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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in **Evergrande Health Industry Group Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

EVERGRANDE HEALTH
INDUSTRY GROUP

EVERGRANDE HEALTH INDUSTRY GROUP LIMITED

恒 大 健 康 產 業 集 團 有 限 公 司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 708)

MAJOR TRANSACTION
ACQUISITION OF 58.07% EQUITY INTEREST IN
THE TARGET COMPANY

A letter from the Board is set out on pages 4 to 12 of this circular.

Capitalised terms used on this cover page should have the same meanings as those defined in the section headed "Definitions" in this circular.

There can be no assurance that any forward-looking statements regarding the business development of the Group and/or the Enlarged Group set out in this circular and any of the matters set out herein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place any excessive reliance on the information disclosed herein. Any Shareholder or potential investor who is in doubt is advised to seek advice from professional advisors.

26 April 2019

CONTENTS

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

"Acquisition"	the acquisition of the Sale Equity by the Purchaser from the Seller pursuant to the terms and conditions of the Share Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 24 January 2019 in relation to the Acquisition
"Board"	the board of directors of the Company
"China Evergrande"	China Evergrande Group, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 3333), and being the ultimate controlling shareholder of the Company
"Company"	Evergrande Health Industry Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed and traded on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder"	Evergrande Health Industry Holdings Limited, the controlling shareholder of the Company, which directly holds 6,479,500,000 Shares, representing approximately 74.99% of the total number of issued Shares as at the Last Practicable Date
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Company and its subsidiaries as enlarged by the Acquisition upon completion
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Rao Luhua, who, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, is a third party independent of the Company and its connected persons
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong

"Latest Practicable Date"	25 April 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Nanchang CENAT"	Nanchang CENAT New Energy Company Limited* (南昌卡耐新能源有限公司), a wholly-owned subsidiary of the Target Company
"PRC"	the People's Republic of China, for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Evergrande New Energy Power Technology (Shenzhen) Company Limited* (恒大新能源動力科技(深圳)有限公司), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Equity"	the 58.07% equity interest held by the Seller in the registered capital of the Target Company, being RMB625,720,000
"Seller"	Shenzhen Clou Electronics Co., Ltd. (深圳市科陸電子科技股份有限公司), a joint stock company legally established under the laws of the PRC, which, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, is a third party independent of the Company and its connected persons
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of the Company
"Shareholder(s)"	the holder(s) of Shares of the Company
"Share Sale and Purchase Agreement"	the share sale and purchase agreement dated 24 January 2019 in relation to the Acquisition entered into by the Company, the Seller and the Guarantor
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Company"	Shanghai CENAT New Energy Company Limited (上海卡耐新能源有限公司), a limited liability company established and validly existing under the laws of the PRC and the target company under the Share Sale and Purchase Agreement
"Target Group"	the Target Company and its subsidiaries
"%"	per cent.

* *For identification purpose only*

For illustrative purpose only, RMB is converted into HK$ at an exchange rate of HK$1 = RMB0.8523 in this circular.

EVERGRANDE HEALTH INDUSTRY GROUP LIMITED

恒大健康產業集團有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 708)

Executive Directors:
Mr. Shi Shouming *(Chairman)*
Mr. Peng Jianjun
Mr. Qin Liyong

Independent Non-executive Directors:
Mr. Chau Shing Yim, David
Mr. Guo Jianwen
Mr. Xie Wu

Registered Office:
23rd Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

Hong Kong Share Registrar:
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

26 April 2019

To the Shareholders

Dear Sir/Madam,

**MAJOR TRANSACTION
ACQUISITION OF 58.07% EQUITY INTEREST IN
THE TARGET COMPANY**

INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things, (i) further details in respect of the Acquisition; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) other information as required under the Listing Rules.

As disclosed in the Announcement, on 24 January 2019, the Purchaser, a wholly-owned subsidiary of the Company, has entered into the Share Sale and Purchase Agreement with the Seller and the Guarantor in relation to the Acquisition, pursuant to which the Purchaser agreed to acquire, and the Seller agreed to sell, the Sale Equity (i.e. 58.07% equity interest of the Target Company), free from all encumbrances, for a total consideration of RMB1,059,777,500. The Guarantor agreed to provide joint liability guarantee for all obligations of the Seller under the Share Sale and Purchase Agreement.

SHARE SALE AND PURCHASE AGREEMENT

Date: 24 January 2019

Parties:
(1) the Purchaser;
(2) the Seller; and
(3) the Guarantor

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Seller, together with its ultimate beneficial owners, and the Guarantor are third parties independent of the Company and the connected persons of the Company.

THE ASSETS ACQUIRED

Pursuant to the Share Sale and Purchase Agreement, the Purchaser acquired from the Seller and the Seller sold to the Purchaser the Sale Equity. The Sale Equity, representing 58.07% equity interest of the Target Company, was sold free from all encumbrances.

CONSIDERATION

The consideration of RMB1,059,777,500, inclusive of an outstanding capital contribution of the Seller to the Target Company of RMB412,020,000, has been, or is being settled (as applicable) by the Group by internal resources and was agreed upon on normal commercial terms and after arm's length negotiations between the Company and the Seller.

BASIS OF CONSIDERATION

The consideration under the Share Sale and Purchase Agreement was determined based on the overall valuation of the Target Company at the time. When valuing the Target Company and determining the consideration of the Acquisition, the Company has considered a combination of factors as set out below:

1. **historical purchase price:** investment by the Seller (the shares of which are listed on the Shenzhen Stock Exchange) in the amount of RMB1 billion for approximately 50.19% equity interest in the Target Company in July 2017, implying a valuation of 100% of the Target Company at approximately RMB1.99 billion as at July 2017;

2. **performance metrics:** the advice of the professional advisers engaged by the Company in conducting (i) legal and financial due diligence and (ii) feasibility study in respect of the Target Group; in particular,

   (a) in terms of total installed battery power capacity, the Target Company is amongst the top 10 enterprises in Mainland China according to the statistics published by the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) in 2018. Having conducted an overall analysis on a number of market players and the position held by the Target Company, the Company anticipates that the Target Company will continue to gradually expand its market share and thereby increasing its competitiveness;

   (b) the Directors noted that the Target Company is loss-making year on year with its net loss doubled in 2018. However, the Company was of the view that such net loss position is highly unlikely to affect the overall competitiveness of the Target Company as the profitability metric is not considered a meaningful metric for valuing the electric vehicle supply chain companies due to the nature of the business. The investments in companies of this kind during early years are mainly spent on research and technology development (including compensation for related personnel) which would not be reflected in the book value of the company. Therefore, in its overall analysis regarding the Target Company, the Company did not place much weight to the Target Company's initial net loss position; and

3. **market outlook:** the electric vehicle supply chain sector is a globally growing industry and the automobile market expects that the electric vehicle supply chain businesses to experience robust and steep growth over the next decade taking significant market shares of the automobile industry globally. Furthermore, positive industry outlook in Mainland China is supported by local government incentives including the introduction of the New Energy Policy in Mainland China with subsidy support on the maintenance and construction of electric vehicle ancillary infrastructure. In addition to the reasons and benefits as stated in the section headed "Reasons and Benefits" in this letter, the Directors also considered that the Acquisition can assist the Group in completing the layout of its new energy vehicle industry production chain and leverage on industrial synergies.

Having taken into account the factors above, the Company is of the view that the terms and the consideration of the Acquisition were fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Pursuant to the Share Sale and Purchase Agreement, the consideration for the Sale Equity is RMB1,059,777,500, which, after deducting the outstanding capital contribution of the Seller to the Target Company of RMB412,020,000, has been, or shall be satisfied (as applicable) by the Purchaser in instalments in the following manner:

1. First Instalment: RMB194,327,250, which has been settled as at the date of the Share Sale and Purchase Agreement by deducting the same amount of the earnest money paid by the Purchaser;

2. Second Instalment: RMB259,103,000, (i) RMB105,672,750 of which has been settled as at the date of the Share Sale and Purchase Agreement by deducting the remaining earnest money paid by the Purchaser; (ii) RMB123,730,250 of which has been settled as at 2 April 2019; and (iii) RMB29,700,000 of which shall be payable within 3 months from the date on which all conditions precedent and payment conditions for the second instalment are satisfied; and

3. Third Instalment: RMB194,327,250, which shall be payable within 3 months from the date on which the second instalment is fully settled, provided that all conditions precedent and payment conditions for the third instalment are satisfied or waived.

As at the date of the Share Sale and Purchase Agreement, the Purchaser has paid an earnest money in the amount of RMB300,000,000 to the Seller. The earnest money in the amount of RMB300,000,000 had been deducted from the first and second instalment payments by the Purchaser.

In light of the above, the Directors are of the view that the consideration is fair and reasonable, was determined on the basis of normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

CONDITIONS PRECEDENT

Pursuant to the Share Sale and Purchase Agreement, payment of the first instalment and the second instalment and the completion of the Acquisition were subject to the fulfilment of conditions precedent (or the Purchaser agreeing to time extension thereof), which included, without limitation, the following:

(i) the Share Sale and Purchase Agreement having been approved at the general meeting of the Target Company and the other shareholders having waived the right of first refusal on same terms;

(ii) all necessary consents, waivers and approvals having been obtained by the Seller;

(iii) all necessary consents, waivers and approvals in relation to the Acquisition having been obtained;

(iv) the Target Company and/or its subsidiaries having obtained documentary proof for the necessary road motor vehicle manufacturing enterprises and product permits; and

(v) the Purchaser or its designated entity completing the acquisition of additional equity interest in the Target Company.

As at the Latest Practicable Date, other than the conditions as set out in paragraphs (iv) and (v) above, all other conditions precedent to the payment of the first instalment and the second instalment have been fulfilled under the Share Sale and Purchase Agreement.

Based on the information currently available to the Company, the Company understands that good progress has been made by the Target Company in relation to the permits as required under the condition as set out in paragraph (iv) above. Furthermore, pursuant to the Share Sale and Purchase Agreement, the Purchaser is entitled to demand the termination of the Share Sale and Purchase Agreement and the reversal of the Acquisition as set out in details under the paragraph headed "Reversal of the Acquisition" in this letter if any of the conditions precedent are not fulfilled or waived.

At the same time, the Purchaser is close to finalising the acquisition of additional equity interest in the Target Company with a potential seller.

In view of the above, the Purchaser has agreed to time extension for satisfaction of the conditions as set out in paragraphs (iv) and (v) above.

In addition, the Directors consider that such time extension is in the interest of the Company and its Shareholders as a whole for the following reasons:

(i) The Company considers that the conditions as set out in paragraphs (iv) and (v) above are unlikely to affect the Acquisition substantially nor have a material adverse effect to the interests of the Company and/or the Purchaser in the Acquisition.

(ii) It is crucial to the Company and the Purchaser that the Acquisition is being driven forward and that any potential delay to the transfer of the Sale Equity is avoided. By granting time extension to fulfilment of the abovementioned conditions precedent, the Purchaser had been able to proceed to completion of the Acquisition and withhold payment of RMB29,700,000 in the second instalment.

(iii) As mentioned above and set out in details under the paragraph headed "Reversal of the Acquisition" in this letter, the Purchaser has the right to reverse the Acquisition. The Company considers that such protection mechanism under the Share Sale and Purchase Agreement alone can serve to safeguard the interest of the Company in granting the time extension.

COMPLETION

Pursuant to the Share Sale and Purchase Agreement, completion of the Acquisition took place on 27 February 2019.

PAYMENT CONDITIONS FOR THE THIRD INSTALMENT

Pursuant to the Share Sale and Purchase Agreement, payment of the third instalment is subject to the fulfilment of payment conditions (or the Purchaser agreeing to time extension thereof), which include, without limitation, certain milestones having been achieved by the Target Company, including:

(i) the Target Company having satisfied the environmental impact assessment and fire inspection of the production base of Nanchang CENAT;

(ii) the Target Company having entered into a supplemental agreement or a new investment agreement, to the satisfaction of the Purchaser, with one of its major strategic partners in relation to its battery power manufacturing base and development centre project;

(iii) the Target Company having received undertaking(s) from its research and development employees regarding the restricted use of certain trademarks, patent, trade secret, software and technology of the Target Company;

(iv) the Target Company having obtained a waiver from a creditor on its obligation to repay RMB29.7 million, being the purchase price of certain lithium battery packs for energy storage systems; and

(v) the original equity incentive plan of the Target Company (if any) having been terminated or cancelled; and upon such termination or cancellation, the Target Company and the Purchaser having established an agreed management incentive plan for the Target Company.

As at the Latest Practicable Date, the environmental impact assessment and fire inspection of the production base of Nanchang CENAT had been obtained.

REVERSAL OF THE ACQUISITION

Pursuant to the Share Sale and Purchase Agreement, if any of the conditions precedent which has not been waived or any of the payment conditions for the third instalment is not fulfilled or waived by the Purchaser by 30 April 2019, the Purchaser shall have the right to demand the termination of the Share Sale and Purchase Agreement. Upon such termination, the Seller shall return to the Purchaser the paid consideration within 5 days, and the Purchaser shall coordinate to return the Sale Equity to the Seller.

