2022 and 30 April 2023 and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 4 to 29 forms an integral part of this report, which has been prepared for inclusion in the circular of Xingye Wulian Service Group Co. Ltd. (the "Company") dated 28 September 2023 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

### Director's responsibility for the Historical Financial Information

The director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the director determines 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 preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, 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 financial position of the Target Company as at 31 December 2020, 2021 and 2022 and 30 April 2023, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

### **Review of interim comparative financial information**

We have reviewed the interim comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the four months ended 30 April 2022 and other explanatory information (the "Interim Comparative Financial Information"). The director of the Target Company is responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. 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 preparation set out in note 2.1 to the Historical Financial Information.

### **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 4 have been made.

#### **Dividends**

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

#### **No historical financial statements for The Target Company**

As at the date of this report, no statutory financial statements have been prepared for the Target Company since its date of incorporation.



Certified Public Accountants  
Hong Kong  
28 September 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 financial statements of the Target Company 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 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.

### Statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December			Four months ended	
		2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Other income and gains	5	22	1	1	-	-
Administrative expenses		<u>(1,545)</u>	<u>(1,670)</u>	<u>(1,505)</u>	<u>(464)</u>	<u>(452)</u>
LOSS BEFORE TAX	8	(1,523)	(1,669)	(1,504)	(464)	(452)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		<u>(1,523)</u>	<u>(1,669)</u>	<u>(1,504)</u>	<u>(464)</u>	<u>(452)</u>
Attributable to:						
Owner of the Target Company		<u>(1,523)</u>	<u>(1,669)</u>	<u>(1,504)</u>	<u>(464)</u>	<u>(452)</u>

## I. HISTORICAL FINANCIAL INFORMATION (continued)

### Statements of financial position

	Notes	As at 31 December			As at
		2020 RMB'000	2021 RMB'000	2022 RMB'000	30 April 2023 RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	10	<u>135,773</u>	<u>138,796</u>	<u>161,285</u>	<u>161,703</u>
Total non-current assets		<u>135,773</u>	<u>138,796</u>	<u>161,285</u>	<u>161,703</u>
<b>CURRENT ASSETS</b>					
Properties under development	11	79,766	83,807	113,297	113,866
Prepayments, other receivables and other assets	12	6,107	2,194	5,506	5,520
Cash and cash equivalents	13	<u>93</u>	<u>175</u>	<u>2</u>	<u>17</u>
Total current assets		<u>85,966</u>	<u>86,176</u>	<u>118,805</u>	<u>119,403</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	14	497	558	22,812	23,360
Other payables and accruals	15	2,692	2,748	19,708	20,044
Amount due to the immediate holding company	16	<u>222,378</u>	<u>227,163</u>	<u>244,571</u>	<u>145,155</u>
Total current liabilities		<u>225,567</u>	<u>230,469</u>	<u>287,091</u>	<u>188,559</u>
NET CURRENT LIABILITIES		<u>(139,601)</u>	<u>(144,293)</u>	<u>(168,286)</u>	<u>(69,156)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(3,828)</u>	<u>(5,497)</u>	<u>(7,001)</u>	<u>92,547</u>
Net assets		<u>(3,828)</u>	<u>(5,497)</u>	<u>(7,001)</u>	<u>92,547</u>
<b>(DEFICIT IN EQUITY)/EQUITY</b>					
<b>(Deficit)/equity attributable to owner of the Target Company</b>					
Paid in capital	17	-	-	-	100,000
Reserve		<u>(3,828)</u>	<u>(5,497)</u>	<u>(7,001)</u>	<u>(7,453)</u>
Total (deficit)/equity		<u>(3,828)</u>	<u>(5,497)</u>	<u>(7,001)</u>	<u>92,547</u>

