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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

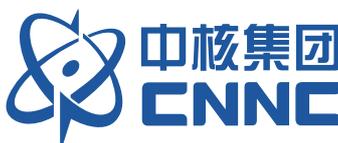
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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Isotope & Radiation Corporation**, you should at once hand this circular and the accompanying proxy form and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**CHINA ISOTOPE & RADIATION CORPORATION**  
**中國同輻股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 1763)**

**PROPOSED RE-APPOINTMENT OF AUDITOR**  
**PROPOSED APPOINTMENT OF DIRECTORS**  
**CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION**  
**REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED**  
**TRANSACTION**  
**AND**  
**CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION**

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



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

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A letter from the Board is set out on pages 5 to 52 of this circular. Capitalised terms used on this cover page have the same meanings as defined in this circular.

The Company will convene the AGM at 10:00 a.m. on Friday, 30 June 2023 at Room 305, 3/F, No. 66 Changwa Middle Street, Haidian District, Beijing, China. Notice of the AGM is set out on pages AGM-1 to AGM-3 of this circular. The proxy form for the AGM is enclosed herewith.

Shareholders who intend to appoint a proxy to attend the AGM are requested to complete the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the AGM (i.e. 10:00 a.m. on 29 June 2023) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

15 May 2023

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## DEFINITIONS

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

“404 Company”	CNNC 404 Company Limited
“AGM”	the annual general meeting of the Company to be held at 10:00 a.m. on Friday, 30 June 2023 at Room 305, 3/F, No. 66 Changwa Middle Street, Haidian District, Beijing, the PRC
“Articles”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“BSIF”	Beijing Science& Technology Innovation Fund (Limited Partnership) (北京市科技創新基金(有限合夥))
“CBIRC”	China Banking and Insurance Regulatory Commission
“China Baoyuan”	China Baoyuan Investment Co., Ltd.
“CIAE”	China Institute of Atomic Energy
“CNNC”	China National Nuclear Corporation (中國核工業集團有限公司), a company established under the laws of the PRC on 29 June 1999 which holds approximately 73.83% equity interest in the Company and is the controlling Shareholder
“CNNC Capital”	CNNC Capital Holdings Limited (中國核工業集團資本控股有限公司)
“CNNCFC”	CNNC Finance Company Limited (中核財務有限責任公司), a company incorporated under the laws of the PRC on 21 July 1997 and a subsidiary of CNNC
“CNNC Factoring”	CNNC Commercial Factoring Co., Ltd. (中核商業保理有限公司), a company established under the laws of the PRC on 17 July 2020 and controlled by CNNC
“CNNC Financial Leasing Company”	CNNC Financial Leasing Co., Ltd. (中核融資租賃有限公司), a company established under the laws of the PRC on 22 December 2015 and controlled by CNNC

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## DEFINITIONS

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“CNNC Fund”	Beijing CNNC Industry Investment Fund (LLP)
“Company”	China Isotope & Radiation Corporation (中國同輻股份有限公司)
“Company Law”	the Company Law of the PRC
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Daxing Fund”	Beijing Daxing Development Guidance Fund (Limited Partnership) (北京市大興發展引導基金(有限合夥))
“Deposit Services”	deposit services provided by CNNCFC to the Group pursuant to the Existing Financial Services Agreement and Renewed Financial Services Agreement
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in RMB
“Existing Financial Services Agreement”	the financial services agreement entered into by the Company and CNNC dated 30 June 2020, pursuant to which CNNC and/or its associates would provide the Group with certain financial services
“Factoring Services”	factoring services provided by CNNC Factoring to the Group pursuant to the Existing Financial Services Agreement and Renewed Financial Services Agreement
“Financial Leasing Services”	financial leasing services for certain assets used by the Group in the course of its operations provided by CNNC Financial Leasing Company to the Group pursuant to the Existing Financial Services Agreement and Renewed Financial Services Agreement
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each which are subscribed for and traded in HK\$ and listed on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hynergy Funds”	Hynergy Industrial Funds Management Co., Ltd. (核建產業基金管理有限公司)
“Independent Board Committee”	the independent board committee of the Board, comprising Mr. Hui Wan Fai, Mr. Tian Jiahe, Ms. Chen Jingshan and Mr. Lu Chuang, all being the independent non-executive Directors of the Company
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement, revised annual caps under the Engineering Construction Services Framework Agreement and the Renewed Financial Services Agreement (including the proposed annual caps)
“Independent Shareholders”	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
“Junmin Fund”	National Junmin Integration Industry Investment Fund Co., Ltd. (國家軍民融合產業投資基金有限責任公司)
“Latest Practicable Date”	11 May 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“NPIC”	Nuclear Power Institute of China
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan

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## DEFINITIONS

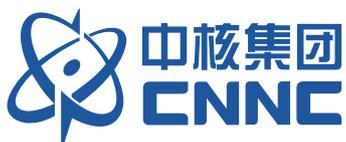
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“Renewed Financial Services Agreement”	the financial services agreement proposed to be entered into by the Company and CNNC, pursuant to which CNNC and/or its associates would provide the Group with certain financial services, and such agreement will be effective on 1 July 2023 upon approval of the Independent Shareholders at the 2022 annual general meeting, and expire on 31 December 2025
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement, Entrusted Loan and Other Financial Services”	settlement, entrusted loan, foreign exchange and related consulting and agency services provided by CNNCFC to the Group pursuant to the Existing Financial Services Agreement and Renewed Financial Services Agreement
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented, or otherwise modified from time to time)
“Share(s)”	the ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising the Domestic Shares and the H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisor(s) of the Company
“Tongchuang Investment”	Beijing Tongchuang High-tech Investment Partnership (Limited Partnership) (北京同創高科投資合夥企業(有限合夥))
“Tongfu Fund”	Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) (同輻創新產業投資基金合夥企業(有限合夥))
“Tongxin Business Management”	Tongxin Business Management (Tianjin) Partnership (Limited Partnership) (同鑫商業管理(天津)合夥企業(有限合夥))

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LETTER FROM THE BOARD

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**CHINA ISOTOPE & RADIATION CORPORATION**

**中國同輻股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1763)**

**Members of the Board**

*Chairman and executive Director:*

Mr. Wang Suohui

*Executive Directors:*

Mr. Xu Hongchao

Mr. Du Jin

*Non-executive Directors:*

Mr. Chen Shoulei

Mr. Dai Shuquan

Ms. Chang Jinyu

Ms. Liu Xiuhong

*Independent Non-executive Directors:*

Mr. Hui Wan Fai

Mr. Tian Jiahe

Ms. Chen Jingshan

Mr. Lu Chuang

**Registered Office**

Room 418, South 4th Floor, Building 1

No. 66 Changwa Middle Street

Haidian District

Beijing

PRC

**Head Office and Principal Place of  
Business in the PRC**

No. 66 Changwa Middle Street

Haidian District

Beijing

PRC

**Principal Place of Business in Hong Kong**

5/F, Manulife Place

No. 348 Kwun Tong Road

Kowloon

Hong Kong

*To the Shareholders*

*Dear Sir/Madam,*

**PROPOSED RE-APPOINTMENT OF AUDITOR  
PROPOSED APPOINTMENT OF DIRECTORS  
CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION  
REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION**

**1. INTRODUCTION**

The purpose of this circular, of which this letter forms a part, is to give you notices of the AGM, and to provide you with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM.

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## LETTER FROM THE BOARD

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At the AGM, ordinary resolutions will be proposed to consider and, if thought fit, approve, among other things, (i) the 2022 report of the Board; (ii) the 2022 report of the board of Supervisors; (iii) the 2022 final accounts of the Company; (iv) the 2023 financial budget plan of the Company; (v) the proposed declaration and distribution of a final dividend in the amount of RMB0.4407 per share (inclusive of tax) for the year ended 31 December 2022; (vi) the proposed re-appointment of SHINEWING (HK) CPA Limited as the Company's international auditor; (vii) the proposed re-appointment of ShineWing Certified Public Accountants (Special Partnership) as the Company's domestic certified public accountant; (viii) the proposed appointment of Mr. Ding Jianmin as a non-executive Director; (ix) the proposed appointment of Mr. Poon Chiu Kwok as an independent non-executive Director; (x) the proposed amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (xi) the 2023 investment plan of the Company; (xii) the proposed revision of annual caps under the Engineering Construction Services Framework Agreement; and (xiii) the entering into of the Renewed Financial Services Agreement and the transactions contemplated thereunder.

### 2. PROPOSED RE-APPOINTMENT OF AUDITOR

The Board has proposed to re-appoint SHINEWING (HK) CPA Limited as the Company's international auditor for the year ending 31 December 2023, for a term of office until the next annual general meeting of the Company, and its fee shall be RMB1.95 million. The Board proposed to re-appoint ShineWing Certified Public Accountants (Special Partnership) as the domestic certified public accountant of the Company for annual audit in 2022 and its fee shall be 50% of the annual audit fee standard published by Beijing Municipal Bureau of Finance. An ordinary resolution will be proposed at the AGM to consider and, if thought fit, approve such appointment and authorise the Board to determine its remuneration.

### 3. PROPOSED APPOINTMENT OF DIRECTORS

On 23 December 2022, the Board resolved to propose the appointment of Mr. Poon Chiu Kwok ("**Mr. Poon**") as an independent non-executive Director of the third session of the Board of the Company, with a term commencing from the date of approval by the Shareholders' general meeting of the Company to the date on which the term of office of the third session of the Board expires. The above appointment is subject to the approval from the Shareholders at the Shareholders' general meeting and will take effect upon the approval from the Shareholders at the Shareholders' general meeting. The Board also resolved that if the above appointment is approved by the Shareholders at the Shareholders' general meeting, Mr. Poon will take positions as member of Nomination Committee of the Board, chairman of Audit and Risk Management Committee of the Board and member of Legal Affairs Committee of the Board.

On 30 March 2023, the Board resolved to propose the appointment of Mr. Ding Jianmin ("**Mr. Ding**") as a non-executive Director of the third session of the Board of the Company, with a term commencing from the date of approval by the general meeting of the Company to the date on which the term of office of the third session of the Board expires. The above

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## LETTER FROM THE BOARD

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appointment is subject to the approval from the Shareholders at the general meeting and will take effect upon the approval from the Shareholders at the general meeting. The Board also resolved that if the above appointment is approved by the Shareholders at the general meeting, Mr. Ding will take positions as vice chairman and member of the Strategy Committee of the Board.

### **Background Of Mr. Poon Chiu Kwok**

**Mr. Poon Chiu Kwok (潘昭國)**, aged 61, is currently an executive director, vice president and company secretary of Huabao International Holdings Limited (stock code: 336), a company listed on the Stock Exchange. Mr. Poon has extensive experience in areas of investment banking, corporate finance and governance of listed companies. Within 36 months prior to this circular, from 2017 to 2021, he served as an independent non-executive director of Honghua Group Limited (listed on Hong Kong Stock Exchange with stock code: 196) and Tonly Electronics Holdings Limited (listed on Hong Kong Stock Exchange with stock code: 1249, subsequently withdrawn listing with effect from 8 March 2021), respectively. Currently, Mr. Poon also serves as an independent non-executive director of the following public companies listed on Hong Kong Stock Exchange: Sunac China Holdings Limited (stock code: 1918), Sany Heavy Equipment International Holdings Company Limited (stock code: 631), AUX International Holdings Limited (stock code: 2080), Changan Minsheng APLL Logistics Co., Ltd (stock code: 1292), Greentown Service Group Company Limited (stock code: 2869), Yuanda China Holdings Limited (stock code: 2789), Jinchuan Group International Resources Co. Ltd (stock code: 2362) and Yankuang Energy Group Company Limited (stock code: 1171) (with tenure expected to expire during the middle of 2023). Mr. Poon is a fellow member of CPA Australia Ltd., a fellow member of The Chartered Governance Institute in the U.K. and a fellow member and instructor of The Hong Kong Chartered Governance Institute and a member of its Technical Consultation Panel, and a fellow member of Hong Kong Securities and Investment Institute. Mr. Poon graduated from City University of Hong Kong with his bachelor's degree in business studies and a master's degree in international accounting. He also obtained his bachelor's degree in laws from University of Wolverhampton in the U.K. and a postgraduate diploma in laws from University of London.

Mr. Poon is currently holding directorships in the above listed companies (including the proposed directorship in the Company). However, (i) based on publicly available information, Mr. Poon had a good track record in attending the board and board committee meetings of the relevant listed companies in Hong Kong; (ii) as independent non-executive director of other listed companies, Mr. Poon is mainly involved in the provision of strategic advice or independent advice to the management of those companies and review of those companies' businesses from an independent perspective which do not require him to devote his full time in participating in the day-to-day operation and management of those companies; and (iii) Mr. Poon's ample knowledge and experience of serving as an independent non-executive director, and his background, experience and qualifications indicate that Mr. Poon can manage his time to meet the needs. In particular, Mr. Poon's previous working experience has demonstrated his satisfactory time management skills in managing a vast portfolio of different clients in different industries. All the directors will get full support from the Company's secretaries and

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## LETTER FROM THE BOARD

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the retained lawyers. Taking into account the above factors, the Board is of the view that Mr. Poon would be able to devote sufficient time to fulfill his duties as an independent non-executive director notwithstanding the other directorships in other listed companies he is holding and will provide the Company with balanced, objective, professional and independent opinions in the Group's investment activities as well as accounting and financial advice to the Board.

When evaluating the proposed Director, Mr. Poon, the Nomination Committee of the Company has considered the biographical details and other related particulars of the abovementioned proposed Directors, with reference to the board diversity policy of the Company, his character and integrity, professional qualifications, skills and knowledge. Mr. Poon has extensive experience and knowledge in their respective professional relevant to the Company's business and corporate strategy, who can contribute valuable advice on the business and development of the Group and can also conform with the Company's board diversity policy.

As at the date of this circular, save as disclosed, Mr. Poon did not hold any other positions with the Company or other members of the Group, nor did he hold any other directorships in the last three years in public companies the securities of which are listed on any securities markets in Hong Kong or overseas.

As at the date of this circular, save as disclosed, Mr. Poon did not have any relationships with any Directors, supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571).

Subject to approval from the Shareholders at the Shareholders' general meeting, Mr. Poon will enter into a service contract with the Company for a term from the date when the appointment is approved by the Shareholders at the Shareholders' general meeting to the date on which the term of office of the third session of the Board expires, and he shall be eligible for re-election and re-appointment upon the expiry of his term of office. The remuneration of Mr. Poon will be determined by the Board and approved by Shareholders at the Shareholders' general meeting after considering the recommendations of the remuneration and appraisal committee of the Board in accordance with its terms of reference and taking into account, among other things, his duties and responsibilities.

Save as disclosed, there are no other matters relating to the appointment of Mr. Poon that need to be brought to the attention of the Shareholders, nor is there any information that needs to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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## LETTER FROM THE BOARD

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### Background of Mr. Ding Jianmin

**Mr. Ding Jianmin** (丁建民), aged 50, is currently the chief accountant of Nuclear Power Institute of China (中國核動力研究設計院). From September 1990 to March 2008, he worked at CNNC Jianzhong Nuclear Fuel Co., Ltd. (中核建中核燃料元件有限公司) and served as deputy chief accountant from April 2008 to June 2014. From July 2014 to November 2020, he served as the chief accountant of Sichuan Honghua Industry Limited (四川紅華實業有限公司). From December 2020 to December 2022, he served as the chief accountant of Southwestern Institute of Physics (核工業西南物理研究院). Since December 2022, he has been serving as the chief accountant of Nuclear Power Institute of China. Mr. Ding received a bachelor's degree in accounting from Southwestern University of Finance and Economics in December 2008. Mr. Ding is qualified as a senior accountant.

As at the date of this circular, save as disclosed, Mr. Ding does not hold any other positions with the Company or other members of the Group, nor did he hold any other directorships in the last three years in public companies the securities of which are listed on any securities markets in Hong Kong or overseas.

As at the date of this circular, save as disclosed, Mr. Ding did not have any relationships with any Directors, supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571).

Subject to approval from the Shareholders at the general meeting, Mr. Ding will enter into a service contract with the Company for a term from the date when the appointment is approved by the Shareholders at the general meeting to the date on which the term of office of the third session of the Board expires, and he shall be eligible for re-election and re-appointment upon the expiry of his term of office. Mr. Ding will not receive any remuneration in respect of his appointment as non-executive Director.

Save as disclosed, there are no other matters relating to the appointment of Mr. Ding that need to be brought to the attention of the Shareholders, nor is there any information that needs to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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## LETTER FROM THE BOARD

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### 4. CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION

#### I. Introduction

Reference is made to the announcements issued by the Company on 31 October 2019 and 30 November 2020 and the circulars issued by the Company on 5 December 2019 and 13 December 2020, in relation to the entering into of the Tongchuang Investment Partnership (Limited Partnership) Partnership Agreement and the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement, and the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement. Unless otherwise defined, capitalized terms used in this circular shall have the same meanings as those defined in the announcements and the circulars.

In order to facilitate the implementation of the Company's strategy of "growing bigger, better and stronger", explore new sources of economic growth and enhance the economic scale and efficiency of the Company, the Company entered into the Tongchuang Investment Partnership (Limited Partnership) Partnership Agreement and the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement with other parties in 2019. Tongfu Fund has the flexibility to invest in the upstream and downstream of the isotopes and irradiation industry in the PRC and provides funds for strategic, expansionary, complementary and collusive mergers and acquisitions. Tongfu Fund has focused mainly on the application areas of nuclear technology, including the production of nuclides, radioactive source, nuclear medicine, medical devices, vitro diagnosis, medical services and industrial nuclear applications.

BSIF and Daxing Fund, the limited partner of Tongfu Fund, have requested to Tongchuang Investment, in its capacity of the general partner and executive business partner, for their exit, respectively. Therefore, the parties decided not to make additional contribution and to amend the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement accordingly.

The Board approved the amendment to several terms of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement by the Company with Tongchuang Investment, CNNC Capital, BSIF, Junmin Fund and Daxing Fund, on 30 March 2023. In respect of the Directors attending the Board meeting, connected Directors Mr. Wang Suohui, Mr. Xu Hongchao, Mr. Du Jin, Mr. Chen Shoulei, Mr. Dai Shuquan and Ms. Liu Xiuhong were considered to have material interests by virtue of being employed by CNNC and its associates and had thus abstained from voting on the Board resolution(s) in respect of the transaction.