INFORMATION OF THE GROUP, THE SELLER, THE GUARANTOR AND THE TARGET COMPANY

The Group

The principal business activities of the Group include the "Internet+" community health management, international hospitals and elderly care and rehabilitation, as well as the investments in high technology new energy vehicle manufacture.

The Seller

The Seller is a company specialised in the research and development, production and sales of electrical instruments and apparatus, electronic energy meter and electric power automation products, which shares are listed on the Shenzhen Stock Exchange (stock code: 002121).

The Guarantor

The Guarantor is an individual, currently acting as the chairman of the board of directors and the president of the Seller.

The Target Company

Established in the PRC, the Target Company is one of the leading enterprises in the industry focusing on ternary pouch type power battery. It was co-founded by China Automotive Technology and Research Center, an institution directly under the State-owned Assets Supervision and Administration Commission of the State Council, and ENAX, Inc. in Japan, with technology originating from Kazunori Ozawa, known as the "Father of Lithium Battery", and his research and development team. The Target Company is among the first batch of companies in the PRC satisfying the "Standard Conditions for the Automobile Power Battery Industry" 《(汽車動力蓄電池行業規範條件》) and is one of the key standard establishers for domestic power battery and battery system series. The Target Company has a global research and development team of over 300 experts, a technical team of over 1,500 personnel and four major production bases located in Shanghai, Jiangxi, Guangxi and Jiangsu. In 2018, among its industry peers in the PRC, it ranked top ten in terms of installed battery capacity and top three in terms of pouch type power battery. The ternary pouch type product of the Target Company is industry-leading in many key indicators, including safety, energy density and cycle count. In particular, no safety-related accidents have ever been recorded from products installed with its batteries; its safety levels at the absolute leading standard in the industry.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2018, the audited book value of the Target Group and the Target Company amounted to approximately RMB524,401,000 and RMB649,795,000, respectively. The audited net loss (both before and after tax), attributable to the Target Group for the two financial years in 2017 and 2018 are as follows:

	For the year ended 2017 *(RMB)*	For the year ended 2018 *(RMB)*
Net loss before and after tax	(72,073,000)	(177,363,000)

After completion of the Acquisition, the Target Company has become a subsidiary of the Company, and the financial results, assets and liabilities of the Target Group have been consolidated into the Group's accounts.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group acquired the Sale Equity of the Target Company with the aim of completing the layout of its new energy vehicle industry production chain as a whole. Power battery, being a core component of new energy vehicles, is crucial to making the new energy vehicle industry bigger and stronger. By investing in the Target Company, the Group wishes to achieve research and development of world-leading power battery technologies by utilizing international resources, leveraging on industrial synergies and placing the Group in a more advantageous position when facing intense market competition in the future.

The Directors believe that the terms of the Share Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Pursuant to the Listing Rules, as the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the announcement and Shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, none of the Shareholders have a material interest in the Acquisition and therefore no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Share Sale and Purchase Agreement and the transactions contemplated thereunder. The Company is not required to convene a general meeting for approving the Share Sale and Purchase Agreement and the transactions contemplated thereunder as the Company has obtained written Shareholder's approval from the Company's Controlling Shareholder, in lieu of convening a general meeting as permitted by Rule 14.44 of the Listing Rules. The Controlling Shareholder directly holds 6,479,500,000 Shares in the Company, representing approximately 74.99% of the total number of issued Shares of the Company as at the date of the Announcement and the Latest Practicable Date.

RECOMMENDATION

The Directors consider that the terms and conditions of the Share Sale and Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole and would recommend the Shareholders to vote in favour of the resolutions to approve the Acquisition if it had been necessary for the Company to hold a general meeting for such purpose.

ADDITIONAL INFORMATION

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

There can be no assurance that any forward-looking statements regarding the business development of the Group and/or the Enlarged Group set out in this circular and any of the matters set out herein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place any excessive reliance on the information disclosed herein. Any Shareholder or potential investor who is in doubt is advised to seek advice from professional advisors.

Yours faithfully,
By Order of the Board
Evergrande Health Industry Group Limited
Shi Shouming
Chairman

1. CONSOLIDATED FINANCIAL STATEMENTS

Financial information of the Group for each of the six months ended 30 June 2018, the twelve months ended 31 December 2017, the twelve months ended 31 December 2016, and the eighteen months ended 31 December 2015 are disclosed in the following documents which have been published on the website of Stock Exchange (*http://www.hkexnews.hk/*) and the designated website of the Company (*http://www.irasia.com/listco/hk/evergrandehealth/*):

(a) annual report of the Company for the eighteen months ended 31 December 2015 published on 28 April 2016 (pages 40 to 101):

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0428/LTN20160428507.pdf;

(b) annual report of the Company for the twelve months ended 31 December 2016 published on 28 April 2017 (pages 52 to 119):

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428614.pdf;

(c) annual report of the Company for the twelve months ended 31 December 2017 published on 30 April 2018 (pages 56 to 125):

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0430/LTN20180430652.pdf; and

(d) interim report of the Company for the six months ended 30 June 2018 published on 26 September 2018 (pages 15 to 44):

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0926/LTN20180926335.pdf.

2. BORROWINGS

As at the close of business on 28 February 2019, being the most recent practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings of RMB32,494,530,000, details of which are set out as follows:

	Secured	**Unsecured but guaranteed**	**Unsecured and unguaranteed**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Borrowings				
Bank borrowings	2,933,400	40,000	200,000	3,173,400
Other borrowings	4,344,500	2,802,800	1,856,066	9,003,366
Shareholders' loan	—	—	20,069,907	20,069,907
Lease liabilities	—	156,418	91,439	247,857
Total	7,277,900	2,999,218	22,217,412	32,494,530

Financial guarantee

	RMB'000
	(Unaudited)
Mortgage facilities for certain purchases of properties	599,709

Note (a): As at the close of business on 28 February 2019, the Group had provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties developed by certain subsidiaries of the Group. The outstanding mortgage loans under these guarantees amounted approximately RMB599,709,000. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The mortgage facilities were secured by aforesaid properties developed by certain subsidiaries of the Group.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 28 February 2019, the Enlarged Group did not have any material debt securities issued and outstanding, and authorised or otherwise created but issued, or terms or other borrowings or indebtedness in nature of borrowing of the Enlarged Group including bank overdrafts and, liabilities under acceptance or acceptance credits or hire purchase commitments or outstanding mortgages and charges or, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Enlarged Group's internal resources, including cash flow from operations, existing borrowings, the Shareholder Loan, the present facilities available from financial institutions and the financial support of not less than 25 billion from China Evergrande Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Outlook for Evergrande Elderly Care Valley

The Group will further integrate world-class resources on medical treatment, elderly care and wellness living, medical and commercial insurance. Through the membership service platform, the Group aims to provide members with 388 types of healthcare services, 389 types of health management services, 90 types of elderly care services, 5 major types of insurance as well as 852 facilities and equipment under the theme of tourism, learning, meditation, music, cheer, diet, beauty, living, health care, nursing, so as to cover the entire treatment cycle from pre-pregnancy, infants to centenarians, to create a new way of healthy living of "one family with three generations, living in two departments".

In 2019, the Group plans to expand its operations into over 50 livable wellness areas in the coming 3 years so as to provide services for Evergrande Health members. After the comprehensive implementation of Evergrande Elderly Care Valley, the Group will further expand the diversified elderly care services across China. Focusing on the Evergrande community in the country, the Group will cooperate with international advanced elderly care service institutions, integrate domestic and foreign elderly care resources regarding health care and rehabilitation, establish Evergrande Elderly Care Valley across China and set up an diversified elderly care product system including standardized elderly care apartments, day care centres and elderly homes.

The Group will integrate high quality domestic and foreign health management resources, introduce international advanced management, diagnosis and treatment services for chronic diseases and comprehensively enhance the new high-precision health management service system. In addition, the Group also plans to establish health preserving exhibition and experience centers in various cities in the country and facilitates a full implementation of allaged healthcare services of Evergrande Elderly Care Valley. In the future, the Group will cooperate with financial, tourism, internet and other fields to recruit more members and provide health services for more people.

Outlook for Medical Service Business

In relation to hospitals, Boao Evergrande International Hospital — the only affiliated hospital of Brigham and Women's Hospital in China, will further deepen the cooperation with Brigham and Women's Hospital, introduce the world's leading cancer diagnosis and treatment technology and equipment and commence the precise diagnoses and treatments services; introduce nuclide-mediated targeted therapies and advanced equipment such as the latest fourth generation da Vinci surgical robotic system, which will be put into operation in the second quarter of 2019; commence the multiple organ chemo-radiotherapy services and accelerate the preparation of proton heavy ion center establishment; make use of the advantage of the pilot zone to continue to integrate internationally renowned medical resources and build a high standard integrated medical research and transfer platform.

It is planned that the trial operation of Sanya Evergrande Obstetrics and Gynaecology Hospital will commence in the second half of 2019, aiming to create "Best Childbirth Location for All Seasons" and "Most Beautiful Bay Resort Assisted Women's and Children's Hospital". The Group will continuously perfect the multi-level hierarchical medical system by uniting the Henghe medical platform, high-quality 3A hospitals and community hospitals across the country with the support from Evergrande International Hospital, and realize the one-stop services such as online medical service, two-way referral service and green channel. In relation to medications, the Group will proactively commence co-operations with domestic and foreign advanced medical research institutions and originator drug manufacturers, foster the clinical observation and research of international new drug and medical equipment, accelerate the conversion and marketing of the drugs and perfect the universal health product lines; building a pharmaceutical cluster that consolidates clinical research, marketing, distribution functions and covers drugs, vaccines, health products and medical equipment.

Outlook for New Energy Vehicle Segment

Through the introduction and development of world-leading new energy vehicle technologies, the entire industry chain layout of the Group can be enhanced. By leveraging its shareholders' resources and achieving industrial synergies, the Group strives to become an industry leader in the wave of rapid growth in the global new energy vehicle industry, thereby facilitating China in its transformation from a large automotive country into a powerful automotive country. The Group has completed the layout of the new energy vehicle industry chain, and aims to become one of the largest, most reputable and best quality new energy vehicle global brand names within three to five years. The new energy auto mobile base of the Group in Tianjin is scheduled to be fully operational in June 2019.

6. FINANCIAL EFFECT OF THE ACQUISITION

The financial effect of the Acquisition on the assets and liabilities of the Group is illustrated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV of the circular. According to the unaudited pro forma financial information of the Enlarged Group in Appendix IV of the circular, the total assets of the Group will increase from RMB22,183 million to RMB23,962 million, and its total liabilities will increase from RMB22,846 million to RMB24,022 million as a result of the completion of the Acquisition.

The following is the text of a report set out on pages II-1 to II-64, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF SHANGHAI CENAT NEW ENERGY COMPANY LIMITED TO THE DIRECTORS OF EVERGRANDE HEALTH INDUSTRY GROUP LIMITED

Introduction

We report on the historical financial information of Shanghai CENAT New Energy Company Limited (the ''Target Company'') and its subsidiaries (together, the ''Target Group'') set out on pages II-4 to II-64, which comprises the consolidated and company balance sheets as at 31 December 2016, 2017 and 2018, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the ''Track Record Period'') 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-64 forms an integral part of this report, which has been prepared for inclusion in the circular of Evergrande Health Industry Group Limited (the ''Company'') dated 26 April 2019 (the ''Circular'') in connection with the acquisition of the Target Group by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target Company are responsible for the preparation of the previously issued financial statements of the Target Group that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's 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 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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2016, 2017 and 2018 and the consolidated financial position of the Target Group as at 31 December 2016, 2017 and 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
26 April 2019

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

Consolidated statement of comprehensive income

		Year ended 31 December		
		2016	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	133,682	405,897	743,289
Cost of sales	*6*	(140,062)	(368,793)	(753,213)
Gross (loss)/profit		(6,380)	37,104	(9,924)
Selling and marketing expenses	*6*	(1,922)	(3,549)	(7,944)
Administrative expenses	*6*	(25,178)	(72,215)	(96,453)
Research and development expenditures	*6*	(17,022)	(33,104)	(59,526)
(Net impairment losses)/reversal of impairment losses on financial assets	*3.1.2*	(5,751)	5,187	(2,253)
Other income	*8*	5,357	600	1,049
Other gains/(losses) — net	*9*	141	(196)	2,520
Operating loss		(50,755)	(66,173)	(172,531)
Finance income	*10*	235	58	251
Finance costs	*10*	(4,873)	(5,958)	(5,083)
Loss before income tax		(55,393)	(72,073)	(177,363)
Income tax expenses	*12*	—	—	—
Loss for the year		(55,393)	(72,073)	(177,363)