**I. HISTORICAL FINANCIAL INFORMATION (continued)**

**Statements of changes in equity**

	Attributable to owner of the Target Company		
	Paid in capital RMB'000 (note 17)	Accumulated losses RMB'000	Total (deficit)/equity RMB'000
As at 1 January 2020	-	(2,305)	(2,305)
Loss and total comprehensive loss for the year	<u>-</u>	<u>(1,523)</u>	<u>(1,523)</u>
As at 31 December 2020 and 1 January 2021	-	(3,828)	(3,828)
Loss and total comprehensive loss for the year	<u>-</u>	<u>(1,669)</u>	<u>(1,669)</u>
As at 31 December 2021 and 1 January 2022	-	(5,497)	(5,497)
Loss and total comprehensive loss for the year	<u>-</u>	<u>(1,504)</u>	<u>(1,504)</u>
As at 31 December 2022 and 1 January 2023	-	(7,001)	(7,001)
Loss and total comprehensive loss for the period	<u>-</u>	<u>(452)</u>	<u>(452)</u>
Received paid in capital	<u>100,000</u>	<u>-</u>	<u>100,000</u>
As at 30 April 2023	<u>100,000</u>	<u>(7,453)</u>	<u>92,547</u>

	Attributable to owner of the Target Company		
	Paid in capital RMB'000 (note 17)	Accumulated losses RMB'000	Total deficit RMB'000
As at 1 January 2022	-	(5,497)	(5,497)
Loss and total comprehensive loss for the period (unaudited)	<u>-</u>	<u>(464)</u>	<u>(464)</u>
As at 30 April 2022	<u>-</u>	<u>(5,961)</u>	<u>(5,961)</u>

## I. HISTORICAL FINANCIAL INFORMATION (continued)

### Statements of cash flows

	Notes	Year ended 31 December			Four months ended 30 April	
		2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Loss before tax		(1,523)	(1,669)	(1,504)	(464)	(452)
Adjustments for:						
Depreciation of property, plant and equipment	10	<u>42</u>	<u>42</u>	<u>43</u>	<u>14</u>	<u>14</u>
		(1,481)	(1,627)	(1,461)	(450)	(438)
Increase in properties under development		(1,187)	(4,041)	(29,490)	(10,425)	(569)
(Increase)/decrease in prepayments, other receivables and other assets		(182)	3,913	(3,312)	(1,685)	(14)
(Decrease)/increase in trade payables		(203)	61	22,254	11,269	548
(Decrease)/increase in other payables and accruals		<u>(18)</u>	<u>11</u>	<u>(10)</u>	<u>552</u>	<u>(66)</u>
Net cash flows used in operating activities		<u>(3,071)</u>	<u>(1,683)</u>	<u>(12,019)</u>	<u>(739)</u>	<u>(539)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of items of property, plant and equipment		<u>(1,287)</u>	<u>(3,020)</u>	<u>(5,562)</u>	<u>-</u>	<u>(30)</u>
Net cash flows used in investing activities		<u>(1,287)</u>	<u>(3,020)</u>	<u>(5,562)</u>	<u>-</u>	<u>(30)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Advance from the immediate holding company		4,082	4,785	17,408	585	584
Repayment to the immediate holding company		-	-	-	-	(100,000)
Capital injection from the shareholder		-	-	-	-	100,000
Net cash flows from financing activities		<u>4,082</u>	<u>4,785</u>	<u>17,408</u>	<u>585</u>	<u>584</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(276)</u>	<u>82</u>	<u>(173)</u>	<u>(154)</u>	<u>15</u>
Cash and cash equivalents at beginning of year/period		<u>369</u>	<u>93</u>	<u>175</u>	<u>175</u>	<u>2</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>93</u>	<u>175</u>	<u>2</u>	<u>21</u>	<u>17</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>						
Cash and cash equivalents as stated in the statements of financial position	13	<u>93</u>	<u>175</u>	<u>2</u>	<u>21</u>	<u>17</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Target Company is an exempted company with limited liability incorporated under the laws of the People's Republic of China (the "PRC") on 30 March 2018. The registered office of The Target Company is located at Room 101, Zensun Zhenrui Shangjing Sales Center, intersection of Ruyihe West Second Street and Longteng First Street, Zhengdong New District of Zhengzhou, Henan Province.