## LETTER FROM THE BOARD

### II. Amendment to the Principal Terms of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement

Prior to the amendment	After the amendment
Amount of contribution:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>The total amount of contribution paid by the partners was RMB4,000 million, and the final target size of proceeds raised is RMB5,000 million, of which: Tongchuang Investment contributed RMB50 million, accounting for 1.25%; the Company contributed RMB1,200 million, accounting for 30%; CNNC Capital contributed RMB800 million, accounting for 20%; BSIF contributed RMB450 million, accounting for 11.25%; Junmin Fund contributed RMB1,000 million, accounting for 25%; and Daxing Fund contributed RMB500 million, accounting for 12.5%. The contribution to Tongfu Fund was determined by the Parties after arm's length negotiations with reference to the capital requirements of Tongfu Fund. The Company intends to fund the contribution funds through the internal resources of the Group. The Company will not consolidate its financial statements with those of Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership).</p>	<p>The total amount of contribution paid by the partners was RMB4,000 million, and the final target size of proceeds raised is RMB5,000 million, <u>1,137,005,047.56</u>, of which: Tongchuang Investment contributed RMB50 million, <u>11,370,050.48</u>, accounting for <u>1.251.0000%</u>; the Company contributed RMB1,200 million, <u>480,000,000.00</u>, accounting for <u>3042.2162%</u>; CNNC Capital contributed RMB800 million, <u>320,000,000.00</u>, accounting for <u>2028.1441%</u>; BSIF contributed RMB450 million, <u>46,531,888.85</u>, accounting for <u>11.254.0925%</u>; Junmin Fund contributed RMB1,000 million, <u>227,401,009.51</u>, accounting for <u>2520.0000%</u>; and Daxing Fund contributed RMB500 million, <u>51,702,098.72</u>, accounting for <u>12.54.5472%</u>. The contribution to Tongfu Fund was determined by the Parties after arm's length negotiations with reference to the capital requirements of Tongfu Fund. The Company intends to fund the contribution funds through the internal resources of the Group. The Company will not consolidate its financial statements with those of Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership).</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Method of contribution:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>All partners shall make contributions to Tongfu Fund in RMB in cash.</p> <p>1. Unless otherwise agreed between the executive partner and the relevant limited partners, the executive partner shall generally issue a notice of payment of contribution to the limited partners 15 working days in advance, stating the amount and payment term of contribution payable by such limited partners. The payment date specified in the notice of payment of first contribution is the first settlement date;</p> <p>2. The contributions from partners to the partnership will be paid in three instalments in principle, in cash in RMB. Unless otherwise agreed by the executive partner, all capital contribution partners shall complete the first payment of capital amount according to the requirements in the notice of payment of contribution issued by the executive partner, the percentage of payment shall be 40% of their respective committed capital contribution. The remaining amount of capital shall be paid by two subsequent payments, the percentage of each payment shall be 30% and 30%, respectively, of their committed capital contribution amounts. The specific timing of payment shall be determined by the executive partner according to the project investment progress, each of the partners shall make payment of capital contribution to Tongfu Fund in accordance with the committed capital contribution amount and payment percentage on the cut-off date (i.e. the date of payment) as required in the notice of payment of capital contribution issued by the executive partner.</p>	<p>All partners shall make contributions to Tongfu Fund in RMB in cash.</p> <p><del>1. Unless otherwise agreed between the executive partner and the relevant limited partners, the executive partner shall generally issue a notice of payment of contribution to the limited partners 15 working days in advance, stating the amount and payment term of contribution payable by such limited partners. The payment date specified in the notice of payment of first contribution is the first settlement date;</del></p> <p><del>2. The contributions from partners to the partnership will be paid in three instalments in principle, in cash in RMB. Unless otherwise agreed by the executive partner, all capital contribution partners shall complete the first payment of capital amount according to the requirements in the notice of payment of contribution issued by the executive partner, the percentage of payment shall be 40% of their respective committed capital contribution. The remaining amount of capital shall be paid by two subsequent payments, the percentage of each payment shall be 30% and 30%, respectively, of their committed capital contribution amounts. The specific timing of payment shall be determined by the executive partner according to the project investment progress, each of the partners shall make payment of capital contribution to Tongfu Fund in accordance with the committed capital contribution amount and payment percentage on the cut-off date (i.e. the date of payment) as required in the notice of payment of capital contribution issued by the executive partner.</del></p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Investment region:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>Tongfu Fund mainly conducts investment business inside the PRC and enhances the guidance that investment projects should be based in Beijing to realize the implementation of high-end scientific research results in Beijing. The total amount, invested by Tongfu Fund to enterprises registered in Beijing and enterprises not registered in Beijing but conforming to the functional position of the capital city, shall not be less than 70% of the initial size of proceeds raised (i.e. RMB2,500 million) by Tongfu Fund.</p> <p>During the investment period of the Tongfu Fund, the total amount of funds invested in and/or introduced for Daxing District of Beijing by Tongfu Fund, the general partner and the manager shall not be less than 2 times of the paid-in capital contribution of Daxing Fund, and the obligation for designated investment shall be completed as scheduled. The project amount invested in Daxing District and Beijing can be double-counted. In other words, the project amount invested in Daxing District can be counted as the amount invested in Beijing at the same time, but not vice versa.</p>	<p>Tongfu Fund mainly conducts investment business inside the PRC and enhances the guidance that investment projects should be based in Beijing to realize the implementation of high-end scientific research results in Beijing. The total amount, invested by Tongfu Fund to enterprises registered in Beijing and enterprises not registered in Beijing but conforming to the functional position of the capital city, shall not be less than <del>70%</del><u>2 times</u> of the <del>initial size of proceeds raised</del><u>paid-in capital contribution of BSIF</u> (i.e. <del>RMB2,500 million</del><u>46,531,888.85</u>) by Tongfu Fund.</p> <p>During the investment period of the Tongfu Fund, the total amount of funds invested in and/or introduced for Daxing District of Beijing by Tongfu Fund, the general partner and the manager shall not be less than 2 times of the paid-in capital contribution of Daxing Fund <u>(i.e. RMB51,702,098.72)</u>, and the obligation for designated investment shall be completed as scheduled. The project amount invested in Daxing District and Beijing can be double-counted. In other words, the project amount invested in Daxing District can be counted as the amount invested in Beijing at the same time, but not vice versa.</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Valid duration, investment period, exit period and extension period:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>The “valid duration” of Tongfu Fund is 8 years from the establishment date of Tongfu Fund;</p> <p>During the valid duration of Tongfu Fund, the “investment period” is 5 years from the first settlement day of Tongfu Fund or until the day when the total amount of capital contribution by the partners have been fully utilized in project investment and for payment of partnership fees; for the avoidance of doubt, the expiry date of the investment period shall be the date of occurrence of any of the following circumstances, whichever the earlier:</p> <p>(1) expiry of the 5-year term from the first settlement day for the partnership;</p> <p>(2) date of completion of first settlement for subsequent funds;</p> <p>(3) the total capital amount of Tongfu Fund, after making reasonable provisions for investment, payment of partnership fees, repayment of partnership debts, follow-up investments (namely, additional investment by Tongfu Fund in projects in which it has invested) and capital contributions which have been signed and legally binding, has been actually paid and utilized, that is, Tongfu Fund has basically completed the investment tasks, or all paid-in capital of Tongfu Fund has been fully used for the aforesaid purposes and the remaining amount of contributions cannot be paid, that is, Tongfu Fund has no more available funds to continue making investments;</p>	<p>The “valid duration” of Tongfu Fund is 8 years from the establishment date of Tongfu Fund;</p> <p>During the valid duration of Tongfu Fund, the “investment period” is 5 years from the first settlement day of Tongfu Fund or until the day when the total amount of capital contribution by the partners have been fully utilized in project investment and for payment of partnership fees; for the avoidance of doubt, the expiry date of the investment period shall be the date of occurrence of any of the following circumstances, whichever the earlier:</p> <p>(1) expiry of the 5-year term from the first settlement day for the partnership;</p> <p>(2) date of completion of first settlement for subsequent funds;</p> <p>(3) the total capital amount of Tongfu Fund, after making reasonable provisions for investment, payment of partnership fees, repayment of partnership debts, follow-up investments (namely, additional investment by Tongfu Fund in projects in which it has invested) and capital contributions which have been signed and legally binding, has been actually paid and utilized, that is, Tongfu Fund has basically completed the investment tasks, or all paid-in capital of Tongfu Fund has been fully used for the aforesaid purposes and the remaining amount of contributions cannot be paid, that is, Tongfu Fund has no more available funds to continue making investments;</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
<p>(4) Key person event has led to termination of investment period.</p> <p>The “exit period” of Tongfu Fund commences from the day after the expiry of the investment period and ends on the expiry date of the valid duration of Tongfu Fund;</p> <p>Upon expiry of the valid duration of Tongfu Fund, if is necessary to extend the valid duration due to the application for listing or the exit from lock-up period by projects invested by Tongfu Fund or other reasons, consent from all partners is required.</p>	<p>(4) Key person event has led to termination of investment period-;</p> <p>(5) <u>The investment period includes the suspension of the investment period.</u></p> <p>The “exit period” of Tongfu Fund commences from the day after the expiry of the investment period and ends on the expiry date of the valid duration of Tongfu Fund;</p> <p><u>At the beginning of the exit period, the executive partner shall, after properly reserving the partnership fees required during the exit period and the funds required to complete the investment according to the legally binding investment transaction documents signed before the end of the investment period, return the remaining capital contributions by partners that have not been used for investment and payment of partnership fees to each partner in accordance with the relative ratio of the principal of investment by all partners to be invested in the proposed investment projects in the table in Annex IV (including Tongchuang High-tech). (For those involving investment exclusion, the relative ratio will be adjusted according to the implementation of the provisions of this agreement.)</u></p> <p>Upon expiry of the valid duration of Tongfu Fund, if is necessary to extend the valid duration due to the application for listing or the exit from lock-up period by projects invested by Tongfu Fund or other reasons, consent from all partners is required.</p>

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**LETTER FROM THE BOARD**

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<b>Prior to the amendment</b>	<b>After the amendment</b>
<b>Implementation of partnership affairs:</b>	
<i>Prior to the amendment</i>	<i>After the amendment</i>
The general partner acts as executive partner to implement partnership affairs, and Hynergy Industrial Funds acts as manager to provide daily operation and investment management services to Tongfu Fund.	The general partner acts as executive partner to implement partnership affairs, and <del>Hynergy Industrial Funds</del> <u>CNNC Industrial Fund Management Co., Ltd.</u> acts as manager to provide daily operation and investment management services to Tongfu Fund.
<b>Management fees:</b>	
<i>Prior to the amendment</i>	<i>After the amendment</i>
As consideration for the management and other services provided to Tongfu Fund in the capacity of fund manager, all parties have agreed that the management fees shall be paid by Tongfu Fund at the fee rate of 1.6% per annum based on the total paid-in capital contribution amount of limited partners. No management fees will be charged for the extension period and the liquidation period.	As consideration for the management and other services provided to Tongfu Fund in the capacity of fund manager, all parties have agreed that the management fees shall be paid by Tongfu Fund at the fee rate of 1.6% per annum based on the total paid-in capital contribution amount of limited partners. No management fees will be charged for the extension period, <u>the suspension of the investment period</u> and the liquidation period.

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Distribution:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>(I) Cash distribution</p> <p>1. Distribution of cash income received by the project shall be carried out according to the following order:</p> <p>(1) Firstly, refund of capital contribution to limited partners.</p> <p>(2) Secondly, refund of capital contribution to general partners.</p> <p>(3) Thirdly, if remaining balance exists, the amount will be distributed as hurdle return to limited partners (the internal rate of return reaches 8%).</p> <p>(4) After that, compensation to general partners.</p> <p>(5) Finally, the excess profit will be shared on pro rata basis. If remaining balance exists, eighty per cent (80%) will be distributed to all partners in accordance with the relative ratio of the principal of investment by all partners; and twenty per cent (20%) will be distributed to general partners.</p>	<p>(I) Cash distribution</p> <p>(1) <u>Cash income from invested projects prior to the date of adjustment to the fund size:</u></p> <p>1. Distribution of cash income received by the project shall be carried out according to the following order:</p> <p>(1) Firstly, refund of capital contribution to limited partners. <u>The distributable cash of the partnership shall be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the invested projects by all limited partners, until the accumulative amount received by all limited partners from the invested projects based on this item (i) reaches the amount of paid-in capital contribution used. To avoid ambiguity, the cash income obtained by all limited partners from the invested projects prior to the date of adjustment to the fund size shall be included in the paid-in capital contribution distributed to all limited partners.</u></p>

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**LETTER FROM THE BOARD**

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<b>Prior to the amendment</b>	<b>After the amendment</b>
	<p>(2ii) Secondly, refund of capital contribution to general partners. <u>If remaining balance exists, on the premise that general partners participate in the project investment, it will be fully distributed to general partners until the accumulative amount received by general partners from the invested projects based on this item (ii) reaches the amount of paid-in capital contribution used. All partners agreed that the refund of capital contribution that the general partners should receive will only be accrued for the time being, and will not be distributed until all cash income from projects received by all limited partners from the partnership reaches the full amount of paid-in capital contribution. Otherwise, the refund of capital contribution accrued by the general partners will be distributed to all limited partners until all cash income from projects received from the partnership reaches the full amount of paid-in capital contribution.</u></p>

**LETTER FROM THE BOARD**

Prior to the amendment	After the amendment
	<p>(3iii) <u>Thirdly, the amount will be distributed as hurdle return to limited partners. If remaining balance exists, the amount will be distributed as hurdle return to limited partners (the internal rate of return reaches 8%) among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the invested projects by all limited partners, until the corresponding limited partners receive an amount calculated at an internal rate of return of eight percent (8%) based on their paid-in capital contribution used.</u></p> <p>(4iv) <u>After that, compensation to general partners. If remaining balance exists, it will be fully distributed to the general partners until the accumulative amount received by them based on this item (iv) equals twenty-five percent (25%) of the amount received by the limited partners under item (iii) above. All partners agreed that the compensation to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the compensation accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.</u></p>

**LETTER FROM THE BOARD**

Prior to the amendment	After the amendment
	<p>(5v) Finally, the excess profit will be shared on pro rata basis. If remaining balance exists, eighty per cent (80%) will be distributed <del>to</del> <u>among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of investment</u> the proposed projects by all limited partners; and twenty per cent (20%) will be distributed <del>to</del> <u>among</u> general partners.</p> <p><u>All partners agreed that the excess profit to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the excess profit accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.</u></p> <p>(vi) <u>The parties agreed that each of items (i) to (iv) of this provision takes turns to be the prerequisite for the item after it.</u></p>

**LETTER FROM THE BOARD**

<b>Prior to the amendment</b>	<b>After the amendment</b>
	<p>(2) <u>Cash income from proposed projects after the date of adjustment to the fund size:</u></p> <p>(i) <u>Firstly, refund of capital contribution to limited partners. The distributable cash of the partnership shall be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners, until the accumulative amount received by all limited partners from the proposed projects based on this item (i) reaches the amount of paid-in capital contribution unused.</u></p> <p>(ii) <u>Secondly, refund of capital contribution to general partners. If remaining balance exists, on the premise that general partners participate in the project investment, it will be fully distributed to general partners until the accumulative amount received by general partners from the proposed projects based on this item (ii) reaches the amount of paid-in capital contribution unused.</u></p> <p><u>All partners agreed that the refund of capital contribution that the general partners should receive will only be accrued for the time being, and will not be distributed until all cash income from projects received by all limited partners from the partnership reaches the full amount of paid-in capital contribution. Otherwise, the refund of capital contribution accrued by the general partners will be distributed to all limited partners until all cash income from projects received from the partnership reaches the full amount of paid-in capital contribution.</u></p>

**LETTER FROM THE BOARD**

<b>Prior to the amendment</b>	<b>After the amendment</b>
	<p>(iii) <u>Thirdly, the amount will be distributed as hurdle return to limited partners. If remaining balance exists, it will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners, until the corresponding limited partners receive an amount calculated at an internal rate of return of eight percent (8%) based on their paid-in capital contribution unused. When the IRR of such cash distribution (excluding other distributable income obtained from idle fund management) is less than or equal to 8%, the actual distribution amount will be distributed to the limited partners in accordance with the relative ratio of the principal of the proposed projects by all limited partners.</u></p> <p>(iv) <u>After that, compensation to general partners. If remaining balance exists, it will be fully distributed to the general partners until the accumulative amount received by them based on this item (iv) equals twenty-five percent (25%) of the amount received by the limited partners under item (iii) above.</u></p>

**LETTER FROM THE BOARD**

Prior to the amendment	After the amendment
	<p><u>All partners agreed that the compensation to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the compensation accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.</u></p> <p>(v) <u>Finally, the excess profit will be shared on pro rata basis. If remaining balance exists, eighty per cent (80%) will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners; and twenty per cent (20%) will be distributed among general partners.</u></p> <p><u>All partners agreed that the excess profit to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the excess profit accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.</u></p>

**LETTER FROM THE BOARD**

Prior to the amendment	After the amendment
<p>2. Timing for distribution of cash income:</p> <p>(1) Unless otherwise agreed in this agreement, Tongfu Fund shall distribute income within 30 days from the date of receipt of cash income from the investment project.</p> <p>(2) During the valid duration of Tongfu Fund, other after-tax distributable income other than investment income shall be distributed before the end of the first quarter and the third quarter of each year in accordance with the ratio of paid-in capital contribution of all partners.</p>	<p>(vi) <u>The parties agreed that each of items (i) to (iv) of this provision takes turns to be the prerequisite for the item after it.</u></p> <p>(vii) <u>If the proposed projects after the date of adjustment to the fund size involve investment exclusion, the income distribution ratio will be adjusted in accordance with the provisions of this agreement.</u></p> <p>2. Timing for distribution of cash income:</p> <p>(1) Unless otherwise agreed in this agreement, Tongfu Fund shall distribute income within 30 days from the date of receipt of cash income from the investment project.</p> <p>(2) <del>During</del><u>From the effective date of this agreement, during</u> the valid duration of Tongfu <del>Fund</del><u>the</u> partnership, other after-tax distributable income other than investment income shall be distributed before the end of the first quarter and the third quarter of each year <u>among all partners</u> in accordance with the <u>relative ratio</u> of paid-in capital contribution <del>of all partners</del><u>made by each of Tongchuang Investment, CNNC Capital, the Company and Junmin Fund.</u></p>

**LETTER FROM THE BOARD**

<b>Prior to the amendment</b>	<b>After the amendment</b>
<p>3. On dissolution or liquidation of the Tongfu Fund, after overall accounting is completed, any partner who has received any excess amount above the income distribution amount that should be received according to the provisions of this agreement (such as calculation error, including the distribution amounts received by such partner due to capital reduction or exit from partnership) must return such excess amount to Tongfu Fund, or such excess amount shall be deducted from his receivable amount of liquidation distribution, whether he is still a partner of the Tongfu Fund by then. Particularly, when the total income received by general partners has exceeded income amount receivable when calculated according to the investment in the entire Tongfu Fund project pursuant to the distribution method stipulated under this agreement, the general partners shall return the excess amount to the Tongfu Fund, and such excess amount shall be distributed by the partnership accordingly pursuant to all the projects participated by each of its limited partners.</p>	<p>3. On dissolution or liquidation of the Tongfu Fund, after overall accounting is completed, any partner who has received any excess amount above the income distribution amount that should be received according to the provisions of this agreement (such as calculation error, including the distribution amounts received by such partner due to capital reduction or exit from partnership) must return such excess amount to Tongfu Fund, or such excess amount shall be deducted from his receivable amount of liquidation distribution, whether he is still a partner of the Tongfu Fund by then. Particularly, when the total income received by general partners has exceeded income amount receivable when calculated according to the investment in the entire Tongfu Fund project pursuant to the distribution method stipulated under this agreement, the general partners shall return the excess amount to the Tongfu Fund, and such excess amount shall be distributed by the partnership accordingly pursuant to all the projects participated by each of its limited partners.</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
<p>(II) Non-cash distribution</p> <p>1. Before liquidation of the Tongfu Fund, the fund manager shall make his best efforts to realize the investment in Tongfu Fund and avoid to make non-cash distribution; before the expiry of the operation period of Tongfu Fund, the distribution of Tongfu Fund is usually made in cash, but when in compliance with the applicable laws and agreed terms, after consideration by the meeting of partners and consent given by partners accounting for more than 85% of the paid-in capital contribution by partners, marketable securities traded in open market or other forms of non-cash assets may be distributed to the general partners in lieu of cash distribution. After dissolution of the Tongfu Fund, securities with restricted liquidity or other fund assets may be distributed.</p> <p>Subject to the above terms of agreement, before completion of the liquidation of Tongfu Fund, the general partners shall make their best efforts to realize the investment in Tongfu Fund in cash and avoid to make non-cash distribution as far as practicable; however if cash distribution is not possible due to the prevailing laws and regulations, and after consideration by the meeting of partners and consent has been given by partners accounting for more than 85% of the paid-in capital contribution by partners, the general partners may receive distribution in non-cash form. If the non-cash assets for distribution are marketable securities traded in open market, the value shall be determined by the average trading price of such marketable securities within twenty (20) trading days of such securities prior to the determination date of distribution; the value of other non-cash assets shall be reasonably determined by the general partners in accordance with the fair market value confirmed by a reputable third party valuation assessment institution which is confirmed by the general partners and agreed by the consultation committee.</p>	<p>(II) Non-cash distribution</p> <p>1. Before liquidation of the Tongfu Fund, the fund manager shall make his best efforts to realize the investment in Tongfu Fund and avoid to make non-cash distribution; before the expiry of the operation period of Tongfu Fund, the distribution of Tongfu Fund is usually made in cash, but when in compliance with the applicable laws and agreed terms, after consideration by the meeting of partners and consent given by partners accounting for more than 85% of the paid-in capital contribution by partners, marketable securities traded in open market or other forms of non-cash assets may be distributed to the general partners in lieu of cash distribution. After dissolution of the Tongfu Fund, securities with restricted liquidity or other fund assets may be distributed.</p> <p>Subject to the above terms of agreement, before completion of the liquidation of Tongfu Fund, the general partners shall make their best efforts to realize the investment in Tongfu Fund in cash and avoid to make non-cash distribution as far as practicable; however if cash distribution is not possible due to the prevailing laws and regulations, and after consideration by the meeting of partners and consent has been given by partners accounting for more than 85% of the paid-in capital contribution by partners, the general partners may receive distribution in non-cash form. If the non-cash assets for distribution are marketable securities traded in open market, the value shall be determined by the average trading price of such marketable securities within twenty (20) trading days of such securities prior to the determination date of distribution; the value of other non-cash assets shall be reasonably determined by the general partners in accordance with the fair market value confirmed by a reputable third party valuation assessment institution which is confirmed by the general partners and agreed by the consultation committee.</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
<p>2. When non-cash distribution is made by the Tongfu Fund, the fund manager shall be responsible for assisting all partners to complete the registration procedure for the transfer of distributed assets, and to assist the partners to perform the information disclosure obligations in respect of accepting the transfer of such assets in accordance with the relevant laws and regulations; partners who accept non-cash distributions may also entrust their distributed non-cash assets to the fund manager for disposal according to their instructions, the specific details of the entrustment shall be agreed by separate agreements between the fund manager and relevant limited partners.</p>	<p>2. When non-cash distribution is made by the Tongfu Fund, the fund manager shall be responsible for assisting all partners to complete the registration procedure for the transfer of distributed assets, and to assist the partners to perform the information disclosure obligations in respect of accepting the transfer of such assets in accordance with the relevant laws and regulations; partners who accept non-cash distributions may also entrust their distributed non-cash assets to the fund manager for disposal according to their instructions, the specific details of the entrustment shall be agreed by separate agreements between the fund manager and relevant limited partners.</p>
Investment decision committee:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>Tongfu Fund has put in place a five-member investment decision committee of which the members are appointed and dismissed by the executive partner. The Company may nominate one (1) member and one (1) industry expert, the executive partner may nominate two (2) members and Junmin Fund may nominate one (1) member. The chairman of the investment decision committee shall be either one of members nominated by the executive partner. The chairman of the investment decision committee is responsible for convening and presiding over meetings of the investment decision committee.</p> <p>The investment decision committee makes decisions on projects investment and exit of investment for the Tongfu Fund;</p> <p>Each member has one vote. For matters requiring decision of the investment decision committee, it must be approved by four (4) or more members. The decisions made by the investment decision committee will be considered and executed by the executive partner and the fund manager. The investment decision committee does not act as an agent for or represent the Tongfu Fund.</p>	<p>Tongfu Fund has put in place a five-member investment decision committee of which the members are appointed and dismissed by the executive partner. The Company may nominate one (1) member and one (1) industry expert, the executive partner may nominate <del>two (2) members</del> <u>one (1) member</u>, <u>CNNC Capital may nominate one (1) member</u> and Junmin Fund may nominate one (1) member. The chairman of the investment decision committee shall be either one of members nominated by the executive partner. The chairman of the investment decision committee is responsible for convening and presiding over meetings of the investment decision committee.</p> <p>The investment decision committee makes decisions on projects investment and exit of investment for the Tongfu Fund;</p> <p>Each member has one vote. For matters requiring decision of the investment decision committee, it must be approved by <del>four</del> <u>three (3)</u> or more members. The decisions made by the investment decision committee will be considered and executed by the executive partner and the fund manager. The investment decision committee does not act as an agent for or represent the Tongfu Fund.</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Investment project observers:	
<i>Deletion</i>	
Each of BSIF and CNNC Capital are entitled to appoint one investment project observer to the investment decision committee to attend the investment decision committee meeting held to consider any investment project but the observers do not have voting rights.	<del>Each of BSIF and CNNC Capital are entitled to appoint one investment project observer to the investment decision committee to attend the investment decision committee meeting held to consider any investment project but the observers do not have voting rights.</del>
Consultation committee:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>After the establishment of the Tongfu Fund, the executive partner shall, within a reasonable time, form a consultation committee composed of a certain number of representatives of limited partners to review and approve related matters. The consultation committee consists of three (3) members. BSIF, Junmin Fund and Daxing Fund have the right to appoint one member respectively. The executive partner is the convener for the consultation committee. The number of members of the consultation committee can be increased upon the admission of subsequent partner to the Tongfu Fund.</p> <p>Unless otherwise agreed, resolutions of the consultation committee meeting are subject to unanimous approval by members having the voting rights. If the consultation committee considers connected transactions, related parties shall withdraw from voting, and matters in relation to the connected transactions shall be subject to unanimous approval by members of nonrelated parties; however, if there is only one (1) member of the consultation committee for the consideration due to the withdrawal from voting, such matters shall be subject to approval by the member.</p> <p>The consultation committee has the right to review transactions between the general partner, the manager, the Key persons or the core management team, and the connected persons of the aforementioned persons, or the entities of which the actual controller, shareholder, administrator, director or consultant are the aforesaid persons and the fund, and limited partners (i.e. connected transactions and the single or total amount of investment by Tongfu Fund in a project exceeding RMB300 million (exclusive)).</p>	<p><del>After the establishment of the Tongfu Fund, the</del>The executive partner shall, <del>within a reasonable time,</del> form a consultation committee composed of a certain number of representatives of limited partners to review and approve related matters. The consultation committee consists of three (3) members. BSIF, Junmin Fund and Daxing Fund have the right to appoint one member respectively. The executive partner is the convener for the consultation committee.</p> <p><u>Unless otherwise agreed, resolutions for matters involving voting by the consultation committee on investment projects completed by the partnership before this agreement takes effect, all three (3) members shall have the right to vote; in addition, for any other matters that require voting by the consultation committee, only the one (1) member nominated by Junmin Fund shall have the right to vote, while the members nominated by Daxing Fund and BSIF shall not have the right to vote, nor shall they have the right to obtain materials involved in the voting matters and attend relevant meetings as non-voting delegates. Resolutions of the consultation committee meeting are subject to unanimous approval by members having the voting rights. If the consultation committee considers connected transactions, related parties shall withdraw from voting, and matters in relation to the connected transactions shall be subject to unanimous approval by members of nonrelated parties; however, if there is only one (1) member of the consultation committee for the consideration due to the withdrawal from voting, such matters shall be subject to approval by the member.</u></p> <p>The consultation committee has the right to review transactions between the general partner, the manager, the Key persons or the core management team, and the connected persons of the aforementioned persons, or the entities of which the actual controller, shareholder, administrator, director or consultant are the aforesaid persons and the fund, and limited partners (i.e. connected transactions and the single or total amount of investment by Tongfu Fund in a project exceeding RMB300 million (exclusive)).</p>