		Year ended 31 December		
		2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Loss attributable to Owners of the Target Company		(55,393)	(72,073)	(177,363)
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss				
— Exchange differences on translation of foreign operations		—	(68)	(424)
Total comprehensive loss for the year		(55,393)	(72,141)	(177,787)
Total comprehensive loss for the year attributable to Owners of the Target Company		(55,393)	(72,141)	(177,787)

Consolidated balance sheet

		As at 31 December		
		2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use rights	*13*	21,508	20,996	20,484
Property, plant and equipment	*14*	321,224	566,616	859,272
Intangible assets	*15*	128	95	935
Prepayments	*16*	18,583	23,105	74,039
		361,443	610,812	954,730
Current assets				
Inventories	*18*	118,710	116,047	278,908
Trade and other receivables	*19*	157,021	186,365	212,851
Financial assets at fair value through other comprehensive income ("OCI")	*20*	10,100	58,822	107,780
Restricted cash	*21*	119	—	17,083
Cash and cash equivalents	*22*	15,854	35,356	34,943
		301,804	396,590	651,565
Total assets		663,247	1,007,402	1,606,295
Equity				
Equity attributable to owners of the Target Company				
Share capital	*23*	370,290	403,950	495,186
Other reserves	*24*	141,713	207,985	404,305
Accumulated losses		(125,654)	(197,727)	(375,090)
Total equity		386,349	414,208	524,401

		As at 31 December		
		2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Borrowings	*25*	105,000	130,000	203,618
Trade and other payables	*26*	—	—	516
Provisions	*27*	2,692	6,251	13,150
Government grants	*28*	9,643	39,743	123,916
		117,335	175,994	341,200
Current liabilities				
Contract liabilities	*5*	312	718	1,092
Borrowings	*25*	10,000	15,000	50,000
Trade and other payables	*26*	149,251	401,482	689,602
		159,563	417,200	740,694
Total liabilities		276,898	593,194	1,081,894
Total equity and liabilities		663,247	1,007,402	1,606,295

Balance sheet of the Target Company

		As at 31 December		
		2016	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Investments in subsidiaries	*11*	35,000	191,480	332,869
Land use rights	*13*	21,508	20,996	20,484
Property, plant and equipment	*14*	217,034	214,354	267,821
Intangible assets	*15*	128	95	935
Prepayments	*16*	18,583	17,071	9,826
		292,253	443,996	631,935
Current assets				
Inventories	*18*	118,098	63,703	134,143
Trade and other receivables	*19*	185,458	312,848	631,952
Financial assets at fair value through OCI	*20*	10,100	54,822	100,887
Restricted cash	*21*	119	—	16,000
Cash and cash equivalents	*22*	7,598	21,137	5,964
		321,373	452,510	888,946
Total assets		613,626	896,506	1,520,881
Equity				
Equity attributable to owners of the Target Company				
Share capital	*23*	370,290	403,950	495,186
Other reserves	*24*	141,713	208,053	404,797
Accumulated losses		(123,389)	(171,436)	(250,188)
Total equity		388,614	440,567	649,795

		As at 31 December		
		2016	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Borrowings	*25*	85,000	70,000	40,000
Provisions	*27*	2,692	6,251	13,150
Government grants	*28*	9,643	8,643	15,512
		97,335	84,894	68,662
Current liabilities				
Contract liabilities	*5*	312	4,213	1,092
Borrowings	*25*	10,000	15,000	30,000
Trade and other payables	*26*	117,365	351,832	771,332
		127,677	371,045	802,424
Total liabilities		225,012	455,939	871,086
Total equity and liabilities		613,626	896,506	1,520,881

Consolidated statement of changes in equity

	Attributable to owners of the Target Company			
	Share capital	Other reserves	Accumulated losses	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 23)	*(Note 24)*	*(Note 24)*	
Balance at 1 January 2016	336,630	75,373	(70,261)	341,742
Comprehensive loss				
Loss for the year	—	—	(55,393)	(55,393)
Transactions with owners in their capacity as owners				
Capital contribution from owners	33,660	66,340	—	100,000
Balance at 31 December 2016	370,290	141,713	(125,654)	386,349
Balance at 1 January 2017	370,290	141,713	(125,654)	386,349
Comprehensive loss				
Loss for the year	—	—	(72,073)	(72,073)
Other comprehensive loss	—	(68)	—	(68)
	—	(68)	(72,073)	(72,141)
Transactions with owners in their capacity as owners				
Capital contribution from owners	33,660	66,340	—	100,000
Balance at 31 December 2017	403,950	207,985	(197,727)	414,208
Balance at 1 January 2018	403,950	207,985	(197,727)	414,208
Comprehensive loss				
Loss for the year	—	—	(177,363)	(177,363)
Other comprehensive loss	—	(424)	—	(424)
	—	(424)	(177,363)	(177,787)
Transactions with owners in their capacity as owners				
Capital contribution from owners	91,236	196,744	—	287,980
Balance at 31 December 2018	495,186	404,305	(375,090)	524,401

Consolidated statement of cash flows

		Year ended 31 December		
		2016	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash used in operations	*29(a)*	(43,810)	(43,484)	(32,059)
Interest received		235	58	251
Net cash used in operating activities		(43,575)	(43,426)	(31,808)
Cash flows from investing activities				
Purchases of property, plant and equipment		(107,167)	(249,036)	(181,333)
Proceeds from disposal of property, plant and equipment		—	233	1
Purchase of other intangible assets		—	—	(921)
Proceeds from government grants related to assets		3,800	31,100	88,200
Cash advances to related parties	*31(b)*	(2,360)	—	—
Cash repayment from related parties	*31(b)*	—	2,360	—
Decrease/(increase) in restricted bank deposits		991	119	(17,083)
Net cash used in investing activities		(104,736)	(215,224)	(111,136)

		Year ended 31 December		
		2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from financing activities				
Capital contribution from owners		100,000	100,000	112,980
Capital contribution received in advance	*31(b)*	—	175,000	—
Proceeds from bank borrowings		17,659	40,000	—
Repayments of bank borrowings		(3,051)	(10,000)	(15,000)
Proceeds from other borrowings		20,000	—	20,000
Interest paid		(5,564)	(5,943)	(5,017)
Loans from related parties	*31(b)*	75,000	—	—
Repayments of loans and interests to related parties	*31(b)*	(55,000)	(20,967)	—
Cash advances from related parties		14	63	29,651
Net cash generated from financing activities		149,058	278,153	142,614
Net increase/(decrease) in cash and cash equivalents		747	19,503	(330)
Cash and cash equivalents at beginning of year		15,207	15,854	35,356
Effect of exchange rate changes on cash and cash equivalents		(100)	(1)	(83)
Cash and cash equivalents at end of year		15,854	35,356	34,943

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Shanghai CENAT New Energy Company Limited (the "Target Company") was established in the People's Republic of China (the "PRC") as a limited liability company on 24 May 2010. The address of the Target Company's registered office is No.398, Xingbang Road, Jiading industrial Zone, Shanghai, PRC.

The Target Company and its subsidiaries (the "Target Group") are principally engaged in research and development, manufacturing and trading of lithium batteries (the "Target Business") in the PRC.

As at 31 December 2018, the controlling shareholder of the Target Group is Shenzhen Cloud Electronics Technology Inc.

This Historical Financial Information of is presented in thousands of Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of the Historical Financial Information are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Target Group has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information has been prepared on a historical cost basis, except for certain financial assets which are measured at fair value.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.1.1 *New and revised standards adopted*

HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" are effective for the annual period beginning on or after 1 January 2018. The Target Group has applied HKFRS 9 and HKFRS 15 consistently throughout the years ended 31 December 2016, 2017 and 2018 (the "Track Record Period").

2.1.2 *Going concern*

As at 31 December 2018, the Target Group recorded net current liabilities of RMB89,129,000 (31 December 2017: net current liabilities: RMB20,610,000). The Target Group has planned refinancing arrangements for the repayment of its borrowings and construction expenditure, including obtaining financial support from Evergrande Health Industry Group Limited ("Evergrande Health"), and facility lines from several domestic financial institutions. Management has prepared the Target Group's cash flow forecast for the year ending 31 December 2019, by taking into account the expected operating cash inflows and the commitments to provide sufficient funding from Evergrande Health. Management is of the view that the Target Group would have sufficient funds to settle the outstanding debt when it falls due. As a result, the consolidated financial statements of the Target Group for the year ended 31 December 2018 have been prepared on a going concern basis.

2.1.3 ***New and revised standards, amendments and interpretation to existing standards that have been issued but are not effective for the Track Record Period and have not been early adopted***

Up to the date of issuance of this report, the HKICPA has issued the following new standards and amendments to existing standards which are not yet effective and have not been early adopted by the Target Group during the Track Record Period:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements to HKFRSs 2015–2017 cycle	Improvements to HKFRSs	1 January 2019
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8	Amendment Definition of Material	1 January 2020
HKFRS 17	Insurance Contract	1 January 2021
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	To be determined

HKFRS 16 Leases

Nature of change

The adoption of HKFRS 16 will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Target Group has set up a project team which has reviewed all of the Target Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Target Group's operating leases.

As at 31 December 2018, the Target Group has non-cancellable operating lease commitments of RMB32,492,000 (Note 30(b)).

For the lease commitments, the Target Group expects to recognise right-of-use assets of approximately RMB25,901,000 on 1 January 2019, lease liabilities of RMB25,901,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Target Group expects that net profit after tax will decrease by approximately RMB1,462,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB1,551,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Target Group's activities as a lessor are not material and hence the Target Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Target Group

The Target Group will apply the standard from its mandatory adoption date of 1 January 2019. The Target Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 *Consolidation*

Subsidiaries are all entities (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries arc accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statement exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Historical Financial Information are presented in RMB, which is the Target Company's functional and the Target Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised within "other gains — net" in the consolidated statement of comprehensive income.

(c) *Group companies*

The results and financial position of all the Target Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

2.5 Land use rights

Land use rights represent upfront payments made for the use of land and are amortised over the unexpired terms of the lease on a straight-line basis.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives	Residual rate
— Buildings	30 years	5%–10%
— Machinery	10 years	5%–10%
— Vehicles	5 years	5%–10%
— Office and electronic equipment	5 years	5%–10%
— Leasehold improvements	1–2 years	0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents property, plant and equipment under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) — net" in the consolidated statement of comprehensive income.

2.7 Intangible assets

(a) ***Computer software***

Acquired computer software programmes are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (10 years).

(b) ***Research and development expenditures***

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the technology so that it will be available for use; (2) management intends to complete the technology and use or sell it; (3) there is an ability to use or sell the technology; (4) it can be demonstrated how the technology will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the technology are available; and (6) the expenditure attributable to the technology during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the Track Record Period, there were no development costs meeting these criteria and capitalised as intangible assets.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods.

2.8 Impairment of non-financial assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 *Classification*

The Target Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Target Group only has financial assets that are measured at amortised cost or through other comprehensive income throughout the Track Record Period.

2.9.2 *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

2.9.3 *Measurement*

At initial recognition, the Target Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

2.9.4 *Impairment*

The Target Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Target Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables and notes receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Target Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the Target Group's accounting for trade receivables and Note 3.1.2 for a description of the Target Group's impairment policies.

2.13 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) *Defined contribution employee retirement schemes*

The Target Group participates in the defined contribution employee retirement schemes regarding pension benefits required under existing PRC legislation. The defined contribution plan is a pension plan under which the Target Group pays contributions into a separate entity. The Target Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.20 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provision for product warranties granted by the Target Group for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

2.21 Revenue recognition

Sales revenue are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Target Group has objective evidence that all criteria for acceptance have been satisfied.

Sales revenue are recorded based on the price stated in the sales contracts, net of the sales rebates and discounts.

When either party to a contract has performed, the Target Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the Target Group's performance and the customer's payment.

A contract asset is the Target Group's right to consideration in exchange for goods or services that the Target Group has transferred to a customer.

If a customer pays consideration or the Target Group has a right to an amount of consideration that is unconditional, before the Target Group transfers goods or services to the customer, the Target Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to property, plant and equipment and intangible assets are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants are deducted in reporting the related expenses, when appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

3.1.1 *Market risk*

(a) *Foreign exchange risk*

The Target Group operates primarily in the PRC and its business is principally conducted in RMB, except that certain receivables and payables, cash and cash equivalents and restricted cash are denominated in US dollar ("USD") and HK dollar ("HKD"), and a branch of a subsidiary operates in Japan with transactions denominated in Japanese yen ("JPY"). The overseas subsidiary's functional currency is JPY. During the Track Record Period, the Target Group is not exposed to significant foreign exchange risk.

(b) *Interest rate risk*

The Target Group's interest rate risk arises from non-current borrowings from financial institutions and certain loans from government. The Target Group do not have borrowings issued at variable rates. Borrowings from financial institutions and loans from government obtained at fixed rates expose the Target Group to fair value interest rate risk.