The principal activities of the Target Company are property development and hotel operations in the PRC.

In the opinion of the director of the Target Company, the immediate holding company of the Target Company is Henan Zensun Real Estate Co., Ltd. (河南正商置業有限公司, "Zensun Real Estate"), a limited liability company incorporated in Zhengzhou, Henan Province. The ultimate holding company of the Target Company is Vistra Trust (Singapore) Pte Limited, a private limited liability company incorporated in Singapore, as trustee of a discretionary trust which is set up by Ms. Huang Yanping ("Ms. Huang"). Ms. Huang is the settlor and protector of the discretionary trust.

### 2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). All IFRSs effective for the accounting period commencing from 1 January 2023, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

#### Going concern

Notwithstanding that the Target Company had net current liabilities of RMB69,156,000 as at 30 April 2023, in the opinion of the Target Company's director, the Target Company is able to operate as a going concern since the immediate holding company and other related party of the Target Company, has undertaken to arrange the payment of the liabilities due to the immediate holding company and other related party according to the profitability and cash flow situation of the Target Company, and provide sufficient working capital to enable the Target Company to meet its liabilities and obligations as and when they fall due and to continue its operations.

### 2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target Company has not applied the following revised IFRSs, which have been issued but are not yet effective, in the Historical Financial Information:

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>1</sup>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 - Comparative Information</i> <sup>3</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i> <sup>1</sup>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> <sup>1</sup>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i> <sup>1</sup>



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2024
- <sup>2</sup> No mandatory effective date yet determined but available for adoption
- <sup>3</sup> 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 IFRS 17

The Target Company is in the process of making a detailed assessment of the impact of these revised IFRSs upon initial application. So far, the Target Company considers that these revised IFRSs are unlikely to have a significant impact on the Target Company's financial performance and financial position in the period of initial application.

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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 (e.g., a headquarters building) 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 the statements of 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 each of the Relevant Periods 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/amortization) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statements of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### Related parties

A party is considered to be related to the Target Company 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 Company;
  - (ii) has significant influence over the Target Company; or
  - (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Target Company 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 Company 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 Company or an entity related to the Target Company;
  - (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 Company or to the parent of the Target Company.

#### 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 Company 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:

Motor vehicles and equipment	9.5% to 20%
------------------------------	-------------

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 each financial year end.

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 the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### Property, plant and equipment and depreciation (continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost comprising land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period and net realisable value.

Properties under development are classified as current assets except those will not be realised in the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

#### Investments and other financial assets

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

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 on the principal amount outstanding.

The Target Company'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. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on the 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 the statements of profit or loss when the asset is derecognised, modified or impaired.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### 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 Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company 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 Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company 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 Company 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 Company could be required to repay.

#### Impairment of financial assets

The Target Company 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 Company 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 the end of each of the Relevant Periods, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the end of each of the Relevant Periods 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 Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### Impairment of financial assets (continued)

##### *General approach (continued)*

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.

- 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 credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, amount due to the immediate holding company and financial liabilities in other payables and accruals.

##### *Subsequent measurement*

The subsequent measurement of financial liabilities is as follows:

##### *Financial liabilities at amortised cost (trade payables, other payables and accruals)*

After initial recognition, trade payables, other payables and accruals 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 amortization 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 amortization is included in finance costs in profit or loss.

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the Target Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Target Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

#### 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 the statements of profit or loss.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 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 which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, and assets similar in nature to cash, 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 each of the Relevant Periods 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.