## LETTER FROM THE BOARD

Prior to the amendment	After the amendment
Key person provisions:	
<i>Prior to the amendment</i>	<i>After the amendment</i>
<p>The Key persons of the executive partner management team are Yu Hongwei, Liu Pengbin and Gong Lingling. During the valid duration of the partnership, the management team’s Key persons shall not change without the consent of the partners in meeting. Adjustment to the Key persons can be made by modifying the partnership agreement upon the admission of subsequent partners to the Tongfu Fund.</p> <p>If any Key person fails to perform their duties for three consecutive months or more than 90 days in a year, deceases, loses capacity for civil conduct or resigns, it constitutes a “Key person event”. After the Key person event occurs, the investment period is automatically suspended. The executive partner shall recommend a successor within 60 days from the date of occurrence of the above matters to take the role of a Key person after consideration by the partner meeting and with the unanimous consent of all partners. If the successor recommended by the executive partner fails to obtain the unanimous consent of all partners within 90 days from the date of occurrence of the Key person event, the partner meeting has the right to decide to replace the executive partner or to decide that the Tongfu Fund should be dissolved and liquidated. If all partners agree to the successor of the Key person, the investment period of the Tongfu Fund shall continue. For the avoidance of doubt, during the suspension of the investment period of the Tongfu Fund, the administrator shall not charge any management fee for the suspension period.</p>	<p>The Key persons of the executive partner management team are Yu Hongwei, <del>Liu Pengbin</del><u>Liu Longwen</u> and <del>Gong Lingling</del><u>Yao Yong</u>. During the valid duration of the partnership, the management team’s Key persons shall not change without the consent of the partners in meeting. <del>Adjustment to the Key persons can be made by modifying the partnership agreement upon the admission of subsequent partners to the Tongfu Fund.</del></p> <p>If any Key person fails to perform their duties for three consecutive months or more than 90 days in a year, deceases, loses capacity for civil conduct or resigns, it constitutes a “Key person event”. After the Key person event occurs, the investment period is automatically suspended. The executive partner shall recommend a successor within 60 days from the date of occurrence of the above matters to take the role of a Key person after consideration by the partner meeting and with the unanimous consent of all partners. If the successor recommended by the executive partner fails to obtain the unanimous consent of all partners within 90 days from the date of occurrence of the Key person event, the partner meeting has the right to decide to replace the executive partner or to decide that the Tongfu Fund should be dissolved and liquidated. If all partners agree to the successor of the Key person, the investment period of the Tongfu Fund shall continue. For the avoidance of doubt, during the suspension of the investment period of the Tongfu Fund, the administrator shall not charge any management fee for the suspension period.</p>

The amendment to the terms of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement is determined after arm’s length negotiations between the parties.

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## LETTER FROM THE BOARD

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As per the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement in respect of the exit arrangement, the executive partner shall, after properly reserving the partnership fees required during the exit period and the funds required to complete the investment according to the legally binding investment transaction documents signed before the end of the investment period, return the remaining capital contributions by partners that have not been used for investment and payment of partnership fees to each partner in accordance with the relative ratio of the principal of investment by all partners to be invested in the proposed investment projects. The details of the amount of paid-in capital contribution unused and allocation ratio of investment principal to be invested in the proposed investment projects set out as below.

<b>Partners</b>	<b>Amount of paid-in capital contribution unused (RMB)</b>	<b>Allocation ratio of investment principal to be invested in the proposed investment projects %</b>
The Company	355,914,963.06	49.1565%
Junmin Fund	123,996,812.07	17.1256%
CNNC Capital	237,276,642.04	32.7710%
Tongchuang Investment	6,856,498.14	0.9470%
 Total	 724,044,915.31	 100.0000%

**LETTER FROM THE BOARD**

The details of committed capital prior to the amendment, paid-in capital, paid-in capital used for investments and fees, unused paid-in capital, unused paid-in capital to be returned, committed and paid-in capital after the amendment of each of the partners are set out as below:

	Committed capital prior to the amendment (RMB)	Percentage %	Paid-in capital (RMB)	Paid-in capital used for investments and fees (RMB)	Unused paid-in capital (RMB)	Unused paid-in capital to be returned (RMB)	Committed and paid-in capital after the amendment (RMB)	Percentage %
Tongchuang Investment	50,000,000	1.25	20,000,000	4,513,552.34	15,486,447.66	8,629,949.52	11,370,050.48	1
The Company	1,200,000,000	30	480,000,000	124,085,036.94	355,914,963.06	0	480,000,000	42.2162
CNNC Capital	800,000,000	20	320,000,000	82,723,357.96	237,276,642.04	0	320,000,000	28.1441
BSIF	450,000,000	11.25	180,000,000	46,531,888.85	133,468,111.15	133,468,111.15	46,531,888.85	4.0925
Junmin Fund	1,000,000,000	25	400,000,000	103,404,197.45	296,595,802.55	172,598,990.49	227,401,009.51	20
Daxing Fund	500,000,000	12.5	200,000,000	51,702,098.72	148,297,901.28	148,297,901.28	51,702,098.72	4.5472
<b>Total</b>	<b>4,000,000,000</b>	<b>100</b>	<b>1,600,000,000</b>	<b>412,960,132.26</b>	<b>1,187,039,867.74</b>	<b>462,994,952.44</b>	<b>1,137,005,048</b>	<b>100</b>

As disclosed above, all unused paid-in capital of BSIF and Daxing Fund will be returned to reflect the exit of BSIF and Daxing Fund, and part of paid-in capital of Tongchuang Investment and Junmin Fund will be returned to reflect the adjustment to proportion percentage of remaining partners. It is expected that return of unused paid-in capital will be completed as soon as the independent Shareholders have approved the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement. After the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement, the Tongfu Fund will continue to make investments in which BSIF and Daxing Fund will no longer participate.

The amendment regarding exit arrangement and other amendments as disclosed above are all made to reflect the exit of BSIF and Daxing Fund and intention of other parties not to make additional contribution which are common or customary for partnership of the similar kind. Therefore, the Directors consider that these terms fair and reasonable and in the interests of the Company's shareholders as a whole. Although the size of Tongfu Fund will be reduced, the amendments will not have adverse effect to Tongfu Fund and the Company.

The investment in the Tongfu Fund held by the Company is recognised as interests in associates in the consolidated financial statements of the Company.

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## LETTER FROM THE BOARD

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### **III. Reasons For Amendment To The Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement**

BSIF and Daxing Fund, the limited partner of Tongfu Fund, requested to Tongchuang Investment, in its capacity of the general partner and executive business partner, for their exit, respectively. Therefore, the parties decided to amend the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement.

### **IV. Listing Rules Implications**

As at the Latest Practicable Date, CNNC, which directly and indirectly holds approximately 73.83% of the total issued share capital of the Company through CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan, is the controlling shareholder of the Company. CNNC holds a 100% equity interest in CNNC Capital and CNNC Capital holds a 100% equity interest in Hynergy Industrial Funds. Therefore, CNNC Capital and Hynergy Industrial Funds are connected persons of the Company as defined in Chapter 14A of the Listing Rules. Therefore, the entering into of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement and the transactions contemplated thereunder constitutes connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54(2) of the Listing Rules, the Company shall re-comply with the announcement and independent Shareholders' approval requirements (if applicable) prior to the significant amendment to the terms of the agreement. As one or more of the applicable percentage ratios of the transactions under the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement exceed 5% but are less than 25%, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The entering into of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement also constitutes discloseable transaction of the Company. Therefore, the Company shall re-comply with the announcement and independent Shareholders' approval requirements with regard to the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement.

The Directors (excluding the independent non-executive Directors whose opinions will be formed after considering the recommendations of the Independent Financial Adviser) consider that the terms of the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement were determined after arm's length negotiations on normal commercial terms, and the transactions contemplated thereunder are fair and reasonable, and have been entered into in the ordinary and normal course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### V. Information About the Company and the Parties

#### *The Company*

The Company and its subsidiaries are primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radiopharmaceuticals and radioactive source products for medical and industrial applications. We also provide irradiation services for sterilization purpose and EPC services for the design, manufacturing and installation of gamma ray irradiation facilities. In addition, we provide independent clinical laboratory services to hospitals and other medical institutions.

#### *Tongchuang Investment*

Tongchuang Investment, as general partner and executive partner of Tongfu Fund, was proposed to make a total capital contribution of RMB42.5 million. Hynergy Industrial Funds will make a total capital contribution of RMB25 million, accounting for 58.82% of the interest in Tongchuang Investment; the Company will make a total capital contribution of RMB7.5 million, accounting for 17.65%; while Tongxin Business Management will make a total capital contribution of RMB10 million, accounting for 23.53%.

#### *Hynergy Industrial Funds*

Hynergy Industrial Funds was established on 18 November 2016 with a registered capital of RMB200 million. It is registered with the Asset Management Association of China as a private equity fund manager. Hynergy Industrial Funds mainly focus on Equity investment management, investment management, asset management, industrial investment and start-up investment. It is held as to 100% by CNNC Capital.

#### *Tongxin Business Management*

Tongxin Business Management, a subsequent investment platform for employees of Hynergy Industrial Funds, makes a total capital contribution of RMB10 million, which will be fully paid by employees of Hynergy Industrial Funds. In accordance with Article 13 of the Measures for the Supervision and Administration of Private Investment Funds published by the Asset Management Association of China, all employees of Hynergy Industrial Funds are qualified for investment in Tongxin Business Management. Partners shall use their own funds to make capital contribution to Tongxin Business Management. The subsequent investment mechanism can align the interests of the fund with those of the management team, encourage the team to explore investment opportunities, reduce risks, solve the principal-agent problem and protect the rights of investors.

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## LETTER FROM THE BOARD

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### *CNNC Capital*

CNNC Capital was established in July 2016 and is a wholly-owned subsidiary of CNNC, with a registered capital of RMB7.08 billion. As a specialized management platform for the financial sector of CNNC, CNNC Capital is positioned as a center of industrial finance risk control, industrial finance investment control, industrial financial resource allocation and industrial finance business collaboration of CNNC.

### *BSIF*

BSIF has a total scale of RMB30 billion. The ultimate beneficial owner of BSIF is The State-owned Assets Supervision and Administration Commission of the State Council. BSIF is a third party independent of the Company and connected persons of the Company. It sets up sub-funds around the three stages of original innovation, results transformation and highly sophisticated industries and arranges the amount of funds according to the ratio of 5:3:2. The fund's mission is to achieve "three sets of guidance": the first one is to guide the way to high-end "hard technology" innovation; the second is to guide the way to front-end original innovation; the third is to guide high-end scientific research results which can match up with the capital's positioning to locate in Beijing and to cultivate "highly sophisticated" industry. Through the construction of innovative investment ecosystem, the fund promotes the rapid and steady development of the science and technology industry of Beijing and contributes actively to building a globally influential innovation centre for science and technology in Beijing.

### *Junmin Fund*

Junmin Fund was led by the Ministry of Finance and the State Administration of Science, Technology and Industry for National Defence, and established with investments from the Ministry of Finance and investors. Its total planned size is RMB150 billion. The actual initial capital fund is RMB56 billion, of which RMB8 billion was contributed by the central government, and RMB48 billion was raised by 12 local governments, 13 central enterprises, 3 private enterprises and 2 financial institutions. It focuses on key areas including ocean, outer space and cyberspace, and promotes the development of related industries including nuclear, nuclear technology application, aerospace, aviation, high-tech ship and ocean engineering, electronic information and power.

### *Daxing Fund*

Daxing Fund has the total size of RMB10 billion, with actual capital contribution from the Daxing District People's Government of Beijing Municipality. It is managed by Beishang Capital Management (Beijing) Co., Ltd. (北商資本管理(北京)有限公司), a wholly-owned subsidiary of Beijing Daxing Investment Group Co., Ltd. (北京大興投資集團有限公司). Daxing Fund focuses on the key areas of economic and social development in Daxing District of Beijing, and guides various private capital to cooperate in establishing sub-funds, so as to support the development of key areas and address weaknesses in Daxing District.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, the counterparty and the ultimate beneficial owner of the counterparty are third parties independent of the Company and connected persons of the Company.

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## LETTER FROM THE BOARD

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### 5. REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION

#### I. Introduction

References are made to the announcement dated 23 December 2022 of the Company in relation to the entering into of the Engineering Construction Services Framework Agreement with CNNC. Unless otherwise defined, capitalized terms used in this circular shall have the same meanings as those defined in the announcement.

In relation to the Engineering Construction Services Framework Agreement, the table below sets out (i) the annual caps for the year ended 31 December 2021 and for the year ended 31 December 2022, (ii) the actual transaction amount for the year ended 31 December 2021 and for the year ended 31 December 2022, and (iii) the annual caps and the proposed revised annual caps for the year ended 31 December 2023.

*Unit: RMB'000*

Transaction nature	For the year ended 31 December 2021		For the year ended 31 December 2022		For the year ended 31 December 2023	
	Annual caps	Actual transaction amount	Annual caps	Actual transaction amount	Original annual caps	Proposed revised annual caps
Construction Services	80,000	6,540	150,000	26,468	190,000	600,000
Equipment Services	20,000	–	40,000	7,542	5,000	100,000
Consultation Services	40,000	211	40,000	3,765	5,000	100,000

#### II. Revision of Annual Caps under the Engineering Construction Services Framework Agreement

The Board has resolved and proposed on 30 March 2023 to revise the annual caps under the Engineering Construction Services Framework Agreement for the year ended 31 December 2023. In respect of the Directors attending the board meeting, connected Directors, namely Mr. Wang Suohui, Mr. Xu Hongchao, Mr. Du Jin, Mr. Chen Shoulei, Mr. Dai Shuquan and Ms. Liu Xiuhong, were considered to have material interests by virtue of being employed by CNNC and its associates and had thus abstained from voting on the board resolution(s) in respect of the transaction.

#### *Engineering Construction Services Framework Agreement*

The Company entered into the Engineering Construction Services Framework Agreement with CNNC on 23 December 2022. The principal terms of the Engineering Construction Services Framework Agreement are set out below:

**Parties:** CNNC (the supplier); and

The Company (the purchaser).

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## LETTER FROM THE BOARD

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**Principal Terms:** The Company and CNNC agreed that CNNC and/or its associates will provide engineering construction services to the Company and its subsidiaries according to the Engineering Construction Services Framework Agreement and on normal commercial terms, including: (i) EPC services and construction services (“**Construction Services**”); (ii) equipment procurement, manufacturing and installation services (“**Equipment Services**”); and (iii) engineering consultation services such as engineering consultation, management and supervision services and survey and design services (“**Consultation Services**”).

**Term:** Effective from 1 January 2023 and ending on 31 December 2023, subject to renewal as may be agreed upon by both parties.

**Pricing Policy:** The pricing policy under the Engineering Construction Services Framework Agreement is as follows:

- (a) **Construction Services:** contract price of Construction Services: (1) in the case of selecting construction services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (2) in the case of selecting construction services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.
- (b) **Equipment Services:** contract price of Equipment Services: (1) in the case of selecting equipment services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (2) in the case of selecting equipment services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.
- (c) **Consultation Services:** contract price of Consultation Services: (1) in the case of selecting consultation services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (2) in the case of selecting consultation services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.

### *Reasons for revising the annual caps*

Based on the progress of the Company’s business, a number of projects such as the Company’s radioactive source manufacturing bases, Qinshan isotope production base and Northern China radiopharmaceuticals base have entered the construction period in 2023.

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## LETTER FROM THE BOARD

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The table below sets out the timing of the contract sum payment for the signed contracts of the above projects.

*Unit: RMB'000*

<b>Transaction nature</b>	<b>Estimated transaction amount for the six months ended 30 June 2023</b>	<b>Estimated transaction amount for the nine months ended 30 September 2023</b>	<b>Estimated transaction amount for the year ended 31 December 2023</b>
Construction Services	182,550	257,110	534,270
Equipment Services	4,740	29,100	62,000
Consultation Services	4,950	7,560	18,000

Taking into account the timing of the contract sum payment for the signed contracts of the above projects, the construction progress plan and the recent proposed investment projects, the Company proposes to revise the annual caps for construction services, equipment services and consulting services for the year ended 31 December 2023 to RMB600 million, RMB100 million and RMB100 million, respectively.

### ***Implementation of the Agreement***

The Engineering Construction Services Framework Agreement is a framework agreement between the Company and CNNC in connection with the provision of engineering construction services, and does not constitute a specific engineering construction service agreement. The parties will conclude separately specific engineering construction service agreements according to the principles under the Engineering Construction Services Framework Agreement, and determine contents of specific engineering construction services in writing. Subject to terms of the Engineering Construction Services Framework Agreement, all specific engineering construction service agreements shall be concluded on the fair and reasonable basis, and define specific terms and conditions including contents of service, payment and term.

### ***Internal control system for continuing connected transactions under the Engineering Construction Services Framework Agreement***

The Company has established (1) the reporting, approval and, if necessary, selection & verification procedures, to ensure that the agreed prices and terms of the continuing connected transactions are no less favourable than those that may be granted by relevant members of the Group or by (if applicable) independent third parties, and are in compliance with the pricing policies; and (2) the procedures and policies for the purpose of identifying the connected persons and monitoring the annual caps of continuing connected transactions.

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## LETTER FROM THE BOARD

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For each of Construction Services, Equipment Services and Consultation Services:

- (a) where tendering process is necessary under applicable laws, regulations and rules, the Group will organise public tendering process in accordance with our internal tendering rules, including issuing tendering announcement, reviewing qualification of bidders, formulating tendering review committee, bid opening, bid reviewing, public disclosure and bid determination. The Group will consider qualification, experience and bid price of suppliers to decide the bid winner, and will determine the final price based on the results of such process; and
- (b) where tendering process is not necessary under applicable laws, regulations and rules, the Group will negotiate with CNNC and/or its associates and independent suppliers separately. The prices shall be determined upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes. Where possible, the management will consider at least two comparable transactions with independent suppliers for the same period when determining the reasonable profit of any services under the Engineering Construction Services Framework Agreement.