At 31 December 2016, 2017 and 2018, borrowings amounting to RMB115,000,000, RMB145,00,000 and RMB233,618,000, were bearing fixed interest at fixed rates. The fair value of the borrowings equals their carrying amounts, as the impact of discounting is not significant.

3.1.2 *Credit risk*

The Target Group is exposed to credit risk in relation to its trade and other receivables (excluding prepayments), cash deposits at bank and notes receivables. The carrying amounts of trade and other receivables (excluding prepayments), cash and cash equivalents and notes receivables represent the Target Group's maximum exposure to credit risk in relation to financial assets.

The Target Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

For trade and other receivables, the management of the Target Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

Notes receivables which are held both by collecting contractual cash flows and selling of these assets, were considered to be low risk, and therefore the impairment provisions is determined as 12 months expected credit losses. The losses allowance for notes receivables was immaterial.

The Target Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Target Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

- actual or expected significant changes in the operating results of individual property owner or the borrower

- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Target Group and changes in the operating results of the borrower.

(i) A summary of the assumptions underpinning the Target Group's expected credit loss model is as follows:

Category	**Group definition of category**	**Basis for recognition of expected credit loss provision**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are over 365 days past due and there is no reasonable expectation of recovery.	Asset is written off

The Target Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Target Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(ii) Trade and other receivables (excluding prepayments)

The Target Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivable. The Target Group uses the expected credit loss model in Note(i) to determine the expected loss provision for other receivables (excluding prepayments). As at 31 December 2016, 2017 and 2018, the Target Group has assessed that there is no significant increase of credit risk for other receivables. Thus the Target Group used the 12 months expected credit losses model to assess credit loss of other receivables.

As at 31 December 2016, 2017 and 2018, the Target Group has assessed that the expected loss rate for trade receivables from related parties was immaterial considering the good finance position and credit history of the related parties. Thus no loss allowance provision for trade receivables from related parties was recognised during the Track Record Period.

During the Track Record Period, the expected loss rate for certain third-party customers that had dispute with the Target Group or in financial difficulties are assessed specifically by the directors as follows:

	As at 31 December		
	2016	**2017**	**2018**
Expected loss rate	Not applicable	Not applicable	100%
Gross carrying amount (RMB'000)	—	—	1,741
Loss allowance provision (RMB'000)	—	—	1,741

The expected credit losses rate for other third-party customers are determined according to provision matrix as follows:

	Up to 6 months	**6 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Trade receivables						
At 31 December 2016						
Expected loss rate	0.1%	5%	10%	30%	100%	
Gross carrying amount (RMB'000)	62,331	8,776	51,346	—	—	122,453
Loss allowance provision (RMB'000)	62	439	5,135	—	—	5,636
At 31 December 2017						
Expected loss rate	0.1%	5%	10%	30%	100%	
Gross carrying amount (RMB'000)	134,958	539	1,559	509	—	137,565
Loss allowance provision (RMB'000)	135	27	155	153	—	470
At 31 December 2018						
Expected loss rate	0.1%	5%	10%	30%	100%	
Gross carrying amount (RMB'000)	156,568	180	1,260	551	494	159,053
Loss allowance provision (RMB'000)	157	9	126	165	494	951

As at 31 December 2016, 2017 and 2018, the loss allowance provision for trade and other receivables (excluding prepayments) reconciles to the opening loss allowance for that provision as follows:

	Trade receivables (excluding trade receivables from related parties)	Other receivables (excluding prepayments and other receivables from related parties)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	43	12	55
Provision for loss allowance recognised in profit or loss	5,593	158	5,751
At 31 December 2016	5,636	170	5,806
At 1 January 2017	5,636	170	5,806
Provision for loss allowance recognised in profit or loss	231	197	428
Unused amounts reversed	(5,397)	(218)	(5,615)
At 31 December 2017	470	149	619
At 1 January 2018	470	149	619
Provision for loss allowance recognised in profit or loss	2,240	31	2,271
Unused amounts reversed	(18)	—	(18)
At 31 December 2018	2,692	180	2,872

As at 31 December 2016, 2017 and 2018, the gross carrying amount of trade and other receivables (excluding prepayments) were RMB160,135,000, RMB180,210,000 and RMB209,031,000 respectively, and thus the maximum exposure to loss (exclusive of loss allowance provided) were RMB154,329,000, RMB179,591,000 and RMB206,159,000.

3.1.3 ***Liquidity risk***

To manage the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Target Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2016				
Borrowings	14,257	16,894	95,628	126,779
Trade and other payables (*)	143,187	—	—	143,187
As at 31 December 2017				
Borrowings	17,286	52,187	85,200	154,673
Trade and other payables (*)	391,048	—	—	391,048
As at 31 December 2018				
Borrowings	54,225	81,746	146,414	282,385
Trade and other payables (*)	652,712	—	20,516	673,228

* Excluding non-financial liabilities

As at 31 December 2018, the Target Group's current liabilities exceeded its current assets by approximately RMB89,129,000. Current liabilities include bank borrowings of RMB50,000,000 that were due for repayment within one year and construction cost payables of approximately RMB182,691,000, which led to liquidity risk. The directors consider the Target Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. For details, please refer to Note 2.1.1.

3.2 Capital management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash. Total capital is calculated as total equity plus net debt.

As at 31 December 2016, 2017 and 2018, gearing ratio of the Target Group is as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings *(Note 25)*	115,000	145,000	253,618
Less: cash and cash equivalents *(Note 22)*	(15,854)	(35,356)	(34,943)
restricted cash *(Note 21)*	(119)	—	(17,083)
Net debt	99,027	109,644	201,592
Total equity	386,349	414,208	524,401
Total capital	485,376	523,852	725,993
Gearing ratio	20%	21%	28%

The Target Group's strategy is to maintain the gearing ratio below 60%. During the Track Record Period, the gearing ratios are within the desired range.

3.3 Fair value estimation

The carrying amounts of the Target Group's financial assets comprises of cash and cash equivalents, trade and other receivables and notes receivable measured at FVOCI; and financial liabilities comprises of trade and other payables and borrowings. Except for notes receivable measured at FVOCI, the financial assets and liabilities approximate their fair values due to their short maturities. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The carrying value of financial instruments measured at fair value at the balance sheet dates are categorised among the three levels of the fair value hierarchy defined in HKFRS 13, "Fair value Measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2016, 2017 and 2018, notes receivables (Note 20) of RMB10,100,000, RMB58,822,000 and RMB107,780,000 measured at FVOCI are included in level 3.

(a) ***Financial instrument in level 3***

The following table presents the changes in level 3 instruments for the years ended 31 December 2016, 2017 and 2018.

	Notes receivable
	RMB'000
As at 1 January 2016	12,080
Additions	75,697
Disposals	(77,677)
As at 31 December 2016	10,100
Additions	467,556
Disposals	(418,834)
As at 31 December 2017	58,822
Additions	717,730
Disposals	(668,772)
As at 31 December 2018	107,780
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	
— 2016	—
— 2017	—
— 2018	—

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) is as follow:

	Fair value at 31 December 2016 *RMB'000*	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**
Notes receivable	10,100	Discounted cash flow	Discount rate	4.10%

	Fair value at 31 December 2017 *RMB'000*	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**
Notes receivable	58,822	Discounted cash flow	Discount rate	4.80%–5.30%

	Fair value at 31 December 2018 *RMB'000*	**Valuation technique(s)**	**Unobservable input**	**Range (weighted average)**
Notes receivable	107,780	Discounted cash flow	Discount rate	3.55%–4.15%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less cost of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Target Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

(b) Useful lives and depreciation of property, plant and equipment

The Target Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisable lives and therefore affect the depreciation and amortisation charges in future periods.

(c) Impairment of inventories

The management of the Target Group assesses on the net realisable value of inventories at each reporting date based on the accounting policies stated in Note 2.11. The net realisable value is the estimated selling price in the current course of business, less applicable costs, variable selling expenses and tax charges. Even though the management of the Target Group has made the best estimate about the inventory impairment loss predicted to occur and provided allowance for impairment, the impairment assessment may still be significantly changed due to the change of market situations.

(d) Impairment of trade and other receivables

The Target Group makes allowances on trade and other receivables based on assumptions about risk of default and expected loss rates. The Target Group used judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Target Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed. For details of the key assumptions and inputs used, see Note 3.1.2 above.

(e) Warranty provisions

Provision for product warranties granted by the Target Group in respect of certain products are recognised based on sales volume and past experience of the level of repair and returns, discounted to their present values as appropriate.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Target Company.

The CODM considers that the Target Group has been operating in a single operating segment. CODM assesses the performance of this single segment based on a measure of profit before income tax.

As at 31 December 2016, 2017 and 2018, the Target Group's revenue mainly derive from the PRC and the Target Group's non-current assets are substantially all located in the PRC.

An analysis of the Target Group's revenue for the years ended 31 December 2016, 2017 and 2018 is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Recognised at a point in time			
Sales of lithium batteries	133,682	405,897	743,289

(a) Contract liabilities

The Target Group

The Target Group has recognised the following revenue-related contract liabilities:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
— Third parties	312	718	1,092

The Target Company

The Target Company has recognised the following revenue-related contract liabilities:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
— Subsidiaries	—	3,731	—
— Third parties	312	482	1,092
	312	4,213	1,092

(i) ***Significant changes in contract liabilities***

Contract liabilities of the Target Group mainly arise from the advance payments made by customers while the underlying goods are yet to be delivered. The increase in contract liabilities was mainly due to increase in advance payments from customers.

(ii) ***Revenue recognised in relation to contract liabilities***

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year			
— Third parties	1,848	312	718

(iii) ***Unsatisfied performance obligations***

For the sales of goods, they are delivered in short period of time, which is generally less than a year, and the Target Group has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts.

(iv) ***Assets recognised from incremental costs to obtain a contract***

During the Track Record Period, there was no significant incremental costs to obtain a contract.

(b) Revenues from transactions with external customers accounting for 10% or more of the Target Group's total revenue are as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	53,335	205,611	474,618
Customer B	34,503	106,725	194,646
Customer C	32,721	Not applicable*	Not applicable*

* Less than 10% of the Target Group's total revenue in respective years.

6 EXPENSES BY NATURE

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and consumables used	168,009	323,574	711,715
Employee benefit expenses *(Note 7)*	43,223	73,731	159,282
Impairment loss of inventories	11,396	50,306	50,138
Depreciation and amortisation charges *(Notes 13, 14 and 15)*	16,139	22,152	47,099
Utilities	8,552	13,900	39,135
Warranty expenses	1,337	4,059	7,404
Consultancy fee	956	818	5,513
Transportation	1,791	6,655	5,786
Travelling and entertainment expenses	1,644	2,847	4,638
Maintenance costs	961	950	4,323
Office expenses	1,307	1,915	3,130
Turnover taxes and other levies	1,209	1,314	2,238
Operating lease expenses	169	245	2,049
Advertising expenses	345	324	1,039
Auditors' remuneration for audit services	310	415	176
Amortisation of government grants *(Note 28)*	(320)	(1,000)	(4,027)
Changes in inventories of finished goods and work in progress	(75,992)	(28,422)	(142,223)
Others	3,148	3,878	19,721
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenditure	184,184	477,661	917,136

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	32,201	53,669	123,297
Social insurance expenses	7,408	13,069	20,849
Housing benefits	1,074	3,236	3,809
Other employee benefits	2,540	3,757	11,327
	43,223	73,731	159,282

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group included 1, 1 and 1 director of the Target Company for the years ended 31 December 2016, 2017 and 2018, whose emoluments are reflected in the analysis shown in Note 32. The emoluments payable to the remaining 4, 4 and 4 individuals during the Track Record Period are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	1,227	4,150	4,578
Pension costs, housing funds, medical insurance and other social insurances	18	89	295
	1,245	4,239	4,873

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December		
	2016	**2017**	**2018**
Emolument bands (in Hong Kong dollar ("HK$"))			
Nil–HK$1,000,000	4	2	—
HK$1,000,001–HK$1,500,000	—	1	3
HK$2,000,001–HK$2,500,000	—	1	1
	4	4	4

During the Track Record Period, no emolument was paid by the Target Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

8 OTHER INCOME

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Government grants *(Note (a))*	5,357	600	1,049

(a) Government grants consisted mainly of financial subsidies granted by the local governments.