#### Government grants

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

#### Revenue recognition

##### *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.

#### Employee benefits

##### *Retirement benefit scheme and pension scheme*

The Target Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statements of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Company in an independently administered fund. The Target Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Target Company are required to participate in a pension scheme (the "Pension Scheme") operated by the local municipal government in Mainland China. The Target Company is required to contribute a certain percentage of its payroll costs to the Pension Scheme. The contributions are charged to the statements of profit or loss as they become payable in accordance with the rules of the Pension Scheme.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### Dividends

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

### 3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Target Company'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.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Impairment of non-financial assets (other than goodwill)*

The Target Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. An intangible asset not yet available for use is tested for impairment annually and at other times when such an indicator exists. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Net realisable value assessment of properties under development*

The Target Company carried out assessment on net realisable value of properties under development at the end of each of the Relevant Periods and compared the costs and its net realisable value. The net realisable value is the estimated future selling price less estimated cost of completion or the estimated costs necessary to make the sale (if any). The estimated future selling prices are estimated by management with reference to the recent selling prices of similar properties in the nearby or relevant locations. The management also estimated the future selling expenses and the expected costs to completion by reference to the actual selling expenses of Zensun Real Estate and its subsidiaries' completed projects, adjusted by certain current market data, the legal and regulating framework and general market condition. The Target Company's properties under development are all situated in the PRC, details of which are set out in the statements of financial position and note 11 to the Historical Financial Information. The carrying amounts of properties under development are expected to be recovered through future sales and stated at the lower of cost and net realisable value. The properties under development are expected to be recovered higher than the cost and hence no write down to net realisable value was required at the end of each of the Relevant Periods. When there is any decrease in net realisable value of the properties and it is lower than the cost of the properties, loss will be recognised on the properties under development in the statements of profit or loss.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Target Company has only one reportable operating segment, which is property development as the project is under construction at present. Since this is the only reportable operating segment of the Target Company, no further operating segment analysis thereof is presented.

#### Geographical information

During the Relevant Periods, since the Target Company has operations in Mainland China only, no further operating geographical segment analysis thereof is presented.

### 5. OTHER INCOME AND GAINS

	Year ended 31 December			Four months ended	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Government grants	21	-	-	-	-
Interest income	1	1	1	-	-
	<u>22</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>

### 6. DIRECTOR'S AND CHIEF EXECUTIVE'S REMUNERATION

The Target Company was incorporated on 30 March 2018. Ms. Guo Wei ("Ms. Guo") was appointed as the executive director and the chief executive of the Target Company on 11 June 2018.

Ms. Guo did not receive any remuneration from the Target Company during the Relevant Periods.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods were neither a director nor chief executive of the Target Company. Details of the remuneration for the Relevant Periods of the five highest paid employees who are neither a director nor chief executive of the Target Company are as follows:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	<u>831</u>	<u>834</u>	<u>894</u>	<u>297</u>	<u>296</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
				(Unaudited)	
HK\$100,001 to HK\$200,000	4	4	4	-	-
HK\$200,001 to HK\$300,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>

### 8. LOSS BEFORE TAX

The Target Company's loss before tax is arrived at after charging:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Employee benefit expense					
Wages and salaries	933	937	1,009	335	334
Pension scheme contributions	149	149	149	50	50
Depreciation of property, plant and equipment (note 10)	<u>42</u>	<u>42</u>	<u>43</u>	<u>14</u>	<u>14</u>

### 9. DIVIDENDS

No dividends have been paid or declared by the Target Company during the Relevant Periods.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 10. PROPERTY, PLANT AND EQUIPMENT

31 December 2020

	Motor vehicles and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b><u>Cost:</u></b>			
At 1 January 2020	265	132,917	133,182
Additions	<u>23</u>	<u>2,667</u>	<u>2,690</u>
At 31 December 2020	<u>288</u>	<u>135,584</u>	<u>135,872</u>
<b><u>Accumulated depreciation:</u></b>			
At 1 January 2020	57	-	57
Depreciation provided	<u>42</u>	<u>-</u>	<u>42</u>
At 31 December 2020	<u>99</u>	<u>-</u>	<u>99</u>
<b><u>Net carrying amount:</u></b>			
At 1 January 2020	<u>208</u>	<u>132,917</u>	<u>133,125</u>
At 31 December 2020	<u>189</u>	<u>135,584</u>	<u>135,773</u>