The Group's construction projects require relatively complex radiation protection, and shall be completed by professional service providers with relevant qualifications and experience. The number of such service providers with relevant qualifications and experience in China is limited, the majority of which are CNNC and/or its associates. The Group will invite qualified CNNC and/or its associates as well as independent suppliers to attend the public tendering process or negotiate with qualified CNNC and/or its associates as well as independent suppliers. The Company has formulated a series of procurement policies to manage procurement process and reduce cost. The tendering process will be managed by the Group to strictly follow the rules and requirements of the Bidding Law of the PRC, and in the case other than through tendering process, the Group will set up different steps to encourage competition among potential suppliers including CNNC and/or its associates and independent suppliers. CNNC and/or its associates and independent suppliers will be treated fairly.

The Company will regularly contact its suppliers (including CNNC and/or its associates and independent suppliers) to understand the market conditions. The audit and discipline supervision departments will monitor the whole process, and the legal departments of the Group will negotiate contractual terms with suppliers.

Given the Group has established above procurement measures, the Directors consider that the pricing policy under the Engineering Construction Services Framework Agreement can ensure that the transactions will be conducted on normal commercial terms.

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## LETTER FROM THE BOARD

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### *Reasons for and benefits of entering into the Engineering Construction Services Framework Agreement*

The Group has invested in numerous construction projects in its rapid development course. In particular, as the preliminary work of several base projects has been further preceded recently, such projects will enter the construction stage. The Group will conclude a large number of specific engineering construction service contracts in succession.

The Group's construction projects require relatively complex radiation protection, and shall be completed by professional service providers with relevant qualifications and experiences. There is limited number of such service providers with relevant qualifications and experience in China, and the majority of them are CNNC and/or its associates. Therefore, it is very likely that the Group's engineering construction services will be eventually provided by CNNC and/or its associates regardless how the Group selects engineering construction service providers. In addition, according to the Bidding Law of the PRC, the tenderer and the successful bidder shall enter into a written contract within 30 days from the date of issuing the letter of acceptance. Therefore, the Company shall enter into an engineering construction service framework agreement in advance and finalize the annual caps.

The Directors (excluding the independent non-executive Directors who shall provide their views after considering the advice from the Independent Financial Adviser) are of the view that the revised annual caps under the Engineering Construction Services Framework Agreement are determined after arm's length negotiations on normal commercial terms, are fair and reasonable and have been entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

### **III. General Information**

#### *The Company*

The Company and its subsidiaries are primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radio pharmaceuticals and radioactive source products for medical and industrial applications. We also provide irradiation services for sterilization purpose and EPC services for the design, manufacturing and installation of gamma ray irradiation facilities. In addition, we provide independent clinical laboratory services to hospitals and other medical institutions.

#### *CNNC*

CNNC was established on 29 June 1999 and is principally engaged in scientific research and development, construction and production operations in nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, non-nuclear civilian products, new energy sources, etc. The ultimate beneficial owner of CNNC is the State-owned Assets Supervision and Administration Commission of the State Council.

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## LETTER FROM THE BOARD

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### IV. Implications Of The Listing Rules

As at the Latest Practicable Date, CNNC holds approximately 73.83% of the Company's total issued share capital directly and indirectly through CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan, and is the controlling shareholder of the Company. As such, CNNC and its associates are our connected persons under Chapter 14A of the Listing Rules. Therefore, transactions under the Engineering Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios (as defined under Rule 14A.06 of the Listing Rules) for the revised annual caps under the Engineering Construction Services Framework Agreement exceed 5%, the transactions thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### 6. CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION

#### I. Introduction

Since the Existing Financial Services Agreement will expire on the date of the 2022 annual general meeting of the Company to be convened in 2023, the Company intends to continue the transactions under the Existing Financial Services Agreement and renew the relevant agreement. Thus, on 30 March 2023, the Board resolved to enter into the Renewed Financial Services Agreement with CNNC, pursuant to which the Company will continue to utilize the financial services available from CNNC. Such agreement will be effective on 1 July 2023 upon approval of the Independent Shareholders at the 2022 annual general meeting, and expire on 31 December 2025. In respect of the Directors attending the Board meeting, connected Directors Mr. Wang Suohui, Mr. Xu Hongchao, Mr. Du Jin, Mr. Chen Shoulei, Mr. Dai Shuquan and Ms. Liu Xiuhong were considered to have material interests by virtue of being employed by CNNC and its associates and had thus abstained from voting on the Board resolution(s) in respect of the transaction.

#### II. Renewed Financial Services Agreement

The principal terms of the Renewed Financial Services Agreement are set out below:

**Parties:** the Company (service recipient); and

CNNC (service provider).

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## LETTER FROM THE BOARD

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**Principal Terms:** The Company will enter into the Renewed Financial Services Framework Agreement with CNNC, pursuant to which CNNC and/or its associates would provide the Group with, among other things, (i) Deposit Services; (ii) Settlement, Entrusted Loan and Other Financial Services; (iii) Financial Leasing Service for certain assets used in the operation of the Group; and (iv) Factoring Services.

**Term:** The Renewed Financial Services Agreement will be effective on 1 July 2023 upon approval of the Independent Shareholders at the 2022 annual general meeting, and expire 31 December 2025.

Under the Renewed Financial Services Agreement, CNNC and/or its associates have agreed to provide the Group with the financial services pursuant to the following principal terms:

- a) other than the services provided by CNNC and/or its associates under the Renewed Financial Services Agreement, the Group may obtain financial services from other financial institutions;
- b) any counterparty may not terminate the Renewed Financial Services Agreement unilaterally; and
- c) after the termination of the Renewed Financial Services Agreement, the Group has the right to withdraw its deposits with CNNC and/or its associates immediately.

**Pricing Policy:** The pricing policy under the Renewed Financial Services Agreement is as follows:

- (a) **Deposit Services:** The deposit interest rates shall not be lower than (i) the deposit interest rates of a similar category of deposit in the same period promulgated by PBOC; or (ii) the public interest rates of a similar category of deposit in the same period provided by major commercial banks in the PRC.
- (b) **Settlement, Entrusted Loan and Other Financial Services:** The fees payable to CNNCFC for the settlement, entrusted loan and other financial services will be determined with reference to the market rates of similar services promulgated by PBOC and, will be equal to or more favorable than the rates offered by major independent commercial banks in the PRC under the same conditions.
- (c) **Financial Leasing Services:** The financial leasing service fees to be charged by CNNC and/or its associates will be equal to or more favorable than the fees of relevant services offered by other domestic financial leasing institutions in the PRC under the same conditions.
- (d) **Factoring Services:** The factoring services fees to be charged by CNNC and/or its associates will be equal to or more favorable than the fees of relevant services offered by other domestic factoring institutions in the PRC under the same conditions.

## LETTER FROM THE BOARD

### Historic annual caps and actual amount of the financial services:

Nature of the transaction	Annual caps for the period from the date of the 2019 Shareholders' general meeting to the date of the 2020 Shareholders' general meeting (RMB'000)		Annual caps for the period from the date of the 2020 Shareholders' general meeting to the date of the 2021 Shareholders' general meeting (RMB'000)		Annual caps for the period from the date of the 2021 Shareholders' general meeting to the date of the 2022 Shareholders' general meeting (RMB'000)	
	Actual	Transaction amount for the year ended 31 December 2020 (RMB'000)	Actual	Transaction amount for the year ended 31 December 2021 (RMB'000)	Actual	Transaction amount for the year ended 31 December 2022 (RMB'000)
Existing Financial Services Agreement						
• Deposit Services						
(a) Maximum outstanding daily balance	3,082,666	1,998,993	3,082,666	2,031,668	3,082,666	2,711,722
(b) Interest income	45,778	13,993	45,778	21,379	45,778	24,433
• Settlement, Entrusted Loans and Other Financial Services						
(a) Maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC	500,000	154,000	500,000	367,727	1,000,000	489,647
(b) Service fees for settlement, entrusted loans and other financial services	150	37.5	150	39	150	17
• Finance Leasing Services	248,980	25,833	248,980	16,342	248,980	1,996

### Proposed annual cap for the renewed financial services:

Nature of the transaction	Proposed annual caps for the period from 1 July 2023 to 31 December 2023 (RMB'000)		Proposed annual caps for the year ending 31 December 2024 (RMB'000)		Proposed annual caps for the year ending 31 December 2025 (RMB'000)	
Renewed Financial Services Agreement						
• Deposit Services						
(a) Maximum outstanding daily balance		5,000,000		5,000,000		5,000,000
(b) Interest income		50,000		100,000		100,000
• Settlement, Entrusted Loans and Other Financial Services						
(a) Maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC		1,000,000		1,000,000		1,000,000
(b) Service fees for settlement, entrusted loans and other financial services		75		150		150
• Finance Leasing Services		250,000		250,000		250,000
• Factoring Services		1,000,000		1,000,000		1,000,000

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## LETTER FROM THE BOARD

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The Board considers that the services under the Renewed Financial Services Agreement shall not be consolidated in aggregate due to the different types of the services transactions.

The above proposed annual caps are determined with reference to the pricing policy as mentioned above and the following:

- (a) Deposit Services: the Company mainly refers to, among other things, (i) the actual amount of deposits and interest income of the Group with CNNCFC incurred for the three years ended 31 December 2022; (ii) the net cash inflow for the year ended 31 December 2022; (iii) as the Company is developing and growing, it conducts more financing through the capital market, and (iv) the Company intends to transfer some of its existing cash reserves to CNNCFC due to the higher interest rate offered by CNNCFC with reference to prevailing market rates. The Company proposes to increase the annual cap for 2023-2025.
- (b) Settlement, Entrusted Loans and Other Financial Services: the Company mainly refers to, among other things, (i) for the three years ended 31 December 2022, the maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC, and the service fee charged by CNNCFC; (ii) from 1 July 2022 to 31 December 2025 (including the expected payment of continuing contracts and new contracts); (iii) that the Company intends to use part of the funds raised in the capital market to issue entrusted loans through CNNCFC for provision of funding for the business and development of its subsidiaries; (iv) the projected business volume of the Group from 1 July 2022 to 31 December 2025; and (v) the historical fee amounts charged by CNNCFC for cash settlement for the three years ended 31 December 2022. The Company proposes to increase the annual cap for 2023-2025.
- (c) Financial Leasing Services: the Company mainly refers to: (i) the expected increase in assets required for its irradiation and radiopharmaceuticals business; and (ii) the expected rental payable by the Group for such assets from 1 July 2022 to 31 December 2025.
- (d) Factoring Services: the Company mainly refers to: (i) the amount of accounts receivable of the Group as at 31 December 2022; and (ii) the Group's expected factoring business for such assets from 1 July 2022 to 31 December 2025.

The actual maximum daily outstanding balance of the Deposit Services under the Existing Financial Services Agreement for the three years ended 31 December 2022 amounted to approximately RMB1,999.0 million, RMB2,031.7 million and RMB2,711.7 million, respectively, representing approximately 64.8%, 65.9% and 88.0% of the total annual caps for the year ended 31 December 2020, for the year ended 31 December 2021 and for the year ended 31 December 2022, respectively. The utilisation rate of the annual cap of the Deposit Services increased from approximately 64.8% in 2020 to approximately 88% in 2022. The low utilisation rates of the Deposit Services in 2020 and 2021 were mainly because the annual caps were determined with reference to the maximum deposits requirement amount, while the Group

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## LETTER FROM THE BOARD

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has the option to obtain financial services from other financial institutions with more favorable terms. Driven by the growth in the Group's radio pharmaceuticals, radiation therapy equipment and related services and other business segments, the Group's revenue increased by approximately 19.5% for the year ended 31 December 2022 as compared with the year ended 31 December 2021, which is expected to strengthen the Group's cash position by generating more operating cash flow. The net cash inflow generated from operating activities amounted to approximately RMB862.7 million for the year ended 31 December 2022. As of 31 December 2022, the Group's cash and bank balances and trade and bill receivables amounted to approximately RMB2,923 million and RMB3,501 million, respectively. The sum of the Group's cash and bank balances and trade and bill receivables, which indicates the Group's possible demand on the Deposit Services to be provided by CNNCFC and commercial banks, exceeds the proposed annual caps of the Deposit Services of RMB3,083 million under the Existing Financial Services Agreement. In addition, considering the various financing needs of the Group for its business development, including but not limited to fixed assets investments, equity investments and working capital requirements, the Group projects to fulfill its financing needs of RMB1 billion through CNNCFC and RMB1,081 million through independent third-party financing channels. In view of the above, the cap of the Deposit Services was proposed to be RMB5 billion.

### **Internal monitoring procedures regarding the annual cap**

- *Internal measures of the Company*
  - The Company has formulated its rules and regulations, including the Financing Management Measures of China Isotope & Radiation Corporation and the Financial Management System of China Isotope & Radiation Corporation, to safeguard against fund risks, strengthen its internal financial management, regulate financing activities, and meet the capital requirements of its development. The Company has set up an integrated management system on targeting, assessment and incentiveness. The Company adheres to the principle of financing at the Group level, and adopts the integrated management system for investment and financing. The Company adheres to the principles of proper scale and reasonable structure, and strikes a balance between costs and risks.
  - When providing entrusted loans to connected persons (whether through CNNCFC or otherwise), the Company will consider the interest rate, processing fees, term and use of loan and credit worthiness of the ultimate borrower, based on principles of reasonable return, cost control and risk control. The entrusted loan agreements (setting out interest rate, processing fees, term and use of loan) are first approved by the finance department of the Company and then submitted to the legal representative for signing and approval. In addition, the finance department of the Company will be responsible for closely monitoring such ongoing continuing connected transactions and will submit matters to the Board for consideration as appropriate.

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## LETTER FROM THE BOARD

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- At the end of each quarter, the Company will request CNNCFC to provide sufficient information, including various financial indicators such as the status of the Company's deposits and interest income, charges on entrusted loans and rental of financial leasing, as well as annual and interim financial statements, to enable the Company to understand and review the financial condition of CNNCFC. CNNCFC shall notify the Company, subject to compliance with applicable laws and regulations, should it have any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on its financial condition. If the Company considers that there is any material adverse change in the financial condition of CNNCFC, the Company will take appropriate measures (including early withdrawal of deposits, termination of entrusted loans and a moratorium on further deposits and entrusted loans) to protect its financial position.
- The independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions under the Renewed Financial Services Agreement. Only independent non-executive Directors may vote in respect of matters under the Renewed Financial Services Agreement. If the majority of the independent non-executive Directors reasonably consider that it would be in its interests to reduce the level of deposits with CNNCFC or entrusted loans to connected persons, the Company will take appropriate steps to implement the decision of its independent non – executive Directors. Any material findings in the analysis reports, the views of the independent non-executive Directors on the deposits, settlement, entrusted loans and other financial services, finance leasing and factoring under the Renewed Financial Services Agreement (including their views on how the terms of the Renewed Financial Services Agreement have been complied with) and their decisions on any matters in relation thereto will be disclosed in the Company's annual and interim reports.
- During the Company's annual audit, the Company will engage its auditors to review the connected transactions between the Company and CNNC and/or its associates to ensure that the transactions under the Renewed Financial Services Agreement have been conducted in accordance with the Listing Rules and have fulfilled the relevant disclosure requirements.
- Each of CNNCFC and CNNC Financial Leasing Company will provide a monthly report per the Company's request on the status of its deposits and interest income, charges on entrusted loans and rental of financial leasing so as to enable the Company to monitor and ensure that the relevant annual caps under the Renewed Financial Services Agreement have not been exceeded. Should the balance at the end of any day exceed the maximum daily balance of deposits and interest income prevailing from time to time, the Company will notify CNNCFC that the exceeded funds will be transferred to the Company's designated bank accounts with an independent commercial bank. The financial head of the Company will also be notified at the same time once the maximum daily balance has been exceeded. The Company will, from time to time at its sole discretion, request for the deposits with CNNCFC and the entrusted loans through CNNCFC to connected persons to be withdrawn or early terminated (either in full or in part) to assess and ensure the liquidity and safety of its deposits and entrusted loans.

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## LETTER FROM THE BOARD

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- In addition to the monthly report, the Company has implemented internal control measures to make sure the Company will monitor the Group's daily balances with CNNCFC in a timely manner. In particular, the Company's responsible financial person shall check the balances through relevant IT system on daily basis, and promptly report to the Company's financial officer if such daily balances are close to, or likely to exceed the proposed caps.
- ***CNNCFC and CNNC Financial Leasing Company's measures***
  - In addition to the Company's internal monitoring, CNNCFC will also monitor the maximum daily balance of the deposits and interest income (in the case of CNNCFC only), the amount of interest income accrued on loans, and charges on entrusted loans, on a daily basis, to ensure that the aggregate outstanding amounts do not exceed the applicable annual caps. They will submit report to the Company on a monthly basis per its request to enable the Company to monitor such indicators.

### **Reasons for and benefits of entering into the Renewed Financial Services Agreement**

PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. CNNCFC is a non-banking financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission, and is authorized to provide various kinds of financial services to CNNC and its member companies in the PRC, including deposit-taking and loan services. CNNCFC, a non-bank financial company and a subsidiary of CNNC, has deep understanding in the industry characteristics, capital structures, business operations, financing need, cash flow patterns and the entire financial management system of the Group through its previous cooperation with the Company. It provides services to the Group on equal or better commercial terms compared to those offered by other external independent commercial banks. In addition, as it is a major clearing and settlement platform of CNNC and its associates, using the services from CNNCFC enables the Company to reduce costs, maximize efficiency and benefit from the capital pool managed by CNNC.

CNNC also has a professional financial leasing service provider, namely CNNC Financial Leasing Company. As CNNC Financial Leasing Company is familiar with the business nature of the Group, the Group is able to obtain financial leasing services from CNNC Financial Leasing Company with ease, and benefits from equal or more favorable fees as compared to those provided by major independent commercial banks.

CNNC also has a professional factoring service provider, namely CNNC Factoring. Since CNNC Factoring is familiar with the business nature of the Group, the Group is able to obtain factoring services from CNNC Factoring with ease, and benefit from equal or more favorable terms as compared to those provided by major domestic factoring companies under the same conditions.

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## LETTER FROM THE BOARD

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The Directors (excluding the independent non-executive Directors whose views will be formed after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Renewed Financial Services Agreement are determined after arm's length negotiations on normal commercial terms, the transactions and proposed annual caps thereunder are fair and reasonable and have been entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

The Board are of the view that the risk profile of CNNCFC, as a financial services provider to the Group, is not greater than that of a public licensed commercial bank in the PRC and transactions contemplated under the Renewed Financial Services Agreement are fair and reasonable. As far as the Directors are aware, CNNCFC has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations.

In assessing the financial risks involved in placing deposits with CNNCFC, the Board has taken into account the following factors:

- (a) the operations of CNNCFC are subject to the supervision of People's Bank of China and China Banking and Insurance Regulatory Commission and are regulated by the relevant PRC financial services rules and regulations;
- (b) CNNCFC has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations. In respect of its internal control system, CNNCFC has implemented its internal control measures which set out the internal control management objectives, principles, organizational structure and division of responsibilities, and clearly stipulates the internal control of deposits, loans, investments, intermediate and off-balance sheet business activities, and accounting and information system management activities. Its risk management department will coordinate each department of CNNCFC and require each department to formulate the rules, operating procedures and job responsibilities of the business conducted by such department according to the relevant PRC laws and regulations and the circumstances of CNNCFC; and to formulate corresponding risk control procedures of such department. In respect of the risk management system, CNNCFC has implemented its risk management measures which set out CNNCFC's risk management objectives, principles, and division of responsibilities, and set out the regulations on activities which involve systematic or non-systematic risks such as credit risk, market risk, operational risk, liquidity risk, compliance risk and money laundering risk. The measures also standardized the reporting information feedback and correction work mechanism of risk prevention and control;
- (c) CNNCFC has not previously defaulted on any repayment obligation;

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## LETTER FROM THE BOARD

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- (d) CNNCFC only provides financial related services to members units of the CNNC group (including the Company). CNNCFC had stable operating conditions, good returns and low risks in operation over the years. Thus, there is no restriction to the possibility of recovery on the Company's deposits in CNNCFC;
- (e) according to the Renewed Financial Services Agreements, CNNCFC shall engage external auditor to review the internal controls, risk management, capital sufficiency, completeness and impartiality of the operational system in respect of the transactions contemplated under the Renewed Financial Services Agreement and to provide relevant risk management report to the Company in a regular basis;
- (f) according to the Renewed Financial Services Agreements, the Company is entitled to require CNNCFC to provide materials and documents in relation to the transactions contemplated under the Renewed Financial Services Agreement within a reasonable period; and
- (g) the external auditors of the Company will review the transactions contemplated under the Renewed Financial Services Agreement and report the factual findings to the audit and risk management committee of the Company and the independent non-executive Directors on an annual basis.

### **III. Information on the Parties**

#### *The Company*

The Company and its subsidiaries are primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radio pharmaceuticals and radioactive source products for medical and industrial applications. The Company also provides irradiation services for sterilization purpose and EPC services for the design, manufacturing and installation of gamma ray irradiation facilities. In addition, the Company provides independent clinical laboratory services to hospitals and other medical institutions.

#### *CNNC*

CNNC was established on 29 June 1999 and is principally engaged in scientific research and development, construction and production operations in nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, non-nuclear civilian products, new energy sources, etc.

#### *CNNCFC*

CNNCFC was established on 21 July 1997 by CNNC and CNNC's 25 member units, with a registered capital of RMB2,009.6 million. CNNCFC is a non-bank financial institution which strengthens the centralized management of fund within the CNNC group, improves the fund utilization efficiency and the financial management services for CNNC groups' member units.