9 OTHER GAINS/(LOSSES) — NET

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Gains/(losses) on disposal of property, plant and equipment	—	120	(1)
Disposal losses of FVOCI	(11)	(512)	(1,175)
Net foreign exchange gains/(losses)	68	(51)	(14)
Compensations received	—	—	3,454
Miscellaneous	84	247	256
	141	(196)	2,520

10 FINANCE COSTS/(INCOME) — NET

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Finance costs			
— Bank borrowings	6,616	5,958	5,599
Less: interest capitalised	(1,743)	—	(516)
	4,873	5,958	5,083
Finance income			
— Interest income form bank deposits	(235)	(58)	(251)
	4,638	5,900	4,832

11 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016, 2017 and 2018:

Company name	Place and date of incorporation/ establishment	Registered capital	Attributable equity interest of the Target Group as at 31 December 2016	Attributable equity interest of the Target Group as at 31 December 2017	Attributable equity interest of the Target Group as at 31 December 2018	Principal activities and place of operation	Name of statutory auditors and periods covered
Directly owned:							
Nanchang CENAT New Energy Company Limited *(Note (i))* 南昌卡耐新能源有限公司	The PRC, 2 February 2016	RMB550,000,000	100%	100%	100%	Manufacturing and trading of lithium batteries in Nanchang	Da Hua Certified Public Accountants (Special General Partnership) 大華會計師事務所(特殊普通合夥) The year ended 31 December 2017 *(Note (ii))*
Guangxi CENAT New Energy Company Limited 廣西卡耐新能源有限公司	The PRC, 6 September 2016	RMB100,000,000	100%	100%	100%	Manufacturing and trading of lithium batteries in Guangxi	Da Hua Certified Public Accountants (Special General Partnership) 大華會計師事務所(特殊普通合夥) The year ended 31 December 2017 *(Note (ii))*
Jiangsu CENAT New Energy Company Limited 江蘇卡耐新能源有限公司	The PRC, 29 June 2017	RMB1,000,000,000	N/A	100%	100%	Manufacturing and trading of lithium batteries in Jiangsu	*Note (iii)*
Nanjing CENAT New Energy Technological Development Company Limited 南京卡耐新能源技術發展有限公司	The PRC, 30 November 2017	RMB100,000,000	N/A	100%	100%	Research and development of lithium batteries in Nanjing	*Note (iii)*

(i) A branch of Nanchang CENAT New Energy Company Limited locates and operates in Japan.

(ii) No statutory audited financial statement has been issued for the years ended 31 December 2016 and statutory audited financial statement has not yet been issued for the your ended 2018 as at the report date.

(iii) No statutory audited financial statement has been issued for the years ended 31 December 2017 and statutory audited financial statement has not yet been issued for the your ended 2018 as at the report date.

12 INCOME TAX EXPENSES

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax	—	—	—
Deferred income tax	—	—	—
	—	—	—

The tax on the Target Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Target Group entities as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(55,393)	(72,073)	(177,363)
Tax charge at effective rate applicable to loss in the respective group entities	(8,535)	(13,214)	(36,010)
Tax effects of:			
— Expenses not deductible for tax purposes	18	39	75
— Tax losses and deductible temporary differences for which no deferred income tax asset was recognised	8,517	13,175	35,935
Income tax expenses	—	—	—

As at 31 December 2016, 2017 and 2018, the Target Group did not recognise deferred income tax assets in respect of estimated accumulated tax losses of approximately RMB112,227,000, RMB184,280,000 and RMB340,873,000.

The expiry date of tax losses is as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017	20	—	—
As at 31 December 2018	20,770	20,770	—
As at 31 December 2019	30,041	30,041	30,041
As at 31 December 2020	6,003	6,003	6,003
As at 31 December 2021	55,393	55,393	55,393
As at 31 December 2022	—	72,073	72,073
As at 31 December 2023	—	—	177,363
	112,227	184,280	340,873

PRC corporate income tax

Income tax provision of the Target Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

The corporate income tax rate applicable to the Target Group entities located in Mainland China is 25% according to the Corporate Income Tax Law of the PRC.

In 2015, the Target Company obtained the Certificate of High-Tech Corporation with valid period from year 2015 to year 2017. The valid period of the Certificate has been extended to year 2020 in 2018. According to the Corporation Income Tax Law of the PRC, corporations which obtain the Certificate of High-Tech Corporation are entitled to enjoy additional tax deduction for research and development costs and a preferential corporate income tax rate of 15%.

13 LAND USE RIGHTS

The Target Group and the Target Company

Land use rights represent the Target Group and the Target Company's interests in land which are held on leases for 46 years. Movements of the land use rights for the Track Records Period are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Beginning of the year			
Cost	23,898	23,898	23,898
Accumulated amortisation	(1,878)	(2,390)	(2,902)
Net book amount	22,020	21,508	20,996
For the year ended			
Opening net book amount	22,020	21,508	20,996
Amortisation	(512)	(512)	(512)
Closing net book amount	21,508	20,996	20,484
End of the year			
Cost	23,898	23,898	23,898
Accumulated amortisation	(2,390)	(2,902)	(3,414)
Net book amount	21,508	20,996	20,484

(a) The amount of amortisation of the Target Group and the Target Company was all charged to cost of sales in the consolidated statement of comprehensive income.

(b) As at 31 December 2016, 2017 and 2018, bank borrowings (Note 25(a)) were secured by the Target Group and the Target Company's land use rights with the carrying value of approximately RMB21,508,000, RMB20,996,000 and RMB20,484,000.

14 PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Buildings	Machinery	Office and electronic equipment	Vehicles	Leasehold improvements	Construction in process	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016							
Cost	63,831	103,414	5,836	561	—	32,375	206,017
Accumulated depreciation	(5,248)	(25,994)	(2,425)	(320)	—	—	(33,987)
Net book amount	58,583	77,420	3,411	241	—	32,375	172,030
Year ended 31 December 2016							
Opening net book amount	58,583	77,420	3,411	241	—	32,375	172,030
Additions	—	2,109	1,521	—	56	161,102	164,788
Transfers	31,516	56,769	578	—	—	(88,863)	—
Depreciation charge	(2,680)	(11,711)	(1,136)	(65)	(2)	—	(15,594)
Closing net book amount	87,419	124,587	4,374	176	54	104,614	321,224
As at 31 December 2016							
Cost	95,347	162,292	7,935	561	56	104,614	370,805
Accumulated depreciation	(7,928)	(37,705)	(3,561)	(385)	(2)	—	(49,581)
Net book amount	87,419	124,587	4,374	176	54	104,614	321,224
Year ended 31 December 2017							
Opening net book amount	87,419	124,587	4,374	176	54	104,614	321,224
Additions	981	8,177	8,074	—	261	249,619	267,112
Transfers	15,330	120,471	1,172	329	—	(137,302)	—
Disposals	—	(111)	(2)	—	—	—	(113)
Depreciation charge	(2,618)	(17,146)	(1,749)	(55)	(39)	—	(21,607)
Closing net book amount	101,112	235,978	11,869	450	276	216,931	566,616
As at 31 December 2017							
Cost	111,658	290,568	17,178	890	317	216,931	637,542
Accumulated depreciation	(10,546)	(54,590)	(5,309)	(440)	(41)	—	(70,926)
Net book amount	101,112	235,978	11,869	450	276	216,931	566,616
Year ended 31 December 2018							
Opening net book amount	101,112	235,978	11,869	450	276	216,931	566,616
Additions	3,132	26,855	12,882	117	16,440	279,738	339,164
Transfers	11,588	304,610	5,287	1,638	—	(323,123)	—
Disposals	—	(2)	—	—		—	(2)
Depreciation charge	(4,041)	(36,483)	(3,614)	(334)	(2,034)	—	(46,506)
Closing net book amount	111,791	530,958	26,424	1,871	14,682	173,546	859,272
As at 31 December 2018							
Cost	126,379	622,032	35,346	2,645	16,757	173,546	976,705
Accumulated depreciation	(14,588)	(91,074)	(8,922)	(774)	(2,075)	—	(117,433)
Net book amount	111,791	530,958	26,424	1,871	14,682	173,546	859,272

Depreciation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	12,954	18,739	35,524
Selling and marketing expenses	12	177	155
Administrative expenses	1,672	1,681	8,813
Research and development expenditure	956	1,010	2,014
	15,594	21,607	46,506

(a) As at 31 December 2016, 2017 and 2018, bank borrowings (Note 25(a)) were secured by the Target Group's property, plant and equipment with carrying value of approximately RMB42,736,000, RMB41,021,000 and RMB39,495,000.

(b) During the years ended 31 December 2016 and 2018, the Target Group has capitalised specific borrowing costs amounting to RMB1,743,000 and RMB516,000 (Note 10), respectively, in property, plant and equipment. Borrowing costs were capitalised at the rates of specific borrowings of 6.175% and 5.5%, respectively.

The Target Company

	Buildings	Machinery	Office and electronic equipment	Vehicles	Leasehold improvements	Construction in process	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016							
Cost	63,831	103,414	5,836	561	—	32,375	206,017
Accumulated depreciation	(5,248)	(25,994)	(2,425)	(320)	—	—	(33,987)
Net book amount	58,583	77,420	3,411	241	—	32,375	172,030
Year ended 31 December 2016							
Opening net book amount	58,583	77,420	3,411	241	—	32,375	172,030
Additions	—	2,109	1,521	—	56	56,912	60,598
Transfers	31,516	56,769	578	—	—	(88,863)	—
Depreciation charge	(2,680)	(11,711)	(1,136)	(65)	(2)	—	(15,594)
Closing net book amount	87,419	124,587	4,374	176	54	424	217,034
As at 31 December 2016							
Cost	95,347	162,292	7,935	561	56	424	266,615
Accumulated depreciation	(7,928)	(37,705)	(3,561)	(385)	(2)	—	(49,581)
Net book amount	87,419	124,587	4,374	176	54	424	217,034

	Buildings	Machinery	Office and electronic equipment	Vehicles	Leasehold improvements	Construction in process	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017							
Opening net book amount	87,419	124,587	4,374	176	54	424	217,034
Additions	122	7,823	7,863	—	261	—	16,069
Disposals	—	(111)	(2)	—	—	—	(113)
Depreciation charge	(2,577)	(14,278)	(1,701)	(41)	(39)	—	(18,636)
Closing net book amount	84,964	118,021	10,534	135	276	424	214,354
As at 31 December 2017							
Cost	95,470	169,743	15,795	562	317	424	282,311
Accumulated depreciation	(10,506)	(51,722)	(5,261)	(427)	(41)	—	(67,957)
Net book amount	84,964	118,021	10,534	135	276	424	214,354
Year ended 31 December 2018							
Opening net book amount	84,964	118,021	10,534	135	276	424	214,354
Additions	2,332	10,362	11,960	—	—	51,110	75,764
Transfers	—	49,999	—	—	—	(49,999)	—
Depreciation charge	(2,916)	(16,203)	(2,981)	(40)	(157)	—	(22,297)
Closing net book amount	84,380	162,179	19,513	95	119	1,535	267,821
As at 31 December 2018							
Cost	97,802	230,104	27,755	561	317	1,535	358,074
Accumulated depreciation	(13,422)	(67,925)	(8,242)	(466)	(198)	—	(90,253)
Net book amount	84,380	162,179	19,513	95	119	1,535	267,821

Depreciation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	12,954	15,882	12,107
Selling and marketing expenses	12	177	143
Administrative expenses	1,672	1,567	8,033
Research and development expenditure	956	1,010	2,014
	15,594	18,636	22,297

(a) As at 31 December 2016, 2017 and 2018, bank borrowings (Note 25(a)) were secured by the Target Company's property, plant and equipment with carrying value of approximately RMB42,736,000, RMB41,021,000 and RMB39,495,000.

(b) During the year ended 31 December 2016, the Target Company has capitalised specific borrowing costs amounting to RMB1,743,000 (Note 10) in property, plant and equipment. Borrowing costs were capitalised at the rates of specific borrowings of 6.175%.

15 INTANGIBLE ASSETS

The Target Group and the Target Company

	Software
	RMB'000
As at 1 January 2016	
Cost	167
Accumulated amortisation	(6)
Net book amount	161
Year ended 31 December 2016	
Opening net book amount	161
Amortisation charge	(33)
Closing net book amount	128
As at 31 December 2016	
Cost	167
Accumulated amortisation	(39)
Net book amount	128
Year ended 31 December 2017	
Opening net book amount	128
Amortisation charge	(33)
Closing net book amount	95
As at 31 December 2017	
Cost	167
Accumulated amortisation	(72)
Net book amount	95
Year ended 31 December 2018	
Opening net book amount	95
Additions	921
Amortisation charge	(81)
Closing net book amount	935
As at 31 December 2018	
Cost	1,088
Accumulated amortisation	(153)
Net book amount	935

Amortisation of intangible assets has been charged to the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	—	—	48
Administrative expenses	33	33	33
	33	33	81

16 PREPAYMENTS

The Target Group

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for machinery	7,957	14,213	60,725
Others	10,626	8,892	13,314
	18,583	23,105	74,039

The Target Company

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for machinery	7,957	8,745	3,923
Others	10,626	8,326	5,903
	18,583	17,071	9,826

17 FINANCIAL INSTRUMENTS BY CATEGORY

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Financial asset at amortised cost			
Trade and other receivables (excluding prepayments) *(Note 19)*	154,329	179,591	206,159
Restricted cash *(Note 21)*	119	—	17,083
Cash and cash equivalents *(Note 22)*	15,854	35,356	34,943
Financial assets at fair value through OCI *(Note 20)*	10,100	58,822	107,780
	180,402	273,769	365,965
Financial liabilities at amortised costs			
Trade and other payables (excluding accrued payroll and other taxes payables) *(Note 26)*	143,187	391,048	653,228
Borrowings *(Note 25)*	115,000	145,000	253,618
	258,187	536,048	906,846

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Financial asset at amortised cost			
Trade and other receivables (excluding prepayments) *(Note 19)*	182,766	307,693	629,121
Restricted cash *(Note 21)*	119	—	16,000
Cash and cash equivalents *(Note 22)*	7,598	21,137	5,964
Financial assets at fair value through OCI *(Note 20)*	10,100	54,822	100,887
	200,583	383,652	751,972
Financial liabilities at amortised costs			
Trade and other payables (excluding accrued payroll and other taxes payables) *(Note 26)*	111,552	343,954	750,744
Borrowings *(Note 25)*	95,000	85,000	70,000
	206,552	428,954	820,744

18 INVENTORIES

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	16,639	31,049	98,897
Work in progress	43,380	49,289	101,624
Finished goods	70,087	92,600	182,488
	130,106	172,938	383,009
Less: provision for impairment	(11,396)	(56,891)	(104,101)
	118,710	116,047	278,908

(a) During the Track Record period, the cost of inventories recognised as expenses and included in cost of sales amounted to RMB92,017,000, RMB295,152,000 and RMB569,492,000 respectively.