31 December 2021

<b><u>Cost:</u></b>			
At 1 January 2021	288	135,584	135,872
Additions	<u>-</u>	<u>3,065</u>	<u>3,065</u>
At 31 December 2021	<u>288</u>	<u>138,649</u>	<u>138,937</u>
<b><u>Accumulated depreciation:</u></b>			
At 1 January 2021	99	-	99
Depreciation provided	<u>42</u>	<u>-</u>	<u>42</u>
At 31 December 2021	<u>141</u>	<u>-</u>	<u>141</u>
<b><u>Net carrying amount:</u></b>			
At 1 January 2021	<u>189</u>	<u>135,584</u>	<u>135,773</u>
At 31 December 2021	<u>147</u>	<u>138,649</u>	<u>138,796</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2022

	Motor vehicles and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b><u>Cost:</u></b>			
At 1 January 2022	288	138,649	138,937
Additions	-	22,532	22,532
At 31 December 2022	288	161,181	161,469
<b><u>Accumulated depreciation:</u></b>			
At 1 January 2022	141	-	141
Depreciation provided	43	-	43
At 31 December 2022	184	-	184
<b><u>Net carrying amount:</u></b>			
At 1 January 2022	147	138,649	138,796
At 31 December 2022	104	161,181	161,285

30 April 2023

<b><u>Cost:</u></b>			
At 1 January 2023	288	161,181	161,469
Additions	-	432	432
At 30 April 2023	288	161,613	161,901
<b><u>Accumulated depreciation:</u></b>			
At 1 January 2023	184	-	184
Depreciation provided	14	-	14
At 30 April 2023	198	-	198
<b><u>Net carrying amount:</u></b>			
At 1 January 2023	104	161,181	161,285
At 30 April 2023	90	161,613	161,703

The property, plant and equipment with aggregate carrying amounts of RMB135,584,000, RMB138,649,000, RMB161,181,000 and RMB161,613,000 have been pledged for certain of the related parties' bank and other borrowings as at 31 December 2020, 2021 and 2022 and 30 April 2023, respectively. Further details are contained in note 23 to the Historical Financial Information.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 11. PROPERTIES UNDER DEVELOPMENT

Properties under development are all situated in the PRC. The Target Company carried out assessment on net realisable value at the end of each of the Relevant Periods and compared to the cost and there was no write-down to the net realisable value of properties under development during the Relevant Periods.

### 12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Deposits and prepayments	4,561	55	55	64
Deductible value-added taxes and other taxes	946	1,502	4,851	4,856
Other receivables	600	637	600	600
	<u>6,107</u>	<u>2,194</u>	<u>5,506</u>	<u>5,520</u>
Less: Impairment	-	-	-	-
	<u>6,107</u>	<u>2,194</u>	<u>5,506</u>	<u>5,520</u>

Deposits and other receivables mainly represent deposits with suppliers and other receivables due from third parties. Where applicable, an impairment analysis is performed at the end of each of the Relevant Periods by considering the probability of default, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Target Company. No provision for impairment of deposits and other receivable was provided for as at 31 December 2020, 2021 and 2022 and 30 April 2023 as the director of the Target Company considers the expected credit loss is insignificant.

Included in deposits and prepayments is an advances to a related company controlled by Ms. Huang's daughter, Ms. Zhang Huiqi ("Ms. Zhang"), of approximately RMB4,500,000 at 31 December 2020, for its construction work.