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## LETTER FROM THE BOARD

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With respect to the entrustment loan service provided by CNNCFC, CNNCFC only acts as a financial agent to facilitate the Company to provide loans to its subsidiaries. Under PRC laws, the Company is prohibited from lending money directly to its subsidiaries and is required to engage financial institutions to provide entrusted loans. On one hand, during the ordinary business of the Group, from time to time the Company needs to finance its subsidiaries to conduct investments, establish new projects, among others. The use of CNNCFC as a vehicle through which intra-group loans could be arranged allows for the more efficient deployment of funds. Compared to other financial institutions, CNNCFC is a safe, flexible and cost efficient option which may not otherwise be available in the open market. On the other hand, as the Company only provides entrustment loans when the Company has surplus cash, such loans did not in the past, nor are they expected in the future, pose any cash flow pressure on the Company. In addition, as mentioned above, with a deep understanding of the industry characteristics, capital structures, business operations, financing needs, cash flow patterns and the entire financial management system of the Group, CNNCFC is able to provide entrusted loan services to members within the Group on terms no less than, or more favorable than, those available from major commercial banks or independent financial institutions, which enables the Company to reduce costs, maximize efficiency and benefit from the capital pool managed by CNNC.

CNNCFC is subject to the Administrative Measures on Finance Companies within Group Enterprises and other relevant regulations promulgated by PBOC and CBRC. The establishment of such non-bank financial institutions is subject to approval by CBRC and their operation is subject to the ongoing supervision of CBRC. Non-bank financial institutions shall comply with applicable regulations relating to interests rates issued by PBOC and CBRC.

Pursuant to applicable PRC laws and regulations, finance companies within enterprises group are only permitted to provide financial services to enterprises within the group or companies of which more than 20% of the shares are held by the parent company. Therefore, CNNCFC may only provide financial services to members units of the CNNC group (including the Company). As a non-bank financial institution, CNNCFC is subject to various regulatory and capital adequacy requirements, including capital adequacy ratios, collateral ratio, long-term investment ratio and deposit reserve thresholds.

The business scope of CNNCFC includes: (i) providing financial and financing consultancy, credit certification and related consultancy and agency services to members of the CNNC group; (ii) assisting members of the CNNC group in collection and payment of transaction funds; (iii) providing guarantees to members of the group; (iv) providing entrusted loan and entrusted investment services to members of the CNNC group; (v) providing bill acceptance and discount services to members of the CNNC group; (vi) processing the settlement of internal fund transfers among members of the CNNC group and providing solution plans for relevant settlement and clearing; (vii) taking deposits from members of the CNNC group; (viii) providing loan and finance leases to members of the CNNC group; (ix) conducting inter – borrowings among finance companies; (x) issuing corporate bonds; (xi) underwriting the corporate bonds issued by members of the CNNC group; (xii) equity investments in financial institutions; and (xiii) investments in negotiable securities.

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## LETTER FROM THE BOARD

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### *CNNC Financial Leasing Company*

CNNC Financial Leasing Company was established in Pilot Free Trade Zone (Shanghai) on 22 December 2015. It is a sino-foreign leasing company, jointly established by CNNC and other 10 companies, including CNNC Shenzhen Xie He Kong Co. Ltd. (Hong Kong), with registered capital of RMB1 billion. The business scope of CNNC Financial Leasing Company includes: (i) financial leasing; (ii) leasing; (iii) purchase of leased property from domestic and overseas sellers; (iv) treatment of residual value of, and maintenance of, leased property; (v) consultation and guarantee for leasing transactions; and (vi) factoring business associated with principal businesses.

### *CNNC Factoring*

CNNC Factoring was established on 17 July 2020, and is 100% controlled by China National Nuclear Corporation Capital Holdings Co., Ltd. Its business scope includes: factoring financing; sales account (classification) management; collection business related to the transfer of accounts receivable; non-commercial bad debt guarantee; customer credit investigation and evaluation; consulting services related to commercial factoring; other businesses approved and recognized by relevant state departments.

## **IV. Listing Rules Implications**

As at the Latest Practicable Date, CNNC holds approximately 73.83% of the Company's total issued share capital directly and indirectly through CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan, and is the controlling Shareholder of the Company. As such, CNNC and its associates are connected persons of the Company under Chapter 14A of the Listing Rules. Furthermore, when the Company provides entrusted loans to its subsidiaries through CNNCFC, the recipients may include its connected subsidiaries. Therefore, transactions under the Renewed Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios for the proposed annual caps of the Deposit Services under the Renewed Financial Services Agreement exceed 5%, the Deposit Services are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more applicable percentage ratios for the proposed annual caps of the Deposit Services under the Renewed Financial Services Agreement exceed 25%, the Deposit Services also constitute a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements thereunder.

Since one or more applicable percentage ratios for the proposed annual caps of the Settlement, Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement exceed 5%, the Settlement, Entrusted Loans and Other Financial Services are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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Since one or more applicable percentage ratios for the proposed annual caps of the Financial Leasing Services under the Renewed Financial Services Agreement exceed 5%, the Financial Leasing Services are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios of the proposed annual caps for the Factoring Services under the Renewed Financial Services Agreement exceeds 5%, the Factoring Services are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### 7. AGM

The Company will convene the AGM at 10:00 a.m. on Friday, 30 June 2023 at Room 305, 3/F, No. 66 Changwa Middle Street, Haidian District, Beijing, China. Notice of the AGM is set out on pages AGM-1 to AGM-3 of this circular. The proxy form for the AGM is enclosed herewith.

Shareholders who intend to appoint a proxy to attend the AGM are requested to complete the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the AGM (i.e. 10:00 a.m. on 29 June 2023) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

As at the date of this circular, CNNC, directly and indirectly, holds approximately 73.83% of the Company's total issued share capital, and is the controlling shareholder of the Company. CNNC and its associates will therefore abstain from voting on the resolutions for the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement, the revision of annual caps under the Engineering Construction Services Framework Agreement and the Renewed Financial Services Agreement (including the proposed annual caps) at the AGM in which they have material interests. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed herein, none of other Shareholders shall abstain from voting at the 2022 annual general meeting.

### 8. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules and Article 82 of the Articles, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the chairman of the AGM will demand a poll in relation to every resolution proposed at the AGM.

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## LETTER FROM THE BOARD

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### 9. RECOMMENDATION

Your attention is drawn to:

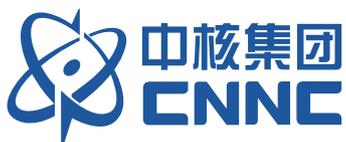
- (i) the letter from the Independent Board Committee set out on page 53 to 54 of this circular which contains the recommendation of the Independent Board Committee to the independent Shareholders in relation to whether the terms of (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps) are on normal commercial terms which are fair and reasonable, are being entered into in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole; and
- (ii) the letter from Rainbow Capital set out on pages 55 to 118 of this circular which contains its recommendations to the Independent Board Committee and the independent Shareholders in relation to (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps).

The Board (including the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) considers that all resolutions to be proposed at the AGM are in the interests of the Company and the Shareholders as a whole, and recommends the Shareholders to vote in favour of all such resolutions.

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

By Order of the Board  
**China Isotope & Radiation Corporation**  
**Wang Suohui**  
*Chairman*

Beijing, the PRC, 15 May 2023



**CHINA ISOTOPE & RADIATION CORPORATION**

**中國同輻股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1763)**

15 May 2023

*To Independent Shareholders*

Dear Sir/Madam,

**CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION  
REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED  
TRANSACTION  
CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION**

We refer to the circular of the Company to the Shareholders dated 15 May 2023 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether the terms of the (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps) are on normal commercial terms which are fair and reasonable, are being entered into in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

Rainbow Capital has been appointed as the Independent Financial Adviser to you and us in relation to (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps). Details of its recommendation are set out in its letter on pages 55 to 118 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 52 of the Circular and the additional information set out in the appendices to the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the opinion of the Independent Financial Adviser and the terms of (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps), we consider that such terms are on normal commercial terms which are fair and reasonable, are being entered into in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolution set out in the notice of AGM to approve (i) the amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement; (ii) the revision of annual caps under the Engineering Construction Services Framework Agreement; and (iii) the Renewed Financial Services Agreement (including the proposed annual caps).

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**Mr. Hui Wan Fai**

**Mr. Tian Jiahe**

**Ms. Chen Jingshan**

**Mr. Lu Chuang**

*Independent non-executive Directors*

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## LETTER FROM RAINBOW CAPITAL

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*The following is the full text of a letter of advice from Rainbow Capital (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

### **Rainbow Capital (HK) Limited**

15 May 2023

*To the Independent Board Committee and the Independent Shareholders*

China Isotope & Radiation Corporation  
5/F, Manulife Place  
348 Kwun Tong Road  
Kowloon, Hong Kong

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION;  
(II) REVISION OF ANNUAL CAPS OF CONTINUING  
CONNECTED TRANSACTION;  
AND  
(III) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Renewed Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder; (ii) the revision of annual caps for the engineering construction services under the Engineering Construction Services Framework Agreement for the year ending 31 December 2023; and (iii) the amendment to the terms of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement (the “**Amended Tongfu Agreement**”) (altogether, the “**Transactions**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated 15 May 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

### **The Renewed Financial Services Agreement**

On 22 April 2020, the Company (as the service recipient) entered into the Existing Financial Services Agreement with CNNC (as the service provider) in respect of the provision of financial services by CNNC and/or its associates to the Group. With a view to continue the transactions under the Existing Financial Services Agreement, on 30 March 2023, the Board resolved to enter into the Renewed Financial Services Agreement with CNNC to renew the term for approximately 2.5 years ending 31 December 2025.

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## LETTER FROM RAINBOW CAPITAL

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As at the Latest Practicable Date, CNNC holds approximately 73.83% of the Company's total issued share capital directly and indirectly through CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan, and therefore CNNC is the controlling Shareholder of the Company. As such, CNNC and its associates are connected persons of the Company under Chapter 14A of the Listing Rules. Furthermore, when the Company provides entrusted loans to its subsidiaries through CNNCFC, the recipients may include its connected subsidiaries (but not to any connected persons other than connected subsidiaries). Accordingly, the transactions contemplated under the Renewed Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios for the proposed annual caps of the Deposit Services under the Renewed Financial Services Agreement exceed 25% but are less than 100%, the Deposit Services also constitute a major transaction of the Company under Chapter 14A of the Listing Rules, and is accordingly subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios for the proposed annual caps of the Settlement, Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement exceed 5%, the Settlement, Entrusted Loan and Other Financial Services are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios for the proposed annual caps of the Financial Leasing Services under the Renewed Financial Services Agreement exceed 5%, the Financial Leasing Services are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios for the proposed annual caps of the Factoring Services under the Renewed Financial Services Agreement exceed 5%, the Factoring Services are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of CNNC's interests in the Renewed Financial Services Agreement, CNNC and/or its associates are required to abstain and shall abstain from voting on the relevant resolutions in relation to the Renewed Financial Services Agreement to be proposed at the AGM.

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## LETTER FROM RAINBOW CAPITAL

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### **The Engineering Construction Services Framework Agreement**

On 23 December 2022, the Company entered into the Engineering Construction Services Framework Agreement with CNNC, pursuant to which CNNC and/or its associates would provide engineering construction services to the Group, including: (i) the Construction Services; (ii) the Equipment Services; and (iii) the Consultation Services for the year ending 31 December 2023. Based on the progress of the Company's business and the timing of the Group's projects, the Company expects that the relevant existing annual caps for the year ending 31 December 2023 under the Engineering Construction Services Framework Agreement will not be sufficient to meet the requirements. Hence, the Board has resolved and proposed on 30 March 2023 to revise the annual caps for the engineering construction services under the Engineering Construction Services Framework Agreement (the "**Revised Annual Caps**").

As at the Latest Practicable Date, CNNC holds approximately 73.83% of the total issued share capital of the Company and therefore is the controlling Shareholder. As such, CNNC and its associates are connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions under the Engineering Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more applicable percentage ratios in relation to the Revised Annual Caps under the Engineering Construction Services Framework Agreement exceed 5%, the transactions thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In view of CNNC's interests in the Engineering Construction Services Framework Agreement, CNNC and/or its associates are required to abstain and shall abstain from voting on the resolution to be proposed at the AGM to approve the Revised Annual Cap.

### **The Amended Tongfu Agreement**

In late 2019, the Company entered into the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement with Tongchuang Investment, CNNC Capital and BSIF for establishing the Tongfu Fund to invest in the application areas of nuclear technology. On 30 November 2020, as both Junmin Fund and Daxing Fund intended to make investment in the Tongfu Fund, the Company approved the amendment to several terms of the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement among the Company, Tongchuang Investment, CNNC Capital, BSIF, Junmin Fund and Daxing Fund (the "**Original Tongfu Agreement**"). On 30 March 2023, due to the proposed exit of BSIF and Daxing Fund, the parties entered into the Amended Tongfu Agreement with Tongchuang Investment to further amend the terms of the Original Tongfu Agreement.

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## LETTER FROM RAINBOW CAPITAL

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As at the Latest Practicable Date, CNNC holds approximately 73.83% of the total issued share capital of the Company and therefore is the controlling Shareholder. CNNC holds 100% equity interest in CNNC Capital and CNNC Capital holds 100% equity interest in Hynergy Industrial Funds. Therefore, CNNC Capital and Hynergy Industrial Funds are connected persons of the Company as defined in Chapter 14A of the Listing Rules. Therefore, the entering into of the Original Tongfu Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54(2) of the Listing Rules, the Company shall re-comply with the announcement and the Independent Shareholders' approval requirements (if applicable) prior to the significant amendment to the terms of the agreement. As one or more of the applicable percentage ratios of the transactions under the Original Tongfu Agreement exceed 5% but are less than 25%, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Therefore, the Company shall re-comply with the announcement and the Independent Shareholders' approval requirements with regard to the amendments to the Original Tongfu Agreement.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hui Wan Fai, Mr. Tian Jiahe, Ms. Chen Jingshan and Mr. Lu Chuang, has been formed to advise the Independent Shareholders on (i) whether the entering into the Transactions are conducted in the ordinary and usual course of the Group; and (ii) whether the terms of the Transactions are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and CNNC that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to the revision of annual cap of continuing connected transactions in relation to the renewed financial services agreement, details of which are set out in the circular of the Company dated 23 August 2022. Other than that, there was no engagement or connection between the Group or CNNC and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Transactions. Accordingly, we are qualified to give independent advice in respect of the Transactions.

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## LETTER FROM RAINBOW CAPITAL

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### **BASIS OF OUR OPINION**

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

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation on the terms of the Transactions, we have taken into account the principal factors and reasons set out below:

#### **A. The Renewed Financial Services Agreement**

##### ***1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring***

###### *(i) The Group*

The Group is primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radiopharmaceuticals and radioactive source products for medical and industrial applications, the provision of irradiation service for sterilization purpose and engineering, procurement and construction (EPC) services for the design, manufacturing and installation of gamma ray irradiation facilities and the provision of independent clinical laboratory services and nuclear medical equipment to hospitals and other medical institutions.

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## LETTER FROM RAINBOW CAPITAL

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Set out below are certain financial information of the Group for the years ended 31 December 2021 and 2022 (“FY2021” and “FY2022”, respectively) as extracted from the annual report of the Company for FY2022 (the “2022 Annual Report”).

	<b>FY2022</b>	<b>FY2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>
<b>Revenue</b>	6,146,172	5,143,694
– Pharmaceuticals	3,923,267	3,753,365
– Radioactive source products	580,929	520,167
– Irradiation	164,688	144,130
– Radiation therapy equipment and related services	732,182	390,002
– Independent clinical medical and laboratory services and other businesses	745,106	336,030
<b>Profit for the year</b>	754,564	673,037
	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Cash at bank and on hand	2,923,191	2,748,190
Trade and bill receivables	3,501,338	2,821,153
Total equity attributable to the Shareholders	4,465,287	4,179,290

Revenue of the Group increased by approximately 19.5% from approximately RMB5,143.7 million for FY2021 to approximately RMB6,146.2 million for FY2022 and with growth recorded in every segment, in particular significant growth had been recorded from the radiation therapy equipment and related services segment as well as the independent clinical medical and laboratory segment. In line with the increase in revenue, the Group’s net profit also increased by approximately 12.1% from approximately RMB673.0 million for FY2021 to approximately RMB754.6 million for FY2022.

According to the 2022 Annual Report, the Group continued to increase its market development efforts and thereby achieved faster growth in economic benefits in 2022. For instance, the Group continued to promote its brand building efforts and organized forums, professional academic conferences and salons to promote the popularization and application of isotopes and radiotherapy technologies. Going forward, the Group intends to continue to promote its “Overall Nuclear Medicine Solutions”. Under this development

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## LETTER FROM RAINBOW CAPITAL

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strategy, the Group established the Nuclear Medicine Development Center, accelerated the promotion and implementation of Overall Nuclear Medicine Solutions with the Group's resources, and initiated the arrangement and construction of intelligent nuclear medicine. In 2022, a total of 12 key projects were contracted for the Overall Nuclear Medicine Solutions. In order to meet the growing demand for radiopharmaceuticals in China in a timely manner, the Group accelerated the national layout of its pharmaceutical centers. In 2022, three pharmaceutical centers in Nanchang, Yichang and Taiyuan were completed and in operation, bringing the cumulative number of centers in operation to 23. The Group had also been vigorously promoted the construction of research and development (R&D) and production bases of isotopes and their products in recent years. In 2022, the CNNC Qinshan isotope production base project commenced officially, which will become the largest isotope production base in China after completion and is of great significance to enhance China's isotope nationalization capability. A newly planned research, development and production base for radioactive sources was also being actively promoted.

The Group recorded cash at bank and on hand and trade and bill receivables of approximately RMB2,923.2 million and RMB3,501.3 million, respectively as at 31 December 2022, representing increases of approximately 6.4% and 24.1% as compared to those as at 31 December 2021, respectively. As at 31 December 2022, the Group recorded total equity attributable to the Shareholders of approximately RMB4,465.3 million.

(ii) *CNNC*

CNNC was established under the laws of the PRC and is principally engaged in scientific research and development, construction and production operations in nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, non-nuclear civilian products, new energy sources, etc. The ultimate beneficial owner of CNNC is the State-owned Assets Supervision and Administration Commission of the State Council.

(iii) *CNNCFC*

CNNCFC is a wholly-owned subsidiary of CNNC and a non-bank financial institution established on 21 July 1997 with the approval of the CBRC (in April 2018, China Banking and Insurance Regulatory Commission ("CBIRC") was established by a merger of CBRC and China Insurance Regulatory Commission). CNNCFC is principally engaged in, among other things, the provision of settlement, financing, financial management and financial consulting services to CNNC and/or its associates including the Group.

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## LETTER FROM RAINBOW CAPITAL

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The banking industry of the PRC is regulated by CBIRC. According to the relevant requirements under the “Measures for the Administration of Finance Companies of Enterprise Group” promulgated by CBIRC (the “Measures”), finance companies of enterprise groups are not allowed to engage in non-financial services business and are required to meet certain ratio requirements under the measures promulgated by CBIRC.

We are advised by the management of the Group that the regulation imposed on finance companies of enterprise groups such as CNNCFC are no less stringent than the regulations imposed on commercial banks. In addition, CBIRC monitors CNNCFC’s compliance with relevant regulators and conducts on-site visits from time to time, and may issue opinions on corrective measures to CNNCFC. Based on our discussion with the management of the Group, CBIRC has not taken any disciplinary actions, or imposed penalties or fines on CNNCFC within the latest five years.

We have obtained and reviewed the latest available audited annual report of CNNCFC for FY2022 and noted that (a) total assets and total equity of CNNCFC amounted to approximately RMB104.5 billion and RMB11.5 billion respectively as at 31 December 2022, among which cash and deposits amounted to approximately RMB4.1 billion and deposits from peers amounted to approximately RMB34.1 billion; (b) revenue and net profit of CNNCFC amounted to approximately RMB943.7 million and RMB 524.9 million respectively for FY2022; and (c) CNNCFC recorded net interest income of approximately RMB1.4 billion, which represented the principal source of income of CNNCFC for FY2022.

We have also obtained and reviewed the major regulatory ratios of CNNCFC as at 31 December 2022 such as loan ratio, non-performing loan ratio and capital adequacy ratio, and noted they are all in compliance with the Measures.

*(iv) CNNC Financial Leasing Company*

CNNC Financial Leasing Company was established in Pilot Free Trade Zone (Shanghai) on 22 December 2015. It is a sino-foreign leasing company, jointly established by CNNC and other 10 companies, including CNNC Shenzhen Xie He Kong Co. Ltd. (Hong Kong), with registered capital of RMB1 billion. The business scope of CNNC Financial Leasing Company includes: (a) financial leasing; (b) leasing; (c) purchase of leased property from domestic and overseas sellers; (d) treatment of residual value of, and maintenance of, leased property; (e) consultation and guarantee for leasing transactions; and (f) factoring business associated with principal businesses.

*(v) CNNC Factoring*

CNNC Factoring was established on 17 July 2020, and is 100% controlled by China National Nuclear Corporation Capital Holdings Co., Ltd. Its business scope includes: factoring financing; sales account (classification) management; collection business related to the transfer of accounts receivable; non-commercial bad debt guarantee; customer credit investigation and evaluation; consulting services related to commercial factoring; other businesses approved and recognized by relevant state departments.

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## LETTER FROM RAINBOW CAPITAL

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### *2. Reasons for and benefits of entering into the Renewed Financial Services Agreement*

On 22 April 2020, the Company entered the Existing Financial Services Agreement with CNNC, pursuant to which CNNC and/or its associates agreed to provide the Group with (i) the Deposit Services; (ii) the Settlement, Entrusted Loan and Other Financial Services; and (iii) the Financial Leasing Service for certain assets used by the Group in the course of its operations (collectively, the “**Existing Financial Services**”), which was approved by the then independent shareholders on 30 June 2020.