(b) As at 31 December 2016, 2017 and 2018, the loss allowance provision for inventories reconciles to the opening loss allowance for that provision as follows:

	Inventories
	RMB'000
At 1 January 2016	—
Provision for loss allowance recognised in profit or loss	11,396
At 31 December 2016	11,396
At 1 January 2017	11,396
Provision for loss allowance recognised in profit or loss	48,018
Write-off *(Note (i))*	(2,523)
At 31 December 2017	56,891
At 1 January 2018	56,891
Provision for loss allowance recognised in profit or loss	72,282
Write-off *(Note (i))*	(25,072)
At 31 December 2018	104,101

(i) For the years ended 31 December 2017 and 2018, the Target Group wrote off RMB2,523,000 and RMB25,072,000 of previous inventory write-down respectively, as the Target Group disposed relevant goods to third parties at scrap price. The amount written off has been included in cost of sales in the profit or loss.

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	16,027	19,378	63,587
Work in progress	43,380	22,843	35,699
Finished goods	70,087	64,251	102,939
	129,494	106,472	202,225
Less: provision for impairment	(11,396)	(42,769)	(68,082)
	118,098	63,703	134,143

(a) As at 31 December 2016, 2017 and 2018, the loss allowance provision for inventories reconciles to the opening loss allowance for that provision as follows:

	Inventories
	RMB'000
At 1 January 2016	—
Provision for loss allowance recognised in profit or loss	11,396
At 31 December 2016	11,396
At 1 January 2017	11,396
Provision for loss allowance recognised in profit or loss	33,896
Write-off *(Note (i))*	(2,523)
At 31 December 2017	42,769
At 1 January 2018	42,769
Provision for loss allowance recognised in profit or loss	36,264
Write-off *(Note (i))*	(10,951)
At 31 December 2018	68,082

(i) For the years ended 31 December 2017 and 2018, the Target Company wrote off RMB2,523,000 and RMB10,951,000 of previous inventory write-down respectively, as the Target Group disposed relevant goods to third parties at scrap price. The amount written off has been included in cost of sales in the profit or loss.

19 TRADE AND OTHER RECEIVABLES

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables *(Note (a))*			
— Third parties	122,453	137,565	160,794
Less: allowance for impairment of trade receivables	(5,636)	(470)	(2,692)
	116,817	137,095	158,102
Other receivables			
— Related parties *(Note 31(d))*	2,360	—	—
— Value added tax recoverable	34,382	39,667	41,937
— Deposits	—	—	2,000
— Cash advances to a thirty party	—	—	1,000
— Others	940	2,978	3,300
	37,682	42,645	48,237
Less: allowance for impairment of other receivables	(170)	(149)	(180)
	37,512	42,496	48,057
Prepayments			
— Third parties	2,692	6,774	6,692
	157,021	186,365	212,851

(a) As at 31 December 2016, 2017 and 2018, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
0–180 days	62,331	134,958	156,568
181–365 days	8,776	539	180
1 to 2 years	51,346	1,559	2,029
2 to 3 years	—	509	1,523
Over 3 years	—	—	494
	122,453	137,565	160,794

The Target Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2016, 2017 and 2018, a provision of RMB5,636,000, RMB470,000 and RMB2,692,000 was made against the gross amounts of trade receivables (Note 3.1.2).

The carrying amounts of the Target Group's trade and other receivables are substantially denominated in RMB.

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables *(Note (a))*			
— Subsidiaries	612	11,276	326,015
— Third parties	122,453	137,565	160,676
	123,065	148,841	486,691
Less: allowance for impairment of trade receivables	(5,636)	(470)	(2,692)
	117,429	148,371	483,999
Other receivables			
— Related parties *(Note 31(d))*	2,360	—	—
— Subsidiaries	31,654	144,061	129,227
— Value added tax recoverable	30,557	14,853	12,209
— Deposits	—	—	2,000
— Cash advances to thirty party	—	—	1,000
— Others	936	435	744
	65,507	159,349	145,180
Less: allowance for impairment of other receivables	(170)	(27)	(58)
	65,337	159,322	145,122
Prepayments			
— Third parties	2,692	5,155	2,831
	185,458	312,848	631,952

(a) As at 31 December 2016, 2017 and 2018, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
0–180 days	62,943	146,234	482,465
181–365 days	8,776	539	180
1 to 2 years	51,346	1,559	2,029
2 to 3 years	—	509	1,523
Over 3 years	—	—	494
	123,065	148,841	486,691

The Target Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2016, 2017 and 2018, a provision of RMB5,636,000, RMB470,000 and RMB2,692,000 was made against the gross amounts of trade receivables (Note 3.1.2).

The carrying amounts of the Target Company's trade and other receivables are substantially denominated in RMB.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

Financial assets at fair value through OCI comprise notes receivables which are held both by collecting contractual cash flows and selling of these assets. Certain notes receivables have been factored by the Target Group and the Target Company during the Track Record Period.

21 RESTRICTED CASH

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Denominated in RMB	119	—	17,083

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Denominated in RMB	119	—	16,000

(a) The Target Group and the Target Company placed certain cash deposits with designated banks as security mainly for borrowings and issuance of commercial notes.

22 CASH AND CASH EQUIVALENTS

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand:			
— Denominated in RMB	15,854	35,263	29,453
— Denominated in JPY	—	93	5,490
	15,854	35,356	34,943

(a) The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand:			
— Denominated in RMB	7,598	21,137	5,964

23 SHARE CAPITAL

The Target Group and the Target Company

	Share capital
	RMB'000
Authorised	
As at 31 December 2016	370,290
As at 31 December 2017	403,950
As at 31 December 2018	495,186
Issued and fully paid	
Balance at 1 January 2016	336,630
Capital contribution from owners of the Target Company	33,660
Balance at 31 December 2016	370,290
Balance at 1 January 2017	370,290
Capital contribution from owners of the Target Company	33,660
Balance at 31 December 2017	403,950
Balance at 1 January 2018	403,950
Capital contribution from owners of the Target Company	91,236
Balance at 31 December 2018	495,186

24 RESERVES

The Target Group

	Share premium *RMB'000*	Exchange reserves *RMB'000*	Total other reserves *RMB'000*	Accumulated losses *RMB'000*	Total reserves and accumulated losses *RMB'000*
Balance at 1 January 2016	75,373	—	75,373	(70,261)	5,112
Loss for the year	—	—	—	(55,393)	(55,393)
Capital contribution from owners	66,340	—	66,340	—	66,340
Balance at 31 December 2016	141,713	—	141,713	(125,654)	16,059
Balance at 1 January 2017	141,713	—	141,713	(125,654)	16,059
Loss for the year	—	—	—	(72,073)	(72,073)
Other comprehensive loss	—	(68)	(68)	—	(68)
Capital contribution from owners	66,340	—	66,340	—	66,340
Balance at 31 December 2017	208,053	(68)	207,985	(197,727)	10,258
Balance at 1 January 2018	208,053	(68)	207,985	(197,727)	10,258
Loss for the year	—	—	—	(177,363)	(177,363)
Other comprehensive loss	—	(424)	(424)	—	(424)
Capital contribution from owners	196,744	—	196,744	—	196,744
Balance at 31 December 2018	404,797	(492)	404,305	(375,090)	29,215

The Target Company

	Share premium	Accumulated losses	Total reserves and accumulated losses
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2016	75,373	(70,261)	5,112
Loss for the year	—	(53,128)	(53,128)
Capital contribution from owners	66,340	—	66,340
Balance at 31 December 2016	141,713	(123,389)	18,324
Balance at 1 January 2017	141,713	(123,389)	18,324
Loss for the year	—	(48,047)	(48,047)
Capital contribution from owners	66,340	—	66,340
Balance at 31 December 2017	208,053	(171,436)	36,617
Balance at 1 January 2018	208,053	(171,436)	36,617
Loss for the year	—	(78,752)	(78,752)
Capital contribution from owners	196,744	—	196,744
Balance at 31 December 2018	404,797	(250,188)	154,609

25 BORROWINGS

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Non-current			
Bank borrowings			
— secured *(Note (a))*	95,000	85,000	70,000
— unsecured	—	40,000	40,000
Other borrowings *(Note (b), (c), (d))*	20,000	20,000	143,618
	115,000	145,000	253,618
Less: current portion of non-current borrowings	(10,000)	(15,000)	(50,000)
	105,000	130,000	203,618
Current			
Bank borrowings			
— secured *(Note (a))*	10,000	15,000	30,000
Other borrowings *(Note (c))*	—	—	20,000
	10,000	15,000	50,000
	115,000	145,000	253,618

(a) As at 31 December 2016, 2017 and 2018, the Target Group's borrowings were secured by certain land use rights (Note 13) and property, plant and equipment (Note 14). These borrowings were guaranteed by one of the shareholders of the Target Group.

(b) The loans from government amounting to RMB103,618,000 as at 31 December 2018 were interest-bearing at a rate of 5.5% per annum and repayable during the period from 2021 to 2022.

(c) The loans from government amounting to RMB20,000,000 as at 31 December 2016, 2017 and 2018 were interest-bearing at a rate by reference to the bank borrowing rate of corresponding period and repayable in 2019.

(d) Loans from government amounting to RMB20,000,000 as at 31 December 2018 were unsecured, interest free and repayable on 22 January 2021.

(e) The maturities of the Target Group's borrowings in accordance with the scheduled repayment dates (excluding any demand clauses) were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	10,000	15,000	50,000
Between 1 and 2 years	14,608	47,521	80,000
Between 2 and 5 years	90,392	82,479	123,618
	115,000	145,000	253,618

(f) The carrying amounts of the borrowings with the respective effective interest rate:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Effective interest rates	6.13%	5.96%	5.49%

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Non-current			
Bank borrowings			
— secured *(Note (g))*	95,000	85,000	70,000
Less: current portion of non-current borrowings	(10,000)	(15,000)	(30,000)
	85,000	70,000	40,000
Current			
Bank borrowings			
— secured *(Note (g))*	10,000	15,000	30,000
	95,000	85,000	70,000

(g) As at 31 December 2016, 2017 and 2018, the Target Company's borrowings were secured by certain land use rights (Note 13) and property, plant and equipment (Note 14). These borrowings were guaranteed by one of the shareholders of the Target Group.

(h) The maturities of the Target Company's borrowings at the end of the years of financial position in accordance with the scheduled repayment dates (excluding any demand clauses) were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	10,000	15,000	30,000
Between 1 and 2 years	14,608	27,521	40,000
Between 2 and 5 years	70,392	42,479	—
	95,000	85,000	70,000

(i) The carrying amounts of the borrowings with the respective effective interest rate:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Effective interest rates	6.18%	6.18%	6.18%

26 TRADE AND OTHER PAYABLES

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Included in non-current liabilities			
Other payables			
— Interests payables to government	—	—	516
Included in current liabilities			
Trade payables *(Note (a))*			
— Third parties	58,621	124,304	353,349
Other payables			
— Related parties *(Note 31(d))*	20,992	88	29,739
— Notes payable	—	—	70,000
— Construction cost payables	61,852	84,450	188,565
— Others	1,722	7,206	11,059
	84,566	91,744	299,363
Advance from a related party *(Note 31(d))*	—	175,000	—
Other taxes payables	596	414	700
Accrued payroll	5,468	10,020	36,190
	6,064	185,434	36,890
	149,251	401,482	690,118

All of the trade and other payables included in current liabilities are expected to be settled within one year.

As at 31 December 2016, 2017 and 2018, the carrying amounts of trade and other payables approximated its fair values.

(a) As at 31 December 2016, 2017 and 2018, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Up to 6 months	58,479	123,619	321,796
6 months to 1 year	142	685	31,163
1 to 2 years	—	—	390
	58,621	124,304	353,349

The carrying amounts of the Target Group's trade and other payables are substantially denominated in RMB.