### 13. CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Cash and cash equivalents	<u>93</u>	<u>175</u>	<u>2</u>	<u>17</u>
Denominated in:				
RMB	<u>93</u>	<u>175</u>	<u>2</u>	<u>17</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating or fixed rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate to their fair values.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 14. TRADE PAYABLES

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

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Within 1 year	367	61	22,289	13,643
1 to 2 years	130	367	26	9,194
2 to 3 years	-	130	367	393
Over 3 years	-	-	130	130
	<u>497</u>	<u>558</u>	<u>22,812</u>	<u>23,360</u>
At end of year/period				

The trade payables are non-interest-bearing and are normally settled in less than three months. The carrying amounts of trade payables approximate to their fair values.

Included in trade payables is an amount due to a related company controlled by Ms. Zhang, of approximately RMB88,000, RMB21,422,000 and RMB21,934,000 at 31 December 2021, 31 December 2022 and 30 April 2023, respectively, for its construction work of properties under development.

### 15. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Real estate and other taxes payable	67	67	67	-
Retention deposits and payable	36	36	36	36
Other payables	<u>2,589</u>	<u>2,645</u>	<u>19,605</u>	<u>20,008</u>
	<u>2,692</u>	<u>2,748</u>	<u>19,708</u>	<u>20,044</u>

The carrying amounts of financial liabilities included in other payables and accruals approximate to their fair values.

Included in other payables is an amount due to a related company controlled by Ms. Zhang, of approximately RMB416,000, RMB18,750,000 and RMB19,188,000 at 31 December 2021, 31 December 2022 and 30 April 2023, respectively, for its construction work of construction in progress.

### 16. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount due to the immediate holding company is unsecured, interest-free and repayable on demand. Ms. Huang and together with her spouse, Mr. Zhang Jingguo, and her daughter, Ms. Zhang, have the controlling interests over the immediate holding company.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 17. PAID IN CAPITAL

At 31 December 2020, 2021 and 2022 and 30 April 2023, the Target Company was a wholly-owned subsidiary of Zensun Real Estate. During the Relevant Periods, movements in paid in capital are set out below:

	Paid in capital RMB'000
At 1 January 2020, 31 December 2020, 31 December 2021 and 31 December 2022	-
Capital contribution	<u>100,000</u>
At 30 April 2023	<u><u>100,000</u></u>

### 18. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the debt and equity balance. In view of the Target Company's expansion strategy, the Target Company has sourced funding from its immediate holding company in which Ms. Huang has beneficial interests and continued to look for other external financing sources. The Target Company's overall strategy remains unchanged from the prior year.

The director of the Target Company reviews the capital structure on an annual basis. As part of this review, the director of the Target Company considers the cost of capital and the risks associated with the paid-in capital. Based on the recommendation of the director of the Target Company, the Target Company will balance its overall capital structure through the payment of dividends, new share issues, raising of new borrowings or redemption of debts.

The capital structure of the Target Company consists of net debt, which includes an amount due to the immediate holding company, net of cash and cash equivalents. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at
	2020	2021	2022	30 April 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to the immediate holding company	222,378	227,163	224,571	145,155
Less: Cash and cash equivalents	<u>93</u>	<u>175</u>	<u>2</u>	<u>17</u>
Net debt	<u>222,285</u>	<u>226,988</u>	<u>224,569</u>	<u>145,138</u>
Total assets	<u>221,739</u>	<u>224,972</u>	<u>280,090</u>	<u>281,106</u>
Gearing ratio	<u>1.00</u>	<u>1.01</u>	<u>0.80</u>	<u>0.52</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 19. FINANCIAL INSTRUMENTS BY CATEGORY

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

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
<u>Financial assets at amortised cost</u>				
Financial assets included in prepayments, other receivables and other assets	600	637	600	600
Cash and cash equivalents	93	175	2	17
	<u>693</u>	<u>812</u>	<u>602</u>	<u>617</u>
<u>Financial liabilities at amortised cost</u>				
Trade payables	497	558	22,812	23,360
Financial liabilities included in other payables and accruals	2,625	2,681	19,641	20,044
Amount due to the immediate holding company	<u>222,378</u>	<u>227,163</u>	<u>244,571</u>	<u>145,155</u>
	<u>225,500</u>	<u>230,402</u>	<u>287,024</u>	<u>188,559</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and an amount due to the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Target Company's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. As at the end of each of the Relevant Periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments mainly include cash and cash equivalents, other receivables, trade payables, other payables and accruals and an amount due to the immediate holding company, which arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Target Company's operations.