As stated in the sub-section headed “A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) The Group” above, as at 31 December 2022, the Group’s cash and bank balances and trade and bill receivables amounted to approximately RMB2,923.2 million and RMB3,501.3 million, respectively. As advised by the management of the Group, the Group’s cash and bank balances are either placed with independent commercial banks or CNNCFC for treasury management. Compared to the independent commercial banks, the Group considers that there are benefits to depositing such cash with and utilising the financial services of CNNCFC. On the other hand, the Group’s trade and bill receivables mainly represent the balances due from its customers which primarily includes hospitals and other medical institutions, irradiation service providers, gamma ray radiotherapy equipment manufacturers, non-destructive testing equipment manufacturers and manufacturers of medical devices in China. Since CNNC is familiar with the business nature of the Group, the Group is able to (i) obtain the Factoring Services from CNNC with ease; (ii) benefit from equal or more favorable terms as compared to those provided by major domestic factoring companies under the same conditions; and (iii) utilize the Factoring Services to optimise the Group’s asset structure, accelerate the efficiency of asset turnover, save costs, improve the efficiency of capital utilization, broaden its financial channels and reduce its financing costs.

As disclosed in the Letter from the Board, PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. CNNCFC is a non-banking financial institution approved and regulated by the People’s Bank of China (“**PBOC**”) and the CBIRC, and is authorised to provide various kinds of financial services to CNNC and its member companies in the PRC, including deposit-taking and loan services. CNNCFC has been providing financial services for member companies of CNNC for years. CNNCFC has deep understanding in the industry characteristics, capital structures, business operations, financing need, cash flow patterns and the entire financial management system of the Group through its previous cooperation with the Company. It provides services to the Group on equal or better commercial terms compared to those offered by other external independent commercial banks. The Group is expected to continue to benefit from CNNCFC’s better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC. In addition, as it is a major clearing and settlement platform of CNNC and its associates, using the services from CNNCFC enables the Company to reduce costs, maximize efficiency and benefit from the capital pool managed by CNNC.

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## LETTER FROM RAINBOW CAPITAL

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CNNC also has a professional financial leasing service provider, namely CNNC Financial Leasing Company. As CNNC Financial Leasing Company is familiar with the business nature of the Group, the Group is able to obtain the Financial Leasing Services from CNNC Financial Leasing Company with ease, and benefit from equal or more favorable fees as compared to those provided by major independent commercial banks.

CNNC also has a professional factoring service provider, namely CNNC Factoring. Since CNNC Factoring is familiar with the business nature of the Group, the Group is able to obtain factoring services from CNNC Factoring with ease, and benefit from equal or more favorable terms as compared to those provided by major domestic factoring companies under the same conditions.

As the Existing Financial Services Agreement will expire on the date of the 2022 Shareholders' annual general meeting to be convened in 2023, with a view to continue the Existing Financial Services and obtain additional financing support by utilizing the Factoring Services to be provided by CNNC and/or its associates, the Board resolved on 30 March 2023 to enter into the Renewed Financial Services Agreement with CNNC. Given the background of CNNCFC and the fact that it has been providing the financial services to the Group and thus has a better understanding of the Group's financial needs, the Directors consider that the continuous provision of the financial services by CNNCFC to the Group would enable the Group to centralise its control and management over its financial resources, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilization.

We further noted from the Renewed Financial Services Agreement that CNNC has agreed to provide the Group with the Existing Financial Services and the Factoring Services on a non-exclusive basis subject to the terms and conditions provided therein. As further confirmed by the Directors, the Group will utilize the financial services of CNNC and/or its associates on a voluntary and non-compulsory basis and may obtain financial services from other financial institutions.

Based on the above, we concur with the Directors that the entering into of the Renewed Financial Services Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM RAINBOW CAPITAL

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### 3. *Principal terms of the Renewed Financial Services Agreement*

Details of the terms of the Renewed Financial Services Agreement are set out in the Letter from the Board, which are summarized as follows:

- Parties : the Company (service recipient); and  
CNNC (service provider).
- Principal terms : The Company entered into the Renewed Financial Services Agreement with CNNC on 30 March 2023, pursuant to which CNNC and/or its associates would provide the Group with, among other things, (i) the Deposit Services; (ii) the Settlement, Entrusted Loan and Other Financial Services; (iii) the Financial Leasing Service for certain assets used in the operation of the Group; and (iv) the Factoring Services.
- Term : The Renewed Financial Services Agreement will be effective on 1 July 2023 upon approval of the Independent Shareholders at the 2022 annual general meeting, and expire on 31 December 2025.

Under the Renewed Financial Services Agreement, CNNC and/or its associates have agreed to provide the Group with the financial services pursuant to the following principal terms:

- (i) other than the services provided by CNNC and/or its associates under the Renewed Financial Services Agreement, the Group may obtain financial services from other financial institutions;
  - (ii) any counterparty may not terminate the Renewed Financial Services Agreement unilaterally; and
  - (iii) after the termination of the Renewed Financial Services Agreement, the Group has the right to withdraw its deposits with CNNC and/or its associates immediately.
- Pricing policy : The pricing policy under the Renewed Financial Services Agreement is as follows:
- (i) Deposit Services: The deposit interest rates shall not be lower than (a) the deposit interest rates of a similar category of deposit in the same period promulgated by PBOC; or (b) the public interest rates of a similar category of deposit in the same period provided by major commercial banks in the PRC.

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## LETTER FROM RAINBOW CAPITAL

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- (ii) Settlement, Entrusted Loan and Other Financial Services: The fees payable to CNNCFC for the settlement, entrusted loan and other financial services will be determined with reference to the market rates of similar services promulgated by PBOC and, will be equal to or more favorable than the rates offered by major independent commercial banks in the PRC under the same conditions.
- (iii) Financial Leasing Services: The financial leasing service fees to be charged by CNNC and/or its associates will be equal to or more favorable than the fees of relevant services offered by other domestic financial leasing institutions in the PRC under the same conditions.
- (iv) Factoring Services: The factoring service fees to be charged by CNNC and/or its associates will be equal to or more favorable than the fees of relevant services offered by other domestic factoring institutions in the PRC under the same conditions.

*(i) Deposit Services*

As part of our due diligence on the Deposit Services under the Renewed Financial Services Agreement, we have obtained and reviewed the internal deposit records regarding the Company's deposits placed in CNNCFC from 2020 to 2022 and performed independent research on the deposit interest rates offered by four independent commercial banks in the PRC as published on their official websites. Further, we have researched the latest RMB benchmark deposit rates prescribed by the PBOC. According to the "Notice of the PBOC on Lowering the RMB Benchmark Loan and Deposit Interest Rates for Financial Institutions and Further Promoting the Interest Rate Liberation Reform (Yin Fa [2015] No. 325)" (中國人民銀行關於下調金融機構人民幣貸款和存款基準利率並進一步推進利率市場化改革的通知(銀發[2015]325號)) prescribed by the PBOC on 24 October 2015, the latest annual RMB benchmark deposit rates are set out in the table below:

Current deposit	Notice deposit		Fixed deposit		
	1-day	7-day	Three-month	One-year	Three-years
0.35%	0.80%	1.35%	1.10%	1.50%	2.75%

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## LETTER FROM RAINBOW CAPITAL

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We noted that the deposit interest rates as shown on the Company's internal deposit records, which ranged from 1.49% to 3.03%, were more favorable than (a) the interest rates for deposits of a similar type for the same period offered by independent commercial banks in the PRC, which ranged from 1.00% to 2.60%; and (b) the latest RMB benchmark deposit rate prescribed by the PBOC for deposits of a similar type for the same period. As such, we consider that the pricing policy of the Deposit Services has been adherence in accordance with the Group's internal control procedures.

*(ii) Settlement, Entrusted Loan and Other Financial Services*

As part of our due diligence on the Settlement, Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement, we have randomly obtained and reviewed 11 sample of entrusted loans contracts entered into from 2020 to 2022 (the "**Entrusted Loan Contracts**"), under which the Company provided entrusted loans through CNNCFC to its subsidiaries. We noted that the interest rates under the Entrusted Loan Contracts all amounted to 4.56%, which are higher than the financing cost of the Company of 3.80%, being the interest rate of the 3-year corporate bond issued by the Company in December 2019. In addition, we have performed independent research on the entrusted loans service fees offered by four independent commercial banks in the PRC as published on their official websites, and noted that the services fees charged by the independent commercial banks ranged from 0.10% to 2.00%. The entrusted loans service fees charged by CNNCFC under the Entrusted Loan Contracts were equal to or more favorable than those offered by independent commercial banks in the PRC. As such, we consider that the pricing policy of the Settlement, Entrusted Loan and Other Financial Services has been adherence in accordance with the Group's internal control procedures and concur with the Directors that the entrusted loans service allows the Company to better utilize its idle funds and generate profit.

*(iii) Financial Leasing Services*

As part of our due diligence on the Financial Leasing Services under the Renewed Financial Services Agreement, we have randomly obtained and reviewed 11 samples of financial leasing contracts between the Group and CNNC Financial Leasing Company entered into from 2019 to 2022 with terms ranging from 3 years to 5 years (the "**Financial Leasing Contracts**"). Based on our review, we noted that the interest rate (tax inclusive) of the finance leases under the Financial Leasing Contracts ranged from approximately 5.1% to 5.5%. Based on our independent research of the finance leases market (<http://www.d-long.com/eWebEditor/uploadfile/2020011915350365252356.pdf>), the average interest rate amounted to approximately 7.34% in 2018, indicating that the interest rate offered by CNNC and/or its associates is more favorable than that offered by other independent financial leasing institutions in the PRC. As such, we consider that the pricing policy of the Financial Leasing Services has been adherence in accordance with the Group's internal control procedures.

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## LETTER FROM RAINBOW CAPITAL

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*(iv) Factoring Services*

As stated above, it is stipulated under the pricing policy of the Factoring Services that the factoring service fees to be charged by CNNC and/or its associates will be equal to or more favorable than the fees of relevant services offered by other domestic factoring institutions in the PRC under the same conditions. As discussed in the section headed “A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group” below, sufficient and effective internal control procedures will be in place to ensure that the transactions in relation to the Factoring Services will follow its pricing policy under the Renewed Financial Services Agreement.

*(v) Overall comments*

Based on our review of the Existing Financial Services Agreement and the Renewed Financial Services Agreement, except for the additional provision of the Factoring Services by CNNC Factoring to the Group and the term, other terms under the Renewed Financial Services Agreement remain principally the same as those under the Existing Financial Services Agreement (which was approved by the then independent Shareholders in June 2020). As stipulated in the above, the terms offered by CNNC and/or its associates will be equal to or no less favorable than the terms offered by independent financial institutions in the PRC for the same type of services so as to ensure that the most favorable terms are obtained. In addition, the Renewed Financial Services Agreement does not prohibit the Group from engaging into similar services with other independent financial institutions. The Group has adopted internal control measures to ensure the pricing terms of individual transactions under the Renewed Financial Services Agreement will be made in accordance with the pricing principles, please refer to the section headed “A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group” below for our analyses of further safeguards imposed by the Group. As such, we consider that the terms of the Renewed Financial Services Agreement are on normal commercial terms which are fair and reasonable.

#### **4. Internal control measures of the Group**

In order to protect the interests of the Shareholders, the Group has adopted the following internal control measures to regulate and monitor the respective individual transactions to be conducted within the framework of the Renewed Financial Services Agreement:

- (i) the Company has formulated its rules and regulations, including the Financing Management Measures of China Isotope & Radiation Corporation and the Financial Management System of China Isotope & Radiation Corporation, to safeguard against fund risks, strengthen its internal financial management, regulate financing activities, and meet the capital requirements of its development. The Company has set up an integrated management system on targeting, assessment and incentiveness. The Company adheres to the principle of financing at the Group level, and adopts the integrated management system for investment and financing. The Company adheres to the principles of proper scale and reasonable structure, and strikes a balance between costs and risks;

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## LETTER FROM RAINBOW CAPITAL

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- (ii) when providing entrusted loans to connected persons (whether through CNNCFC or otherwise), the Company will consider the interest rate, processing fees, term and use of loan and credit worthiness of the ultimate borrower, based on principles of reasonable return, cost control and risk control. The entrusted loans agreements (setting out interest rate, processing fees, term and use of loan) are first approved by the finance department of the Company and then submitted to the legal representative for signing and approval. In addition, the finance department of the Company will be responsible for closely monitoring such ongoing continuing connected transactions and will submit matters to the Board for consideration as appropriate;
- (iii) at the end of each quarter, the Company will request CNNCFC to provide sufficient information, including various financial indicators such as the status of the Company's deposits and interest income, charges on entrusted loans and rental of financial leasing, as well as annual and interim financial statements, to enable it to understand and review the financial condition of CNNCFC. CNNCFC shall notify the Company, subject to compliance with applicable laws and regulations, should it have any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on its financial condition. If the Company considers that there is any material adverse change in the financial condition of CNNCFC, the Company will take appropriate measures (including early withdrawal of deposits, termination of entrusted loans and a moratorium on further deposits and entrusted loans) to protect its financial position;
- (iv) the independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions under the Renewed Financial Services Agreement. Only independent non-executive Directors may vote in respect of matters under the Renewed Financial Services Agreement. If the majority of the independent non-executive Directors reasonably consider that it would be in its interests to reduce the level of deposits with CNNCFC or entrusted loans to connected persons, the Company will take appropriate steps to implement the decision of its independent non-executive Directors. Any material findings in the analysis reports, the views of the independent non-executive Directors on the deposits, settlement, entrusted loans and other financial services, finance leasing and factoring under the Renewed Financial Services Agreement (including their views on how the terms of the Renewed Financial Services Agreement have been complied with) and their decisions on any matters in relation thereto will be disclosed in the Company's annual and interim reports;
- (v) during the Company's annual audit, the Company will engage its auditors to review the connected transactions between the Company and CNNC and/or its associates to ensure that the transactions under the Renewed Financial Services Agreement have been conducted in accordance with the Listing Rules and have fulfilled the relevant disclosure requirements;

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## LETTER FROM RAINBOW CAPITAL

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- (vi) each of CNNCFC and CNNC Financial Leasing Company will provide a monthly report per the Company's request on the status of its deposits and interest income, charges on entrusted loans and rental of financial leasing so as to enable the Company to monitor and ensure that the relevant annual caps under the Renewed Financial Services Agreement have not been exceeded. Should the balance at the end of any day exceed the maximum daily balance of deposits and interest income prevailing from time to time, the Company will notify CNNCFC that the exceeded funds will be transferred to the Company's designated bank accounts with an independent commercial bank. The financial head of the Company will also be notified at the same time once the maximum daily balance has been exceeded. The Company will, from time to time at its sole discretion, request for the deposits with CNNCFC and the entrusted loans through CNNCFC to connected persons to be withdrawn or early terminated (either in full or in part) to assess and ensure the liquidity and safety of its deposits and entrusted loans; and
- (vii) the Company's responsible financial person shall check the balances through relevant IT system on daily basis, and promptly report to the Company's financial officer if such daily balances are close to, or likely to exceed the proposed caps.

In assessing whether the above internal control measures are put in place and effectively implemented, we have reviewed the relevant documentation regarding the approval of the separate agreements entered between the Group and CNNC and/or its associates and noted that the transactions contemplated thereunder were properly authorized and monitored. As stated in the above, the Group's daily balances with CNNCFC will be monitored on a daily basis. In this respect, we have obtained and reviewed the balances summary from IT system and noted that the daily balances had been checked such that the annual caps were not exceeded. We have also obtained and reviewed the four quarterly reports provided by CNNCFC from 2020 to 2022 which we selected randomly and noted that CNNCFC had provided sufficient financial information in the quarterly reports to allow the Company to understand the financial condition of CNNCFC. As such, we are of the view that the above internal control measure adopted by the Group for monitoring the transactions contemplated under the Renewed Financial Services Agreement have been effectively implemented.

Having considered the above, in particular (i) that as discussed in the section headed "A. The Renewed Financial Services Agreement – 3. Principal terms of the Renewed Financial Services Agreement" above, the pricing policy under the Renewed Financial Services Agreement that the relevant interest rates and service fees offered by the CNNC and/or its associates shall be equal to or more favorable than the prevailing price/rate level in the market has been adherence in accordance with the Group's internal control procedures; (ii) the ongoing monitoring of the transactions under the Renewed Financial Services Agreement; and (iii) the requirements under the Listing Rules for the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the transactions under the Renewed Financial Services Agreement and the proposed annual caps thereunder, we concur with the Directors that appropriate and adequate internal control procedures are in place to ensure that the transactions contemplated under the Renewed Financial Services Agreement will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM RAINBOW CAPITAL**

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**5. Assessment of the proposed annual caps**

*(i) Review of the historical figures*

Set out below are the historical annual caps and actual transaction amounts regarding the transactions contemplated under the Existing Financial Services Agreement for the periods from the date of the 2019 annual general meeting of the Company to the date of the 2020 annual general meeting of the Company (the “**2020 Period**”), from the date of the 2020 annual general meeting of the Company to the date of the 2021 annual general meeting of the Company (the “**2021 Period**”) and from the date of the 2021 annual general meeting of the Company to the date of the 2022 annual general meeting of the Company (the “**2022 Period**”):

	<b>For the year ended 31 December 2020 (RMB'000)</b>	<b>For the year ended 31 December 2021 (RMB'000)</b>	<b>For the year ended 31 December 2022 (RMB'000)</b>
<b>Deposit Services</b>			
(a) Maximum daily outstanding balance			
Actual transaction amounts	1,998,993	2,031,668	2,711,722
Historical annual caps	3,082,666	3,082,666	3,082,666
	(for the 2020 Period)	(for the 2021 Period)	(for the 2022 Period)
Utilization rate	64.8%	65.9%	88.0%
(b) Interest income			
Actual transaction amounts	13,993	21,379	24,433
Historical annual caps	45,778	45,778	45,778
	(for the 2020 Period)	(for the 2021 Period)	(for the 2022 Period)
Utilization rate	30.6%	46.7%	53.4%
<b>Settlement, Entrusted Loan and Other Financial Services</b>			
(a) Maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC			
Actual transaction amounts	154,000	367,727	489,647
Historical annual caps	500,000	500,000	1,000,000
	(for the 2020 Period)	(for the 2021 Period)	(for the 2022 Period)
Utilization rate	30.8%	73.5%	49.0%

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**LETTER FROM RAINBOW CAPITAL**

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	<b>For the year ended 31 December 2020 (RMB'000)</b>	<b>For the year ended 31 December 2021 (RMB'000)</b>	<b>For the year ended 31 December 2022 (RMB'000)</b>
(b) Service fees for settlement, entrusted loan and other financial services			
Actual transaction amounts	37.5	39	17
Historical annual caps	150	150	150
	(for the 2020 Period)	(for the 2021 Period)	(for the 2022 Period)
Utilization rate	25.0%	26.0%	11.3%
<b>Financial Leasing Services</b>			
Actual transaction amounts	25,833	16,342	1,996
Historical annual caps	248,980	248,980	248,980
	(for the 2020 Period)	(for the 2021 Period)	(for the 2022 Period)
Utilization rate	10.4%	6.6%	0.8%

As shown in the table above, the actual maximum daily outstanding balance of the Deposit Services under the Existing Financial Services Agreement for the three years ended 31 December 2022 amounted to approximately RMB1,999.0 million, RMB2,031.7 million and RMB2,711.7 million, respectively, representing approximately 64.8%, 65.9% and 88.0% of the total annual caps in the 2020 Period, the 2021 Period and the 2022 Period, respectively. We understand from the management of the Group that the low utilization rates of the Deposit Services in 2020 and 2021 were mainly because the annual caps were determined with reference to the maximum deposits requirement amount, while the Group has the option to obtain financial services from other financial institutions with more favorable terms.

As for the Settlement, Entrusted Loan and Other Financial Services under the Existing Financial Services Agreement, the actual daily outstanding balance of entrusted loans provided by the Group through CNNCFC for the three years ended 31 December 2022 amounted to approximately RMB154.0 million, RMB367.7 million and RMB489.6 million, respectively, representing approximately 30.8%, 73.5% and 49.0% of the total annual caps in the 2020 Period, the 2021 Period and the 2022 Period, respectively. We understand from the management of the Group that the low utilization rate of the Settlement, Entrusted Loan and Other Financial Services in 2020 was mainly due to that the subsidiaries of the Company had sufficient working capital for the year ended 31 December 2020 and as such, these subsidiaries did not require entrusted loans from the Company. On the other hand, the decrease in the utilization rate in 2022 was primarily due to that instead of utilizing entrusted loans through CNNCFC, the Company has used external bank borrowings to fulfill its financing needs in view of the lower lending rates in the PRC in 2022.

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## LETTER FROM RAINBOW CAPITAL

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The actual transaction amounts incurred from the Financial Leasing Services under the Existing Financial Services Agreement for the three years ended 31 December 2022 amounted to approximately RMB25.8 million, RMB16.3 million and RMB2.0 million, respectively, representing approximately 10.4%, 6.6% and 0.8% of the total annual caps in the 2020 Period, the 2021 Period and the 2022 Period, respectively. We understand from the management of the Group that the low utilization rates of the Financial Leasing Services in 2020, 2021 and 2022 were mainly due to that after comparing the financing terms provided by CNNC Financial Leasing Company with those provided by other independent third party financing channels such as commercial banks, the Group had chosen to obtain financing from the financing channels with lower financing costs or more favorable terms, which includes both CNNCFC and other independent third party financial institutions.