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Included in current liabilities			
Trade payables *(Note (a))*			
— Subsidiaries	—	40,556	349,003
— Third parties	58,437	83,560	254,985
	58,437	124,116	603,988
Other payables			
— Related parties *(Note 31(d))*	20,992	88	29,739
— Subsidiaries	3,870	13,036	5,323
— Notes payables	—	—	70,000
— Construction cost payables	27,206	27,691	34,691
— Others	1,047	4,023	7,003
	53,115	44,838	146,756
Advance from a related party *(Note 31(d))*	—	175,000	—
Other taxes payables	593	333	548
Accrued payroll	5,220	7,545	20,040
	5,813	182,878	20,588
	117,365	351,832	771,332

All of the trade and other payables included in current liabilities are expected to be settled within one year.

As at 31 December 2016, 2017 and 2018, the carrying amounts of trade and other payables approximated its fair values.

(a) As at 31 December 2016, 2017 and 2018, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were are follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Up to 6 months	58,295	123,431	593,862
6 months to 1 year	142	685	9,740
1 to 2 years	—	—	386
	58,437	124,116	603,988

The carrying amounts of the Target Company's trade and other payables are substantially denominated in RMB.

27 PROVISIONS

The Target Group and the Target Company

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Warranty provisions	2,692	6,251	13,150

Provision for product warranties granted by the Target Group for certain products is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

28 GOVERNMENT GRANTS

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Beginning of the year	6,163	9,643	39,743
Increase in grants	3,800	31,100	88,200
Amount recognised in profit or loss	(320)	(1,000)	(4,027)
End of the year	9,643	39,743	123,916

The Target Company

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Beginning of the year	6,163	9,643	8,644
Increase in grants	3,800	—	8,200
Amount recognised in profit or loss	(320)	(1,000)	(1,332)
End of the year	9,643	8,643	15,512

29 CASH FLOWS INFORMATION

(a) Cash generated from operations

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(55,393)	(72,073)	(177,363)
Adjustments for:			
— Amortisation of land use rights *(Note 13)*	512	512	512
— Depreciation of property, plant and equipment *(Note 14)*	15,594	21,607	46,506
— Amortisation of intangible assets *(Note 15)*	33	33	81
— Net impairment losses/(reversal of impairment losses) on financial assets	5,751	(5,187)	2,253
— Impairment provision for inventories	11,396	45,495	47,210
— (Gains)/losses from disposal of property, plant and equipment	—	(120)	1
— Amortisation of government grants	(320)	(1,000)	(4,027)
— Interest received	(235)	(58)	(251)
— Finance costs	4,873	5,958	5,083
	(17,789)	(4,833)	(79,995)
Changes in working capital:			
— Inventories	(83,841)	(42,832)	(210,071)
— Financial assets at fair value through OCI	1,980	(48,722)	(48,958)
— Trade and other receivables	29,060	(26,517)	(28,739)
— Provisions	1,272	3,559	6,899
— Trade and other payables	26,920	75,455	328,431
— Contract liabilities	(1,412)	406	374
	(43,810)	(43,484)	(32,059)

(b) Reconciliation of liabilities

The reconciliation of liabilities arising from financial activities is as follow:

	Liabilities from financing activities		
	Borrowings and interest payable	**Other payables-related parties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2016	80,486	11	80,497
Cash flows			
— Inflow from financing activities	37,659	75,014	112,673
— Outflow from financing activities	(8,615)	(55,000)	(63,615)
Non-cash changes			
— Interest charged	5,649	967	6,616
As at 31 December 2016	115,179	20,992	136,171
Cash flows			
— Inflow from financing activities	40,000	63	40,063
— Outflow from financing activities	(15,943)	(20,967)	(36,910)
Non-cash changes			
— Interest charged	5,958	—	5,958
As at 31 December 2017	145,194	88	145,282
Cash flows			
— Inflow from financing activities	20,000	29,651	49,651
— Outflow from financing activities	(20,017)	—	(20,017)
Non-cash changes			
— Interest charged	5,599	—	5,599
— Accrued payables	103,618	—	103,618
As at 31 December 2018	254,394	29,739	284,133

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred for the years ended 31 December 2016, 2017 and 2018 were as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment			
— Contracted but not provided for	23,706	145,642	692,746

(b) Operating lease commitments

The Target Group leases offices and plants under non-cancellable operating lease agreements. The lease terms are about 10 years, and the majority of lease agreements are signed with third parties and renewable at the end of the lease period based on rates mutually agreed.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Up to 1 year	—	1,551	1,551
1 to 5 years	2,417	10,854	13,271
Over 5 years	17,665	21,639	17,670
	20,082	34,044	32,492

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	**Relationship**
Shenzhen Cloud Electronics Technology Inc. 深圳市科陸電子科技股份有限公司	The controlling shareholder
China Automotive Technology and Research Center Co. Ltd. 中國汽車技術研究中心有限公司	One of the shareholders
Shenzhen Bangya Electronics Co. Ltd. 深圳市邦亞電子科技有限公司	One of the shareholders
Shenzhen Fangjie Co., Ltd. 深圳市方傑實業有限公司	One of the shareholders
Iat Automobile Technology Co. Ltd. 阿爾特汽車技術股份有限公司	One of the shareholders
Shanghai Naichuang Investments Partnership (Limited Partnership) 上海耐創投資合夥企業(有限合夥)	One of the shareholders
Nanchang Smart Grid Technology Co. Ltd. 南昌市科陸智慧電網科技有限公司	Controlled by the same controlling shareholder
Shanghai Kadak Automobile Technology Center 上海卡達克汽車技術中心	Controlled by one of the shareholders
Mr. Yu Hongtao 于洪濤先生	The Director
Mrs. Cao Fang 曹芳女士	The Chairman of a shareholder

* The English name of the related parties represents the best effort by the management of the Target Group in translating their Chinese names as they do not have an official English name.

(b) Transactions with related parties

Continuing related party transactions

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Sales of goods			
— Shareholders	43	19	—

Discontinuing related party transactions

	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interest charged			
— Shareholder *(Note (i))*	967	—	—
Interest paid			
— Shareholder *(Note (i))*	—	967	—
Cash advances to a related party			
— Shareholder	2,360	—	—
Cash repayment from a related party			
— Shareholder	—	2,360	—
Loan and receivables from related parties			
— Controlled by one of the shareholders *(Note (i))*	55,000	—	—
— The Chairman of a shareholder *(Note (ii))*	20,000	—	—
	75,000	—	—
Repayment of loan and receivables			
— Controlled by one of the shareholders *(Note (i))*	55,000	—	—
— The Chairman of a shareholder *(Note (ii))*	—	20,000	—
	55,000	20,000	—

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Cash advances from related parties			
— The Director	19	15	—
— Shareholder	—	48	—
— Controlled by the same controlling shareholder *(Note (iv))*	—	—	29,700
	19	63	29,700
Cash repayment to related parties			
— The Director	—	—	1
— Shareholder	5	—	48
	5	—	49
Capital contribution received in advance			
— The controlling shareholder *(Note (iii))*	—	175,000	—

(i) The loans received from a shareholder amounting to RMB55,000,000 were unsecured, at annual interest rate of 5.3% and repayable on demand. The Target Group has fully repaid the loans in December 2016 and repaid the interests amounted RMB967,000 in January 2017.

(ii) As at 31 December 2016, the loans from the Chairman of a shareholder amounting to RMB20,000,000 were unsecured and interest free. The Target Group has fully repaid the loans in January 2017.

(iii) As at 31 December 2017, the balance of capital contribution received in advance represented a shareholder's investment deposit amounting to RMB175,000,000 to the Target Company. Such amount was subsequently recognised as share capital and share premium in 2018 as the pre-conditions set out in the investment agreement were fulfilled.

(iv) As at 31 December 2018, the cash advances from a related party that controlled by the same controlling shareholder amounting to RMB29,700,000 were unsecured and interest free.

All of the transactions above were carried out in the normal course of the Target Group's business and on terms as agreed between the transacting parties.

(c) Key management compensation

Compensations for key management other than those for directors and supervisors as disclosed in Note 32 is set out below.

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other short-term employee benefits	4,592	6,375	12,213

(d) Balances with related parties

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables			
— Shareholders	2,360	—	—
Other payables			
— The Director	25	40	39
— Shareholders	—	48	—
— Controlled by one of the shareholders *(Note (b)(i))*	967	—	—
— The Chairman of a shareholder *(Note (b)(ii))*	20,000	—	—
— Controlled by the same controlling shareholder *(Note (b)(iv))*	—	—	29,700
	20,992	88	29,739
Advance			
— The controlling shareholder *(Note (b)(iii))*	—	175,000	—

Except for the loans from a shareholder amounting to RMB55,000,000 (Note (b)(i)), other receivables, other payables and contract liabilities with related parties are unsecured and interest-free.

(e) Guarantees given by related parties

As at 31 December 2016, 2017 and 2018, information of bank borrowings guaranteed by one of the shareholders of the Target Group is presented in Note 25(a).

32 DIRECTORS' BENEFITS AND INTERESTS

(a) Directors' emoluments

For the years ended 31 December 2016, 2017 and 2018, aggregate emoluments paid to or receivable by directors in respect of their services to the Target Group amounted to RMB341,000, RMB1,620,000 and RMB2,894,000, respectively.

(b) There were no retirement benefits paid to or receivable by directors during the Track Record Period.

(c) There were no director's termination benefits subsisted during the Track Record Period.

(d) There was no consideration provided to third parties for making available directors' services subsisted during the Track Record Period.

(e) During the years ended 31 December 2016, 2017 and 2018, there were no loans, quasi-loans and other dealings entered into by the Target Company or subsidiaries undertaking of the Target Company, where applicable, in favor of directors.

(f) During the years ended 31 December 2016, 2017 and 2018, there were no significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target Company was a party and in which a director of the Target Company had interests, whether directly or indirectly, subsisted at the end of the Track Record Periods or at any time during the Track Record Periods.

33 EVENT AFTER THE BALANCE SHEET DATE

On 24 January 2019, the controlling shareholder entered into a share transfer agreement with a wholly-owned subsidiary of Evergrande Health to transfer all its 58.07% equity interest of the Target Company. The consideration is RMB1,059,777,500 and is inclusive of an outstanding capital contribution of the controlling shareholder to the Target Company of RMB412,020,000. Upon the completion of the acquisition, the Target Group will become a subsidiary of Evergrande Health.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of the companies now comprising the Target Group in respect of any period subsequent to 31 December 2018 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target Company or any of its subsidiaries now comprising the Target Group in respect of any period subsequent to 31 December 2018.

The following is the management discussion and analysis for the three years ended 31 December 2018 of the Target Group. The financial information is based upon the accountant's report of the Target Group set out in Appendix II of this circular.

BUSINESS REVIEW

The Target Company is a company established under the laws of PRC with limited liability. The principal business of the Target Company is the research, manufacture and sales of ternary pouch-type power lithium battery. On 24 January 2019, a wholly-owned subsidiary of the Company acquired 58.07% equity interest of the Target Company, including the outstanding capital contribution to the Target Company of RMB412,020,000, for a consideration of RMB1,059,777,500. Upon completion of the aforesaid acquisition, the Target Company has become a subsidiary of the Company.

FINANCIAL REVIEW

Income

	For the year ended (RMB)		
	2016	**2017**	**2018**
Income	133,682,000	405,897,000	743,289,000

Net loss

The audited net loss (both before and after tax) of the Target Group for the financial years 2016, 2017 and 2018 are as follows:

	For the year ended (RMB)		
	2016	**2017**	**2018**
Net loss before tax	55,393,000	72,073,000	177,363,000
Net loss after tax	55,393,000	72,073,000	177,363,000

Total Assets

	For the year ended (RMB)		
	2016	**2017**	**2018**
Total assets	663,247,000	1,007,402,000	1,606,295,000

Cash balance

	2016	**2017**	**2018**
Cash and cash equivalents	15,854,000	35,356,000	34,943,000

Capital structure

As at 31 December 2018, the net current liabilities of the Target Group is RMB89,129,000 (net current liabilities as at 31 December 2017: RMB20,610,000). The Target Group has planned to obtain re-financing for repaying its debts and covering its construction expenses, including obtaining financial assistance from the Company and facilities from various financial institutions in the PRC. Management has prepared the Target Group's cash flow forecast for the year ending 31 December 2019, by taking into account the expected operating cash inflows and the commitments to provide sufficient funding from the Company. Management is of the view that the Target Group would have sufficient funds to settle the outstanding debt when it falls due.

Material investments, material acquisitions and disposal of subsidiaries or associated companies

During the Track Record Period, the Target Group has no material investments, material acquisitions, or disposal of subsidiaries and associated companies.

Litigation

As at the Latest Practicable Date, no member of the Target Group is involved in any litigation or arbitration. To the directors' knowledge, no litigation or claim of material importance was pending or threatened against any member of the Target Group.