The main risks arising from the Target Company's financial instruments are credit risk and liquidity risk. Generally, the Target Company introduces conservative strategies on its risk management. The Target Company does not hold or issue derivative financial instruments for trading purposes. The director reviews and agrees policies for managing each of these risks and they are summarised below.

#### *Credit risk*

The Target Company trades only with recognised and creditworthy third parties and related parties. It is the Target Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

#### *Maximum exposure and year-end/period-end staging*

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

As at 31 December 2020

	12-month	Lifetime ECLs			Total
	ECLs	Simplified			
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets					
- Normal*	600	-	-	-	600
Cash and cash equivalents					
- Not yet past due	93	-	-	-	93
	<u>693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>693</u>



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Credit risk (continued)*

*Maximum exposure and year-end/period-end staging (continued)*

As at 31 December 2021

	12-month	Lifetime ECLs			Total
	ECLs			Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets					
- Normal*	637	-	-	-	637
Cash and cash equivalents					
- Not yet past due	175	-	-	-	175
	<u>812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>812</u>

As at 31 December 2022

	12-month	Lifetime ECLs			Total
	ECLs			Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets					
- Normal*	600	-	-	-	600
Cash and cash equivalents					
- Not yet past due	2	-	-	-	2
	<u>602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>602</u>

As at 30 April 2023

	12-month	Lifetime ECLs			Total
	ECLs			Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets					
- Normal*	600	-	-	-	600
Cash and cash equivalents					
- Not yet past due	17	-	-	-	17
	<u>617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>617</u>

\* The credit quality of the financial assets included in prepayments, other receivables and other assets 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.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Liquidity risk*

The Target Company's objective is to maintain a balance between continuity of funding and flexibility through the use of an amount due to the immediate holding company. Cash flows are being closely monitored on an ongoing basis.

The maturity profiles of the Target Company's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, are as follows:

#### As at 31 December 2020

	On demand or within 1 year RMB'000
Trade payables	497
Financial liabilities included in other payables and accruals	2,625
Amount due to the immediate holding company	<u>222,378</u>
	<u>225,500</u>
Financial guarantee contracts (Note)	<u>160,756</u>

#### As at 31 December 2021

	On demand or within 1 year RMB'000
Trade payables	558
Financial liabilities included in other payables and accruals	2,681
Amount due to the immediate holding company	<u>227,163</u>
	<u>230,402</u>
Financial guarantee contracts (Note)	<u>160,756</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Liquidity risk (continued)*

The maturity profiles of the Target Company's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, are as follows: (continued)

#### As at 31 December 2022

	On demand or within 1 year RMB'000
Trade payables	22,812
Financial liabilities included in other payables and accruals	19,641
Amount due to the immediate holding company	<u>244,571</u>
	<u>287,024</u>
Financial guarantee contracts (Note)	<u>160,756</u>

#### As at 30 April 2023

	On demand or within 1 year RMB'000
Trade payables	23,360
Financial liabilities included in other payables and accruals	20,044
Amount due to the immediate holding company	<u>145,155</u>
	<u>188,559</u>
Financial guarantee contracts (Note)	<u>160,756</u>

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Target Company could be required to settle under the arrangement for financial the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of each of the Relevant Periods, the Target Company considers that it is more likely than not that no amount will be payable under the arrangement.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 22. NOTES TO THE STATEMENTS OF CASH FLOWS