*(ii) Assessment of the proposed annual caps*

Pursuant to the Renewed Financial Services Agreement, the proposed annual caps for the transactions under the Renewed Financial Services Agreement are set out below:

	<b>For the six months ending 31 December 2023 (RMB'000)</b>	<b>For the year ending 31 December 2024 (RMB'000)</b>	<b>For the year ending 31 December 2025 (RMB'000)</b>
<b>Deposit Services</b>			
(a) Maximum daily outstanding balance	5,000,000	5,000,000	5,000,000
(b) Interest income	50,000	100,000	100,000
<b>Settlement, Entrusted Loan and Other Financial Services</b>			
(a) Maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC	1,000,000	1,000,000	1,000,000
(b) Service fees for settlement, entrusted loans and other financial services	75	150	150
<b>Financial Leasing Services</b>	250,000	250,000	250,000
<b>Factoring Services</b>	1,000,000	1,000,000	1,000,000

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## LETTER FROM RAINBOW CAPITAL

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### *Deposit Services*

In assessing the reasonableness of the proposed annual caps of the Deposit Services under the Renewed Financial Services Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections for the maximum daily outstanding balance of the Group's deposits and the interest income. As advised by the management of the Group, in determining the proposed annual caps for the 2.5 years ending 31 December 2025, they have taken into account, among others, (a) the actual amount of deposits and interest income of the Group with CNNCFC incurred for the three years ended 31 December 2022; (b) the net cash inflow for the year ended 31 December 2022; (c) that as the Company is developing and growing, it conducts more financing through the capital market; and (d) that the Company intends to transfer some of its existing cash reserves to CNNCFC due to the higher interest rate offered by CNNCFC with reference to prevailing market rates.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. As stated in the sub-section headed "(i) Review of the historical figures" above, the utilization rate of the annual cap of the Deposit Services increased from approximately 64.8% in 2020 to approximately 88.0% in 2022. Driven by the growth in the Group's pharmaceuticals, radiation therapy equipment and related services and other business segments, the Group has recorded significant increase in revenue by approximately 19.5% in FY2022, which is expected to strengthen the Group's cash position by generating more operating cashflows. In particular, the net cash inflow generated from operating activities amounted to approximately RMB862.7 million for FY2022. As at 31 December 2022, the Group's cash and bank balances and trade and bill receivables amounted to approximately RMB2,923.2 million and RMB3,501.3 million, respectively. The sum of the Group's cash and bank balances and trade and bill receivables, which indicates the Group's possible demand on the Deposit Services to be provided by CNNCFC and commercial banks, is larger than the proposed annual caps of the Deposit Services. In addition, as advised by the management of the Group, considering the various financing needs of the Group for its business development, including but not limited to fixed assets investments, equity investments and working capital requirements, the Company projects to issue entrusted loans of up to RMB1,065 million within the member companies of the Group through CNNCFC and raise additional funds of up to RMB1,081 million through independent third-party financing channels including commercial banks and financial leasing institutions in the PRC during the following 12 months. We have obtained and reviewed the relevant annual operational financing plan and investment plan of the Group which are consistent with our understanding from the management of the Group.

Furthermore, we have researched and identified companies listed on the Stock Exchange (the "**Comparable Companies**") utilizing deposit services provided by finance companies held by parent companies, with circulars published during the period from 1 December 2022 to 30 March 2023 (being approximately four months prior to the date

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## LETTER FROM RAINBOW CAPITAL

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of the Renewed Financial Services Agreement) (the “**Comparable Period**”). Based on the aforesaid criteria, we have identified an exhaustive list of 14 Comparable Companies. We consider that the Comparable Companies represent fair and representative sample given (a) the Comparable Period adequately covers the prevailing market conditions and sentiments of the capital market in Hong Kong; (b) the Comparable Companies represent the prevailing market practice for utilizing similar kinds of deposit services as the Group does during the period and allow the Independent Shareholders to have a general understanding in this regard; and (c) the sufficient number (i.e. size of 14) of the Comparable Companies identified. We have reviewed the proposed maximum daily deposit balances to be placed by the Comparable Companies with their respective finance companies, and the Comparable Companies’ cash balance, including cash and cash equivalents, bank balances and time deposits (the “**Cash Balance**”), as disclosed on their respective latest published financial report prior to the respective dates of their circulars.

Independent Shareholders should note that the businesses, market capitalization and prospects of the Company are not the same as, or even substantially vary from, those of the Comparable Companies. However, we consider the Comparable Companies are relevant to our analysis given they are reflecting recent market practice or normal commercial terms.

Set out below are the details of the Comparable Companies:

Date of circular	Company name (Stock code)	Maximum daily deposit balance <i>(million)</i> <i>(A)</i>	The Cash Balance <i>(million)</i> <i>(B)</i>	Maximum daily deposit balance as a percentage of the Cash Balance <i>(%)</i> <i>(A/B)</i>
4 January 2023	Changan Minsheng APLL Logistics Co., Ltd. (1292.HK)	RMB190.0	RMB1,110.2	17.1
21 December 2022	Financial Street Property Co., Limited (1502.HK)	RMB1,000.0	RMB1,361.7	73.4
15 December 2022	CPMC Holding Limited (906.HK)	RMB900.0	RMB1,809.6	49.7
12 December 2022	Beijing Jingneng Clean Energy Co., Limited (579.HK)	RMB11,000.0	RMB5,315.5	206.9

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Date of circular	Company name (Stock code)	Maximum daily deposit balance (million) (A)	The Cash Balance (million) (B)	Maximum daily deposit balance as a percentage of the Cash Balance (%) (A/B)
12 December 2022	Yuexiu Services Group Limited (6626.HK)	RMB2,775.1	RMB4,149.6	66.9
12 December 2022	Beijing Properties (Holdings) Limited (925.HK)	HK\$400.0	HK\$772.2	51.8
9 December 2022	Maanshan Iron & Steel Company Limited (323.HK)	RMB10,000.0	RMB5,415.2	184.7
9 December 2022	CITIC Telecom International Holdings Limited (1883.HK)	HK\$1,600.0	HK\$1,721.0	93.0
8 December 2022	Everbright Grand China Assets Limited (3699.HK)	RMB38.0	RMB206.3	18.4
7 December 2022	China Jinmao Holdings Group Limited (817.HK)	RMB10,000.0	RMB32,887.3	30.4
6 December 2022	China Tianrui Group Cement Company Limited (1252.HK)	RMB1,200.0	RMB2,497.2	48.1
5 December 2022	Rizhao Port Jurong Co., Ltd. (617.HK)	RMB370.0	HK\$1,734.8 (equivalent to approximately RMB1,561.3) (Note 1)	23.7

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<b>Date of circular</b>	<b>Company name (Stock code)</b>	<b>Maximum daily deposit balance <i>(million)</i> <i>(A)</i></b>	<b>The Cash Balance <i>(million)</i> <i>(B)</i></b>	<b>Maximum daily deposit balance as a percentage of the Cash Balance <i>(%)</i> <i>(A/B)</i></b>
1 December 2022	CSSC Offshore & Marine Engineering (Group) Company Limited (317.HK) ("CSSC")	RMB16,500 <i>(Note 2)</i>	RMB998.2	1,653.0
1 December 2022	China Southern Airline Company Limited (1055.HK)	RMB22,000	RMB22,507	97.7
			<b>Maximum</b>	1,653.0
			<b>Minimum</b>	17.1
			<b>Median</b>	59.3
			<b>Average</b>	186.8
<b>Proposed annual caps of the Deposit Services</b>		RMB5,000.0	RMB2,923.2	171.0

*Source: the latest published financial reports and circulars of the Comparable Companies published on the websites of the Stock Exchange*

*Notes:*

1. We have adopted an approximate exchange rate of HK\$1 to RMB0.9 for illustrative purpose.
2. As disclosed in the announcement of CSSC dated 6 March 2023, the maximum daily deposit balance has been revised to RMB16,500 million.

As shown in the table above, the proposed maximum daily deposit balances of the Comparable Companies represent approximately 17.1% to 1,653.0% of their respective Cash Balance, with an average and median of approximately 186.8% and 59.3%, respectively. The proposed annual caps of the Deposit Services of RM5,000.0 million represents approximately 171.0% the Group's total cash balances as at 31 December 2022, which is within the aforesaid range and lower than the average of that of the Comparable Companies, implying that the proposed annual caps of the Deposit Services are set in a level consistent with the market practice.

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Taking into account (a) that annual caps of the Deposit Services under the Existing Financial Services Agreement had been utilized as to over 85% in 2022; (b) the expected cash inflow generated from the Group's operating activities; (c) that the sum of the Group's cash and bank balances and trade and bill receivables as at 31 December 2022 is larger than the proposed annual caps of the Deposit Services; (d) the Group's latest financing needs; (e) that the percentage of the proposed annual caps of the Deposit Services in terms of the Group's total cash balances as at 31 December 2022 is within the market range; and (f) that the risk relating to conducting the Deposit Services with CNNCFC would be controlled by the internal control measures stipulated under the section headed "A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group" above, we consider the proposed annual caps of the Deposit Services under the Renewed Financial Services Agreement, which are the same during the term of the Renewed Financial Services Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### *Settlement, Entrusted Loan and Other Financial Services*

In assessing the reasonableness of the proposed annual caps of the Settlement, Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections for the maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC and the service fees. As advised by the management of the Group, in determining the proposed annual caps for the 2.5 years ending 31 December 2025, they have taken into account, among others, (a) the maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC, and the service fee charged by CNNCFC for the three years ended 31 December 2022; (b) from 1 July 2022 to 31 December 2025 (including the expected payment of continuing contracts and new contracts); (c) that the Company intends to use part of the funds raised in the capital market to issue entrusted loans through CNNCFC for provision of funding for the business and development of its subsidiaries; (d) the projected business volume of the Group from 1 July 2022 to 31 December 2025; and (e) the historical fee amounts charged by CNNCFC for cash settlement for the three years ended 31 December 2022.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. Although the cash at bank and on hand of the Group amounted to approximately RMB2,923.2 million as at 31 December 2022, the cash was held by different member companies of the Group at different levels so that some member companies of the Group may have idle cash while some may run short of working capital for its business operations and future development. As advised by the management of the Group, considering the various financing needs of the Group for its business development, including but not limited to fixed assets investments, equity investments and working capital requirements, the Company projects to issue entrusted loans of up to RMB1,065 million within the member companies of the Group through CNNCFC and raise additional funds of up to RMB1,081 million through independent third-party financing channels including commercial banks and financial leasing institutions in the PRC during the following 12 months. In this regard, we have obtained and reviewed the relevant annual operational financing plan and investment plan of the Group which are consistent with our understanding from the management of the Group.

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In addition, we have reviewed the historical transaction amounts for the Settlement, Entrusted Loan and Other Financial Services since 2018 when the Company listed on the Stock Exchange, details of which are set out in the table below:

Historical transaction amounts	For the year ended 31 December					Compound annual growth rate (“CAGR”)
	2018 <i>(RMB'000)</i>	2019 <i>(RMB'000)</i>	2020 <i>(RMB'000)</i>	2021 <i>(RMB'000)</i>	2022 <i>(RMB'000)</i>	
Maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC	25,500	154,000	154,000	367,727	489,647	109.3%

As illustrated in the table above, the actual maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC increased significantly from approximately RMB25.5 million for the year ended 31 December 2018 to approximately RMB489.6 million for FY2022, representing a CAGR of approximately 109.3% from 2018 to 2022. As advised by the management of the Group, in view of the lowered lending rate in the PRC in 2022, the Company has used external bank borrowings to fulfill its financing needs instead of utilizing entrusted loans through CNNCFC. As such, the recent growth rate of the maximum daily outstanding balance of entrusted loans provided by the Group through CNNCFC amounted to approximately 33.2% in 2022, which was lower than the CAGR from 2018 to 2022. Considering the uncertainty of the current global economy and capital market, especially their impacts on the interest rate and to provide flexibility to the Company and cater for the increasing financing needs of the Group, we consider it is reasonable to adopt the CAGR of approximately 109.3%, which is a long-term historical growth rate and reduces the impact of the lowered lending rate in 2022 which may only last in short run, to serve as a reference for future potential growth in financing requirements of the member companies of the Group.

Based on (a) the actual transaction amount incurred for FY2022 of approximately RMB489.6 million; and (b) the CAGR of approximately 109.3%, the estimated transaction amount for 2023 amounted to approximately RMB1,025.0 million, which is close to the proposed annual cap of RMB1,000 million.

Having taking into account (a) that the entrusted loans will not create material additional costs on the consolidated accounts of the Group; (b) the various financing needs of member companies of the Group for business operations and future development; (c) the Group’s future development and financing plan for the following 12 months; (d) the historical growth rate of the actual transaction amount from 2018 to 2022 which serves as a reference for future potential growth in financing requirements of the member companies of the Group; (e) that the proposed annual caps of the Settlement,

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Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement remain the same as the historical annual caps of the Settlement, Entrusted Loan and Other Financial Services for the 2022 Period under the Existing Financial Services Agreement which have been approved by the then independent shareholders; and (f) that the risk relating to conducting the Settlement, Entrusted Loan and Other Financial Services with CNNCFC would be controlled by the internal control measures stipulated under the section headed “A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group” above, we consider that the proposed annual caps of the Settlement, Entrusted Loan and Other Financial Services under the Renewed Financial Services Agreement, which are the same during the term of the Renewed Financial Services Agreement to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### *Financial Leasing Services*

In assessing the reasonableness of the proposed annual caps of the Financial Leasing Services under the Renewed Financial Services Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the proposed annual caps for the 2.5 years ending 31 December 2025, they have taken into account, among others, (a) the expected increase in assets required for its irradiation and radiopharmaceuticals business; and (b) the expected rental payable by the Group for such assets from 1 July 2022 to 31 December 2025.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. As advised by the management of the Group, the Group’s irradiation and radiopharmaceuticals businesses require equipment and machineries for operation which can cost a lot. As such, the Company expects to utilize the Financial Leasing Services to get access to the required manufacturing facilities such as accelerator and hot cells. As discussed in the sub-section headed “A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) The Group” above, the revenue of the Group increased by approximately 19.5% from approximately RMB5,143.7 million for FY2021 to approximately RMB6,146.2 million for FY2022, primarily driven by the increase in revenue from the Group’s pharmaceuticals, radiation therapy equipment and related services and other business segments. Such promising growth of the Group’s revenue indicated potential demand for the manufacturing facilities used in the Group’s medical base which may involve the finance lease arrangement with the CNNC Financial Leasing Company. As disclosed in the 2022 Annual Report, in order to meet the growing demand for radiopharmaceuticals in China in a timely manner, the Group vigorously practiced the “CIRC speed” and accelerated the national layout of its pharmaceutical centers. Besides, in order to further enhance the R&D and production capacity of the Group in the fields of radiopharmaceuticals and radioactive sources, the Group has been vigorously promoting the construction of R&D and production bases of isotopes and their products

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## LETTER FROM RAINBOW CAPITAL

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in recent years. Against this backdrop, we have obtained and reviewed the breakdown of estimated contract values for finance lease arrangement for required manufacturing facilities in the Group's pharmaceutical centers and production bases for the year ending 31 December 2023, which amounted to RMB215.0 million in total. As advised by the management of the Group, such amounts were determined based on preliminary business plans of the relevant member companies of the Group as well as the relevant signed agreements.

Having taking into account (a) that the Financial Leasing Services is an important financing alternative for the Group; (b) the expected financing requirement of the Group to get access to certain equipment and machineries for operation; (c) that the estimated demand for the Financial Leasing Services was determined based on the estimated contract values of the individual finance lease arrangements and the expected time for the withdrawal of fund; (d) that the proposed annual caps of the Financial Leasing Services under the Renewed Financial Services Agreement are close to the historical annual caps of the Financial Leasing Services under the Existing Financial Services Agreement which have been approved by the then independent Shareholders; and (e) that the risk relating to conducting the Financial Leasing Services with CNNC Financial Leasing Company would be controlled by the internal control measures stipulated under the section headed "A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group" above, we consider the proposed annual caps of the Financial Leasing Services under the Renewed Financial Services Agreement, which are the same during the term of the Renewed Financial Services Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### *Factoring Services*

In assessing the reasonableness of the proposed annual caps of the Factoring Services under the Renewed Financial Services Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the proposed annual caps for the 2.5 years ending 31 December 2025, they have taken into account, among others, (a) the amount of accounts receivable of the Group as at 31 December 2022; and (b) the Group's expected factoring business for such assets from 1 July 2022 to 31 December 2025.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. Although the Group has not conducted the Factoring Services with CNNC Factoring before, considering (a) the financing plan of the Group which is derived from the expected capital demand of the Group for the following 12 months; and (b) that the Group needs to satisfy the financing needs brought by the growth of the Company's business scale as discussed in the sub-section headed "A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) the Group" above, we are of the view that the Factoring Services is one of the important financing alternatives under the general

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debt financing condition in the PRC which allows the Group to fulfill part of its future capital needs. As at 31 December 2022, the Group's trade and bill receivables amounted to approximately RMB3,501.3 million, which indicated (a) the future payment to be received by the Group on relevant outstanding amounts; and (b) the possible demand on the Factoring Services by the Group to collect cash in advance. The proposed annual caps of RMB1,000 million represent approximately 28.6% of the Group's trade and bill receivables as at 31 December 2022. As advised by the management of the Group, it is expected to utilize certain subsidiaries' trade receivables in the total amount of up to RMB1,151 million as at 31 December 2022 for the Factoring Services. In addition, should there be any substantial increase in the demand of the Factoring Services, the Group may accept factoring services from independent third parties or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the proposed annual cap, if necessary.

Having taking into account (a) that the Factoring Services is an important financing alternative for the Group; (b) the various financing needs of member companies of the Group for business operations and future development; (c) the Group's trade and bill receivables balance as at 31 December 2022; and (d) that the risk relating to conducting the Factoring Services with CNNC Factoring would be controlled by the internal control measures stipulated under the section headed "A. The Renewed Financial Services Agreement – 4. Internal control measures of the Group" above, we consider the proposed annual caps of the Factoring Services under the Renewed Financial Services Agreement, which are the same during the term of the Renewed Financial Services Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### *Overall comment*

In reviewing the proposed annual caps under the Renewed Financial Services Agreement, we have (a) reviewed the internal calculation worksheets in determining the proposed annual caps which were prepared by the Group based on, among other things, the annual operational financing plan and investment plan of the Group. We understood that all such information were prepared based on the Group's latest business development plan and its strategy to further enhance its R&D and production capacity in the fields of radiopharmaceuticals and radioactive sources; and (b) performed independent research on the industry outlook of radiopharmaceuticals sector in the PRC, which shows the strong potential demand on the medical isotopes and radiopharmaceuticals the promulgation of favourable government policies to support the development and supply of the medical isotopes in the PRC. According to the "Medium and Long-term Development Plan for Medical Isotopes (2021-2035)" (醫用同位素中長期發展規劃(2021-2035年)), jointly issued by the China Atomic Energy Authority, the Ministry of Science and Technology, the National Medical Products Administration and five other government authorities in May 2021, it emphasizes the significant increase in concern and awareness of medical isotopes and related industries from all walks of life, the importance of the innovative

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## LETTER FROM RAINBOW CAPITAL

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development as well as the stable and independent supply of radiopharmaceuticals. Based on our independent due diligence work done as aforesaid, we consider the expected future business growth and the corresponding financing requirements of the Group to be reasonable.

Generally speaking, in our opinion, it is in the interests of the Group and the Independent Shareholders to determine the proposed annual caps in a way that can accommodate the potential growth of the Group's business as well as its corresponding financing needs. Provided that the transactions contemplated under the Renewed Financial Services Agreement are subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have desirable flexibility in conducting its businesses if the proposed annual caps are tailored to future financing needs to support its future business growth and development. Having considered all the above factors including the basis from which the Directors have determined the proposed annual caps under the Renewed Financial Services Agreement as stated earlier in this section, we consider the proposed annual caps under the Renewed Financial Services Agreement for the 2.5 years ending 31 December 2025 is fair and reasonable.

### ***6. Reporting requirements and conditions of the continuing connected transactions***

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Renewed Financial Services Agreement (the “**Financial Services Transactions**”) are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Financial Services Transactions and confirm in the annual report and accounts that the Financial Services Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms or better; and
  - (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Financial Services Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Financial Services Transactions:
  - (a) have not been approved by the Board;

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## LETTER FROM RAINBOW CAPITAL

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- (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Financial Services Transaction involves the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Financial Services Transactions; and
  - (d) have exceeded the relevant proposed annual caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Financial Services Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Financial Services Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Financial Services Transactions, in particular, (i) the restriction of the value of the Financial Services Transactions by way of the relevant proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Financial Services Transactions and the relevant proposed annual caps not being exceeded, we are of the view that appropriate measures are in place to monitor the conduct of the Financial Services Transactions and assist in safeguarding the interests of the Independent Shareholders.

### **B. The Engineering Construction Services Framework Agreement**

#### ***1. Information of the Group and CNNC***

For details of the information of the Group and CNNC, please refer to the section headed "A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring" above.

#### ***2. Reasons for and benefits of the Revised Annual Caps***

As disclosed in the Letter from the Board, the Group has invested in numerous construction projects in its rapid development course. In particular, as the preliminary work of several base projects has been further preceded recently, such projects will enter the construction stage. The Group will conclude a large number of specific engineering construction service contracts in succession.

The Group's construction projects require relatively complex radiation protection, and shall be completed by professional service providers with relevant qualifications and experiences. There is limited number of such service providers with relevant qualifications and

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## LETTER FROM RAINBOW CAPITAL

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experience in China, and the majority of them are CNNC and/or its associates. Therefore, it is very likely that the Group's engineering construction services will be eventually provided by CNNC and/or its associates regardless how the Group selects engineering construction service providers. In addition, according to the Bidding Law of the PRC, the tenderer and the successful bidder shall enter into a written contract within 30 days from the date of issuing the letter of acceptance. Therefore, the Company shall enter into a construction service framework agreement in advance and finalize the annual caps. Given the above, the Company expects that the relevant existing annual caps for the year ending 31 December 2023 under the Engineering Construction Services Framework Agreement will not be sufficient to meet the requirements and resolved for the Revised Annual Caps on 30 March 2023.