The following is an illustrative and unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma statement of assets and liabilities of the Enlarged Group which have been prepared on the basis of the notes set out below and in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effects of the acquisition of the Target Group (the "Acquisition") on the Group as if the Acquisition had taken place on 31 December 2018.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Group for the year ended 31 December 2017 and the revised/new accounting standards adopted in the published annual results announcement of the Group for the year ended 31 December 2018.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information contained in this circular and the accountant's report on the Target Group and set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Enlarged Group had the Acquisition been completed at 31 December 2018 or any future date.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2018

		Pro forma adjustments			
	Audited consolidated statement of assets and liabilities of the Group	**Consolidated statement of assets and liabilities of Target Group**	**Other adjustments**		**Unaudited pro forma statement of assets and liabilities of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
ASSETS					
Non-current assets					
Property, plant and equipment	1,534,925	859,272	40,143	—	2,434,340
Land use rights	590,743	20,484	6,783	—	618,010
Prepayments	183,644	74,039	—	—	257,683
Financial asset at fair value through profit or loss	3,979,937	—	—	—	3,979,937
Intangible assets	5,199	935	554,182	—	560,316
Deferred income tax assets	34,472	—	—	—	34,472
Goodwill	—	—	219,294	—	219,294
	6,328,920	954,730	820,402	—	8,104,052
Current assets					
Inventories	34,619	278,908	—	—	313,527
Trade and other receivables	507,137	212,851	—	—	719,988
Financial asset at fair value through other comprehensive income	—	107,780	—	—	107,780
Prepayments	1,024,442	—	—	—	1,024,442
Properties under development	11,170,539	—	—	—	11,170,539
Completed properties held for sale	1,169,672	—	—	—	1,169,672
Contract assets	9,942	—	—	—	9,942
Restricted cash	367,825	17,083	—	—	384,908
Cash and cash equivalents	1,570,014	34,943	(647,758)	—	957,199
	15,854,190	651,565	(647,758)	—	15,857,997
Total assets	22,183,110	1,606,295	172,644	—	23,962,049

	Audited consolidated statement of assets and liabilities of the Group	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
		Consolidated statement of assets and liabilities of Target Group	Other adjustments		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
LIABILITIES					
Non-current liabilities					
Trade and other payables	—	516	—	—	516
Borrowings	11,248,425	203,618	—	—	11,452,043
Finance leases	45,307	—	—	—	45,307
Provisions	—	13,150	—	—	13,150
Government grants	—	123,916	—	—	123,916
Deferred income tax liabilities	—	—	90,166	—	90,166
	11,293,732	341,200	90,166	—	11,725,098
Current liabilities					
Trade and other payables	7,330,851	689,602	—	4,749	8,025,202
Contract liabilities	99,284	1,092	—	—	100,376
Borrowings	3,613,900	50,000	—	—	3,663,900
Finance leases	8,705	—	—	—	8,705
Current income tax liabilities	499,106	—	—	—	499,106
	11,551,846	740,694	—	4,749	12,297,289
Total liabilities	22,845,578	1,081,894	90,166	4,749	24,022,387

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1 The amounts are extracted from the audited consolidated balance sheet of the Group as at 31 December 2018 as set out in the published annual results announcement of the Group for the year ended 31 December 2018.

2 The amounts are extracted from the audited consolidated balance sheet of the Target Group as at 31 December 2018 as set out in Appendix II to this circular.

3 For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the consideration of RMB1,059,778,000 for the Acquisition will be paid by cash of the Company. Upon completion of the Acquisition, the Company will own 58.07% equity interest in the Target Group. The identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combination".

Goodwill arising from the Acquisition of 58.07% equity interest in the Target Group is calculated as follows:

	Note	*RMB'000*
Consideration	*a*	1,059,778
Seller's capital contribution to Target Company	*a*	(412,020)
Identifiable assets acquired and liabilities assumed	*b*	(1,035,343)
Non-controlling interest	*b*	606,879
Goodwill arising from the Acquisition	*c*	219,294

(a) Pursuant to the Share Sale and Purchase Agreement, the consideration payable for the Sale Share is RMB1,059,778,000. Subsequent to 31 December 2018 before the Acquisition, the Group paid RMB412,020,000 to the Target Company on behalf of the Seller as capital contribution. The consideration payable is offset by RMB412,020,000 and the remaining consideration payable is RMB647,758,000. After the completion of the Acquisition, the Company and non-controlling interest will own 58.07% and 41.93% of the net identifiable assets of the Target Group, respectively.

(b) This adjustment represents the recognition of goodwill which is the excess of acquisition cost over the fair value of identifiable assets acquired, and the liabilities assumed. The fair value of identifiable assets acquired and liabilities assumed in the Target Company is determined in accordance with HKFRS 3, "Business Combination". For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 31 December 2018 by taking reference of the valuation of the Target Group as at 31 December 2018 carried out by Avista Group, an independent valuer.

	RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	899,415
Intangible assets *(i)*	555,117
Land use rights	27,267
Inventories	278,908
Other identifiable assets	446,696
Trade and other payables	(690,118)
Borrowings	(253,618)
Deferred income tax liabilities	(90,166)
Other liabilities assumed	(138,158)
Total identifiable net assets	1,035,343
Seller's capital contribution to Target Company	412,020
Adjusted identifiable net assets	1,447,363
Non-controlling interest *(ii)*	(606,879)

(i) The intangible assets mainly consist of the identifiable technology and brand name in the amount of RMB258,500,000 and RMB298,300,000 respectively. Both of them have an expected useful life of 10 years and are determined by taking reference of the valuation of the Target Group as at 31 December 2018 carried out by Avista Group, an independent valuer.

(ii) The Seller's capital contribution to Target Company consisted the additional assets to the Target Group before the Acquisition, and the non-controlling shareholders share the interest of Target Group including the addition capital contribution in its proportion of 41.93%.

(c) For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed whether there is any impairment in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment, the Directors consider that there is no impairment on the goodwill. The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in the future, and communicate such basis with its external auditor and audit committee.

4 The adjustment represents the estimated legal and professional fees and other expenses of approximately RMB4.7 million payable by the Company in connection with the Acquisition.

5 Apart from the Transaction, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Group subsequent to 31 December 2018.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Evergrande Health Industry Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Evergrande Health Industry Group Limited (the "Company") and its subsidiaries (collectively the "Group"), and Shanghai CENAT New Energy Company Limited and its subsidiaries (collectively the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2018 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-6 of the Company's circular dated 26 April 2019, in connection with the acquisition of the Target Group (the "Transaction") by a subsidiary of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-6.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2018 as if the Transaction had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2018, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

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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 issued by the HKICPA 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 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 accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For 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 unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2018 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 event or 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or 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 by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 April 2019

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors, chief executive and their respective associates in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), are as follows:

Long positions in the shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Capacity in which interests are held	Number of shares in associated corporation	Deemed interests in number of shares of the associated corporation	Total	Approximate percentage of the issued share capital of associated corporation as at the Latest Practicable Date
Shi Shouming	China Evergrande Group	Beneficial owner	2,700,000	3,000,000	5,700,000	0.04%
Peng Jianjun	China Evergrande Group	Beneficial owner	1,000,000	2,600,000	3,600,000	0.03%
Chau Shing Yim David	China Evergrande Group	Beneficial owner	800,000	200,000	1,000,000	0.01%
Qin Liyong	China Evergrande Group	Beneficial owner	2,000,000	2,140,000	4,140,000	0.02%
	HengTen Networks Group Limited	Beneficial owner	12,000,000	0	12,000,000	0.02%

As at the Latest Practicable Date, saved as disclosed above, none of the Directors and the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or the chief executive of the Company, other than a Director or the chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholder	Nature of interest held	Interest in the Shares	Approximate percentage of shareholding
China Evergrande Group *(Note)*	Interest of corporation controlled by the substantial shareholder	6,479,550,000	74.99%

Note: Of the 6,479,550,000 Shares held, 6,479,500,000 Shares were held by Evergrande Health Industry Holdings Limited and 50,000 Shares were held by Acelin Global Limited, both being wholly owned by China Evergrande Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

5. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Group within the two years preceding the issue of this circular and are or may be material:

(a) the 11 grant contracts of state-owned construction land use rights (《國有建設用地使權出讓合同》) dated 18 September 2017 in respect of the acquisition of land use rights of land plots in Xingyang, Zhengzhou City, Henan Province, China for a consideration of approximately RMB1,829.9 million, details of which were set out in the announcement of the Company dated 7 September 2017;

(b) a sale and purchase agreement dated 26 September 2017 in respect of the sale of 9,001 ordinary shares of US$1.00 each in the share capital of New Media Group Limited and the entire shareholder's loan outstanding from New Media Group Limited to Right Bliss Limited for a consideration of HK$63 million, details of which were set out in the announcement of the Company dated 26 September 2017;

(c) the 5 grant contracts of state-owned construction land use rights (《國有建設用地使用權出讓合同》) each dated 5 January 2018 in respect of the acquisition of land use rights of land plots in Yangzhong, Zhenjiang City, Jiangsu Province, China for a total consideration of approximately RMB839.76 million, details of which were set out in the announcement of the Company dated 22 December 2017;

(d) the 3 grant contracts of state-owned construction land use rights (《國有建設用地使用權出讓合同》) each dated 13 April 2018 in respect of the acquisition of land use rights of land plots in Liuhe District, Nanjing City, Jiangsu Province, China for a total consideration of approximately RMB2.96 billion, details of which were set out in the announcement of the Company dated 23 March 2018;

(e) a sale and purchase agreement dated 25 June 2018 in respect of the sale of the Acquisition, pursuant to which the Company agreed to acquire, and the Seller agreed to sell, the Sale Share and the Target Company Shareholder Loan, free from all encumbrances, at a total consideration of HK$6,746,700,000, details of which were set out in the announcement of the Company dated 25 June 2018.

(f) a restructuring agreement dated 31 December 2018 in respect of, among other things, the restructuring of Season Smart Limited's (a wholly-owned subsidiary of the Company) investment in Smart King Limited, details of which were set out in the announcement of the Company dated 31 December 2018;

(g) an integrated insurance procurement agreement dated 11 January 2019 entered into between Guangzhou Hengze Healthcare Service Company Limited* (廣州恒澤養生服務有限公司) and Evergrande Life Insurance Company Limited* (恒大人壽保險有限公司) in relation to the procurement of critical illness insurance services for the members of the Evergrande Elderly Care Valley;

(h) a share sale and purchase agreement dated 15 January 2019 in respect of the acquisition of the entire issued share capital of Mini Minor Limited, details of which were set out in the announcement of the Company dated 15 January 2019;

(i) a transaction agreement dated 29 January 2019 in respect of the investment by NEVS into Alpraaz AB for an aggregate consideration of Euro 150 million, details of which were set out in the announcement of the Company dated 29 January 2019;

(j) a joint venture agreement dated 29 January 2019 in respect of the establishment of Konev AB, a company incorporated under the laws of Sweden, as disclosed in the announcement of the Company dated 29 January 2019; and

(k) the Share Sale and Purchase Agreement.

6. EXPERTS AND CONSENTS

The following is the qualification of the expert, the text of whose report is contained in or referred to in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the text of its letter and/or report and/or the reference to its name in the form and context in which they appear herein.

The above expert has confirmed that as at the Latest Practicable Date:

(a) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up.

7. LITIGATION AND CLAIMS

As at the Latest Practicable Date, neither the Company nor any other member of the Group was involved in any litigations or claims and no litigations or claims of material importance was pending or threatened against the Company or any member of the Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any personal interests in companies engaged in businesses, which compete or may compete with the Group.

9. DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

There was no contract of significance in relation to the Company's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisting as at the Latest Practicable Date.

10. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had material interest in any contract or arrangement of significance in relation to the Group's business. As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets acquired, disposed of by or leased to or which are proposed to be acquired, disposed of, or leased to, any member company of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

11. GENERAL

(a) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

(b) The company secretary of the Company is Fong Kar Chun, Jimmy, who is a member of the Law Society of Hong Kong and a qualified solicitor in Hong Kong.

(c) The registered office and principal place of business of the Company is 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong.

(d) The Company's share registrar is Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong during normal business hours on any business day (public holidays excluded) from the date of this circular up to and including 17 May 2019:

(a) the articles of association of the Company;

(b) the annual reports of the Company for the twelve months ended 31 December 2017 and the twelve months ended 31 December 2016;

(c) the accountant's report of the Target Company issued by PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

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

(e) the material contracts referred to in the section headed "Material contracts" in this appendix;

(f) the written consents referred to in the section headed "Expert and Consent" in this appendix;

(g) the circulars published by the Company on 1 February 2019 (in relation to the continuing connected transactions relating to insurance procurement) and 25 April 2019 (in relation to the major acquisition of the entire issued share capital of Mini Minor Limited) respectively; and

(h) this circular.