#### (a) Changes in liabilities arising from financing activities

	Amount due to the immediate holding company RMB'000
As at 1 January 2020	218,296
Changes from financing cash flows	4,082
As at 31 December 2020 and 1 January 2021	<u>222,378</u>
Changes from financing cash flows	4,785
As at 31 December 2021 and 1 January 2022	<u>227,163</u>
Changes from financing cash flows	17,408
As at 31 December 2022 and 1 January 2023	<u>244,571</u>
Changes from financing cash flows	584
Non-cash transitions (Note)	(100,000)
As at 30 April 2023	<u><u>145,155</u></u>
	Amount due to the immediate holding company RMB'000
As at 1 January 2022	227,163
Changes from financing cash flows (Unaudited)	585
As at 30 April 2022 (Unaudited)	<u><u>227,748</u></u>

Note: In April 2023, the Target Company settled certain payables due to the immediate holding company using the capital contribution from the immediate holding company, leading to the non-cash transitions of RMB100,000,000.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 23. PLEDGE OF ASSETS

The following assets are pledged for certain of the related parties' bank and other borrowings at the end of each of the Relevant Periods:

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
Property, plant and equipment	135,584	138,649	161,181	161,613
Properties under development	<u>79,766</u>	<u>83,807</u>	<u>113,297</u>	<u>113,566</u>
	<u>215,350</u>	<u>222,456</u>	<u>274,478</u>	<u>275,179</u>

In addition, shares of the Target Company were pledged as securities to obtain certain financial facilities granted to the related parties as at the end of each of the Relevant Periods.

### 24. COMMITMENTS

(a) The Target Company had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at
	2020	2021	2022	30 April
	RMB'000	RMB'000	RMB'000	2023
Property development expenditures	<u>15,430</u>	<u>16,277</u>	<u>352,240</u>	<u>351,290</u>

(b) The Target Company has no lease contracts during the Relevant Periods and have not yet commenced as at 30 April 2023.

### 25. CONTINGENT LIABILITIES

The Target Company had contingent liabilities relating to guarantee amounted to RMB160,756,000 as at 31 December 2020, 2021 and 2022 and 30 April 2023 to certain related parties in relation to their borrowings, respectively. Such guarantee will be released by the financial institution after the repayment of the borrowings.

The director of the Target Company considers that the possibility of default in payment regarding the borrowings of the related parties is remote after taking the fair value of pledged assets provided by other parties and the predicted cash inflow of the related parties into consideration, and therefore, no provision has been made in the consolidated financial statements for the contingent liability arising from the guarantee provided by the Target Company.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 26. RELATED PARTY TRANSACTIONS

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

Related companies (Note (i)) Transactions (Note (ii))

	Year ended 31 December			Four months ended	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Relevant members of Henan Zensun Corporate Development Group Company Limited (“Zensun Development”) together with its subsidiaries (collectively, the “Zensun Development Group”)	<u>-</u>	<u>4,604</u>	<u>39,922</u>	<u>18,349</u>	<u>950</u>
Relevant members of Xingye Wulian Service Group Co. Ltd. together with its subsidiaries (collectively, the “Group”)	<u>-</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes:

- (i) Zensun Development Group provides construction service to the Target Company which capitalised in properties under development during the Relevant Periods, and it is ultimately controlled by Ms. Zhang.

The Group provides property engineering services to the Target Company which capitalised in properties under development during the Relevant Periods, and it is ultimately controlled by Ms. Zhang.

- (ii) The transaction was based on terms mutually agreed by both parties.

Certain of the Target Company’s property, plant and equipment and properties under development were pledged for the bank and other borrowings which were granted to the related parties. Details are set out in notes 23 and 25 to the Historical Financial Information.

- (b) Outstanding balances with related parties:

Details of the Target Company's balances with related parties as at the end of each of the Relevant Periods are included in notes 12, 14, 15 and 16 to the Historical Financial Information.

### 27. EVENT AFTER THE RELEVANT PERIODS

There was no material subsequent event undertaken by the Target Company after 30 April 2023.