As stated in the sub-section headed "A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) The Group" above, the Group had been vigorously expanding its business in multiple dimensions, including production, research and development, marketing and sales. In light of the people's growing concerns on health and disease prevention as well as the Group's effort in enhancing its position as the leading manufacturer of diagnostic and therapeutic radiopharmaceuticals in China, the demand for the Group's radiopharmaceuticals products and services are expected to increase. To cope with the expected increase in demand and as part of the strategic development plan of the Group, various pharmaceutical centers, R&D and production base projects have either commenced or completed construction in 2022, thereby enhancing the R&D and production capability of the Group in the provision of radioactive medical solutions across segments of the Group. As advised by the management of the Group, the progress of construction and approval progress of certain R&D and production base had been disrupted in 2021 and 2022 due to the pandemic and the relevant lockdown measures. As the impact of the pandemic and lockdown measures eased since the beginning of 2023, the approval and construction progress had rapidly picked up to catch the original progress. In light of the contracted construction amount and rapid progress, the Directors considered that the relevant existing annual caps for the year ending 31 December 2023 under the Engineering Construction Services Framework Agreement will not be sufficient to meet the actual requirement and hence proposed for the Revised Annual Caps.

Based on the above, we consider that the transactions under Engineering Construction Services Framework Agreement are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### ***3. Principal terms of the Engineering Construction Services Framework Agreement***

Details of the terms of the Engineering Construction Services Framework Agreement are set out in the Letter from the Board, which are summarized as follows:

Parties : the Company (the purchaser); and  
CNNC (the supplier).

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## LETTER FROM RAINBOW CAPITAL

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- Principal terms : The Company and CNNC agreed that CNNC and/or its associates will provide engineering construction services to the Group according to the Engineering Construction Services Framework Agreement and on normal commercial terms, including: (i) the Construction Services; (ii) the Equipment Services; and (iii) the Consultation Services.
- Term : Effective from 1 January 2023 and ending on 31 December 2023, subject to renewal as may be agreed upon by both parties.
- Pricing policy : The pricing policy under the Engineering Construction Services Framework Agreement is as follows:
- (i) Construction Services: contract price of the Construction Services: (a) in the case of selecting construction services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (b) in the case of selecting construction services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.
  - (ii) Equipment Services: contract price of the Equipment Services: (a) in the case of selecting equipment services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (b) in the case of selecting equipment services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.

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## LETTER FROM RAINBOW CAPITAL

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- (iii) Consultation Services: contract price of the Consultation Services: (a) in the case of selecting consultation services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; (b) in the case of selecting consultation services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.

On 30 March 2023, the Board has resolved and proposed to revise the existing annual cap for the Engineering Construction Services Framework Agreement to the Revised Annual Caps to meet the Company's demands on the Construction Services, Equipment Services and Consultation Services provided by CNNC and/or its associates to the Group as follows:

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the year ending 31 December 2023</b>	
	<b>Annual caps</b>	<b>Annual caps</b>	<b>Original</b>	<b>Revised</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Construction Services	80,000	150,000	190,000	600,000
Equipment Services	20,000	40,000	5,000	100,000
Consultation services	40,000	40,000	5,000	100,000

The annual caps for the Construction Services, Equipment Services and Consultation Services for the year ending 31 December 2023 are proposed to be revised from RMB190 million, RMB5 million and RMB5 million to RMB600 million, RMB100 million and RMB100 million, respectively. Save and except for the Revised Annual Caps, all other terms and conditions under the Engineering Construction Services Framework Agreement shall remain effective and unchanged.

As stated above, it is stipulated under the pricing policy of the Engineering Construction Services Framework Agreement that, (i) in the case of selecting the services providers through tendering process, the Company will determine whether the services will be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the bid-winning price; and (ii) in the case of selecting the services providers other than through tendering process, the Company will determine the services will be provided by CNNC and/or its associates after evaluation and review, and the contract price will be determined through negotiations.

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## LETTER FROM RAINBOW CAPITAL

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According to the internal control policy of the Group, in conducting the tendering process, the Company will organize public tendering process in accordance with its internal tendering rules, including issuing tendering announcement, reviewing qualification of bidders, formulating tendering review committee, bid opening, bid reviewing, public disclosure and bid determination. The Group will consider qualification, experience and bid price of suppliers to decide the bid winner, and will determine the final price based on the results of such process. In order to assess whether the above internal control procedures are sufficient and effective, we have selected on a random basis, obtained and reviewed (i) five sets of tender documents for each of the Construction Services and Consultation Services and the only one set of tender document available for the Equipment Services of the Group during 2020 to 2022, being the term under the original engineering construction services framework agreement, with the winning bidder being CNNC and/or its associates; and (ii) four sets of tender documents for the Consultation Services, the only two set of tender documents for the Equipment Services and the only one set of tender document for the Construction Services of the Group during 2020 to 2022, with the winning bidder being other independent third parties. We noted that the Group had adhered to the internal procedures on tender process on each of the Construction Services, Equipment Services and Consultation Services, and the winning tender were generally selected based on, among others, the price of the tender being more favorable than the other tenders.

In respect of services that are not selected through tendering process, the Company will determine the price upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes, and the management will consider at least two comparable transactions with independent suppliers for the same period where possible. In this relation, we have also obtained three sets of agreements entered with CNNC and their corresponding comparable quotations for each of the Equipment Services and Consultation Services and the only two sets of agreements entered with CNNC and their corresponding comparable quotations for the Construction Services during 2021 to 2022. We noted that the Group had also followed the internal procedures on quotations and the price and/or quality of services offered by CNNC were no less favorable than those provided by the quotations.

Based on the review of the above documents, we consider the above internal control procedures are sufficient and effective in ensuring the Construction Services, Equipment Services and Consultation Services to follow the pricing mechanism under the Engineering Construction Services Framework Agreement.

As further advised by the management of the Group, the finance department of the Group will calculate on the amount of each of the Construction Services, Equipment Services and Consultation Services incurred on a monthly basis. If the amount of each of the Construction Services, Equipment Services and Consultation Services exceeds 70% of the Revised Annual Caps, the finance department will signify to the relevant department in charge of the Construction Services, Equipment Services and Consultation Services for carrying out the required procedures, including the further adjustment of the annual caps. In the respect, we have obtained and reviewed the monthly report issued by the finance department on the transaction amounts of each of the Construction Services, Equipment Services and Consultation Services, and noted that the annual caps had been monitored.

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## LETTER FROM RAINBOW CAPITAL

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To sum up, after taking into account the factors above, we consider that (i) the terms of the Engineering Construction Services Framework Agreement are on normal commercial terms which are fair and reasonable; and (ii) the above internal control procedures are sufficient and effective in ensuring the transactions in relation to the Construction Services, Equipment Services and Consultation Services to follow the pricing mechanism under the Engineering Construction Services Framework Agreement.

#### ***4. Internal control measures of the Group***

In order to protect the interests of the Shareholders, the Group has adopted certain internal control procedures to monitor the utilization of the annual cap, details of which are set out in the section headed “Internal control system for continuing connected transactions under the Engineering Construction Services Framework Agreement” in the Letter from the Board.

As stated in the Letter from the Board, the Company has established (i) the reporting, approval and, if necessary, selection and verification procedures, to ensure that the agreed prices and terms of the continuing connected transactions are no less favorable than those that may be granted by relevant members of the Group or by (if applicable) independent third parties, and are in compliance with the pricing policies; and (ii) the procedures and policies for the purpose of identifying the connected persons and monitoring the annual caps of continuing connected transactions.

For each of the Construction Services, Equipment Services and Consultation Services:

- (i) where tendering process is necessary under applicable laws, regulations and rules, the Group will organize public tendering process in accordance with its internal tendering rules, including issuing tendering announcement, reviewing qualification of bidders, formulating tendering review committee, bid opening, bid reviewing, public disclosure and bid determination. The Group will consider qualification, experience and bid price of suppliers to decide the bid winner, and will determine the final price based on the results of such process; and
- (ii) where tendering process is not necessary under applicable laws, regulations and rules, the Group will negotiate with CNNC and/or its associates and independent suppliers separately. The prices shall be determined upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes. Where possible, the management will consider at least two comparable transactions with independent suppliers for the same period when determining the reasonable profit of any services under the Engineering Construction Services Framework Agreement.

The Group’s construction projects require relatively complex radiation protection, and shall be completed by professional service providers with relevant qualifications and experience. The number of such service providers with relevant qualifications and experience in China is limited, the majority of which are CNNC and/or its associates. The Group will

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## LETTER FROM RAINBOW CAPITAL

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invite qualified CNNC and/or its associates as well as independent suppliers to attend the public tendering process or negotiate with qualified CNNC and/or its associates as well as independent suppliers. The Company has formulated a series of procurement policies to manage procurement process and reduce cost. The tendering process will be managed by the Group to strictly follow the rules and requirements of the Bidding Law of the PRC, and in the case other than through tendering process, the Group will set up different steps to encourage competition among potential suppliers including CNNC and/or its associates and independent suppliers. CNNC and/or its associates and independent suppliers will be treated fairly.

The Company will regularly contact its suppliers (including CNNC and/or its associates and independent suppliers) to understand the market conditions. The audit and discipline supervision departments will monitor the whole process, and the legal departments of the Group will negotiate contractual terms with suppliers.

As stated in the section headed “B. The Engineering Construction Services Framework Agreement – 3. Principal terms of the Engineering Construction Services Framework Agreement” above, we have obtained and reviewed the tender documents as well as the comparable quotations for each of the Construction Services, Equipment Services and Consultation Services, and we noted that the internal control procedures had been adhered and were in accordance with the pricing mechanism under the Engineering Construction Services Framework Agreement. Based on the factors above, we concur with the Directors that the above internal control procedures adopted by the Group are appropriate and sufficient.

### 5. *The Revised Annual Caps*

#### (i) *Review of the historical figures*

Set out below are the historical transaction amounts and the existing annual caps for the years ended 31 December 2021 and 2022.

	<b>Annual cap for the year ended 31 December 2021 (A) (RMB'000)</b>	<b>Actual amount incurred for the year ended 31 December 2021 (B) (RMB'000)</b>	<b>Utilization rate (B/A)</b>
Construction Services	80,000	6,540	8.2%
Equipment Services	20,000	–	0.0%
Consultation services	40,000	211	0.5%

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**LETTER FROM RAINBOW CAPITAL**

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	<b>Annual cap for the year ended 31 December 2022 (A) (RMB'000)</b>	<b>Actual amount incurred for the year ended 31 December 2022 (B) (RMB'000)</b>	<b>Utilization rate (B/A)</b>
Construction Services	150,000	26,468	17.6%
Equipment Services	40,000	7,542	18.9%
Consultation services	40,000	3,765	9.4%

As illustrated in the table above, the utilization rate of the annual caps for each of the Construction Services, Equipment Services and Consultation Services were relatively low for FY2021 and FY2022. As stated in the section headed “B. The Engineering Construction Services Framework Agreement – 2. Reasons for and benefits of the Revised Annual Caps” above, despite the vigorous expansion plan of the Group in its facilities, the progress of construction and approval progress of certain R&D and production base had been disrupted in 2021 and 2022 due to the pandemic and the relevant lockdown measures. As the impact of the pandemic and lockdown measures eased since the beginning of 2023, the approval and construction progress had rapidly picked up to catch the original progress. In light of the contracted construction amount and rapid progress, the Directors consider that it is necessary to revise the annual caps which is sufficiently large to cover the delayed progress in 2021 and 2022.

*(ii) Assessment of the Revised Annual Caps*

According to the Letter from the Board, based on the progress of the Company’s business, a number of projects such as the Company’s radioactive source manufacturing bases, Qinshan isotope production base and Northern China medical base have entered the construction period in 2023. Taking into account the timing of the contract sum payment for the signed contracts of the above projects, the construction progress plan and the recent proposed investment projects, the Company proposes to revise the annual caps for the Construction Services, Equipment Services and Consultation Services for the year ending 31 December 2023 to RMB600 million, RMB100 million and RMB100 million, respectively.

Set out below are the existing annual caps and the Revised Annual Caps under the Engineering Construction Services Framework Agreement:

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the year ending 31 December 2023</b>	
	<b>Annual caps (RMB'000)</b>	<b>Annual caps (RMB'000)</b>	<b>Original annual caps (RMB'000)</b>	<b>Revised Annual Caps (RMB'000)</b>
Construction Services	80,000	150,000	190,000	600,000
Equipment Services	20,000	40,000	5,000	100,000
Consultation services	40,000	40,000	5,000	100,000

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## LETTER FROM RAINBOW CAPITAL

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As advised by the management of the Group, the increases in the annual caps were mainly attributable to the contracts entered in 2022 for the construction of the Qinshan isotope production base, the diagnostic and therapeutic molecular targeted drugs R&D and production centres located in Shanghai and Hebei and the radioactive source R&D and manufacturing bases in Sichuan. Due to the substantial scale for the construction of these facilities, the Group would also require the relevant auxiliary Equipment Services and Consultation Services to facilitate the construction of these facilities. In this regard, to assess the fairness and reasonableness of the Revised Annual Caps, we have obtained and reviewed, among others, the construction contracts in relation to the construction of these facilities, and we noted that (a) the total contract sum of these four contracts amounted to approximately RMB902.5 million; and (b) the construction period of these four contracts commenced from the second half of 2022 and are expected to complete in 2024 or 2025, which covered the entire year of 2023. As the approval and construction progress had resumed and picked up at a rapid speed since the beginning of 2023, the management of the Group expected that the substantial portion for the construction of these four facilities will be completed in 2023 in accordance or exceed their planned schedules.

We have further obtained and reviewed the list of contracts for each of the Construction Services, Equipment Services and Consultation Services that are currently effective and in progress, which included the construction contracts for the four facilities. We noted that the total contract sum for the Construction Services, Equipment Services and Consultation Services amounted to approximately RMB994.7 million, RMB20.0 million and RMB19.1 million, respectively. As advised by the management of the Group, although the contracted amount for the Equipment Services and Consultation Services were substantially lower than the Revised Annual Caps, taken into account that (a) the contracts for the Equipment Services and Consultation Services were generally in a shorter timeframe as compared to contracts for the Construction Services, and hence the total contracted amount currently effective would only represent part of the annual sum; and (b) the construction of the facilities may require additional Equipment Services and Consultation Services from time to time, it is reasonable for the Company to maintain sufficient buffer under the Revised Annual Caps for the Equipment Services and Consultation Services.

Taking into account that (a) the total contract sum for the Construction Services that are currently effective exceeds the Revised Annual Cap and a substantial amount under the contracts are expected to be incurred in 2023; (b) the Equipment Services and Consultation Services are auxiliary to the Construction Services and hence shall be revised accordingly; and (c) the flexibility required by the Group to enter into contracts for the Equipment Services and Consultation Services from time to time, we are of the view that the Revised Annual Caps are fair and reasonable.

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## LETTER FROM RAINBOW CAPITAL

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### 6. *Reporting requirements and conditions of the continuing connected transactions*

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Engineering Construction Services Framework Agreement (the “**Engineering Construction Transactions**”) are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Engineering Construction Transactions and confirm in the annual report and accounts that the Engineering Construction Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms or better; and
  - (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Engineering Construction Transactions every year. The Company’s auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company’s annual report) confirming whether anything has come to their attention that causes them to believe that the Engineering Construction Transactions:
  - (a) have not been approved by the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Engineering Construction Transaction involves the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Engineering Construction Transactions; and
  - (d) have exceeded the Revised Annual Caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Engineering Construction Transactions allow, the Company’s auditors sufficient access to their records for the purpose of the reporting on the Engineering Construction Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

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## LETTER FROM RAINBOW CAPITAL

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In light of the reporting requirements attached to the Engineering Construction Transactions, in particular, (i) the restriction of the value of the Engineering Construction Transactions by way of the Revised Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Engineering Construction Transactions and the Revised Annual Caps not being exceeded, we are of the view that appropriate measures are in place to monitor the conduct of the Engineering Construction Transactions and assist in safeguarding the interests of the Independent Shareholders.

### **C. The Amended Tongfu Agreement**

#### **1. Information of the parties to the Amended Tongfu Agreement**

##### *(i) The Group*

For details of the information of the Group, please refer to the sub-section headed “A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) The Group” above.

##### *(ii) Tongchuang Investment*

Tongchuang Investment, as general partner and executive partner of Tongfu Fund, was proposed make a total capital contribution of RMB42.5 million. Hynergy Industrial Funds will make a total capital contribution of RMB25 million, accounting for approximately 58.82% of the interest in Tongchuang Investment; the Company will make a total capital contribution of RMB7.5 million, accounting for approximately 17.65%; while Tongxin Business Management will make a total capital contribution of RMB10 million, accounting for approximately 23.53%. Under the Amended Tongfu Agreement, Tongchuang Investment will contribute RMB11,370,050.48.

##### *(iii) Hynergy Industrial Funds*

Hynergy Industrial Funds was established on 18 November 2016 with a registered capital of RMB200 million. It is registered with the Asset Management Association of China as a private equity fund manager. It is held as to 100% by CNNC Capital.

##### *(iv) Tongxin Business Management*

Tongxin Business Management, a subsequent investment platform for employees of Hynergy Industrial Funds, makes a total capital contribution of RMB10 million, which will be fully paid by employees of Hynergy Industrial Funds. In accordance with Article 13 of the Measures for the Supervision and Administration of Private Investment Funds published by the Asset Management Association of China, all employees of Hynergy Industrial Funds are qualified for investment in Tongxin Business Management. Partners

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## LETTER FROM RAINBOW CAPITAL

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shall use their own funds to make capital contribution to Tongxin Business Management. The subsequent investment mechanism can align the interests of the fund with those of the management team, encourage the team to explore investment opportunities, reduce risks, solve the principal-agent problem and protect the rights of investors.

(v) *CNNC Capital*

CNNC Capital was established in July 2016 and is a wholly-owned subsidiary of CNNC, with a registered capital of RMB7.08 billion. As a specialized management platform for the financial sector of CNNC, CNNC Capital is positioned as a center of industrial finance risk control, industrial finance investment control, industrial financial resource allocation and industrial finance business collaboration of CNNC.

(vi) *BSIF*

BSIF has a total scale of RMB30 billion. The ultimate beneficial owner of BSIF is the State-owned Assets Supervision and Administration Commission of the State Council. BSIF is a third party independent of the Company and connected persons of the Company. It sets up sub-funds around the three stages of original innovation, results transformation and highly sophisticated industries and arranges the amount of funds according to the ratio of 5:3:2. The fund's mission is to achieve "three sets of guidance": the first one is to guide the way to high-end "hard technology" innovation; the second is to guide the way to front-end original innovation; the third is to guide high-end scientific research results which can match up with the capital's positioning to locate in Beijing and to cultivate "highly sophisticated" industry. Through the construction of innovative investment ecosystem, the fund promotes the rapid and steady development of the science and technology industry of Beijing and contributes actively to building a globally influential innovation centre for science and technology in Beijing.

(vii) *Junmin Fund*

Junmin Fund was led by the Ministry of Finance and the State Administration of Science, Technology and Industry for National Defence, and established with investments from the Ministry of Finance and investors. Its total planned size is RMB150 billion. The actual initial capital fund is RMB56 billion, of which RMB8 billion was contributed by the central government, and RMB48 billion was raised by 12 local governments, 13 central enterprises, 3 private enterprises and 2 financial institutions. It focuses on key areas including ocean, outer space and cyberspace, and promotes the development of related industries including nuclear, nuclear technology application, aerospace, aviation, high-tech ship and ocean engineering, electronic information and power.

(viii) *Daxing Fund*

Daxing Fund has the total size of RMB10 billion, with actual capital contribution from the Daxing District People's Government of Beijing Municipality. It is managed by Beishang Capital Management (Beijing) Co., Ltd. (北商資本管理(北京)有限公司), a wholly-owned subsidiary of Beijing Daxing Investment Group Co., Ltd. (北京大興投資集團有限公司). Daxing Fund focuses on the key areas of economic and social development in Daxing District of Beijing, and guides various private capital to cooperate in establishing sub-funds, so as to support the development of key areas and address weaknesses in Daxing District.

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## LETTER FROM RAINBOW CAPITAL

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### *2. Reasons for and benefits of entering into of the Amended Tongfu Agreement*

As disclosed in the Letter from the Board, BSIF and Daxing Fund, the limited partners of Tongfu Fund, have requested to Tongchuang Investment, in its capacity of the general partner and executive business partner, for their exit, respectively. Therefore, the parties decided to amend the Original Tongfu Agreement.

Prior to the entering into of the Amended Tongfu Agreement, the total contributed capital of the Tongfu Fund amounted to RMB1,600 million, part of which had been utilized on investment on several projects which are currently in progress with targeted exit time ranged from 2024 to 2026. To avoid early termination of those investment projects, BSIF and Daxing Fund agreed that their respective existing contributed capital that were utilized shall remain in the Tongfu Fund to preserve the value of the investment projects while the unutilized amount shall be refunded to them. Accordingly, the capital contribution amount of BSIF and Daxing Fund would remain at RMB46,531,888.85 and RMB51,702,098.72, and the amount to be refunded to them would be RMB133,468,111.15 and RMB148,297,901.28, respectively. In addition, the Original Tongfu Agreement stipulated that, among others, the capital contribution of Junmin Fund shall not in any time exceed 20% of the total contributed capital of any partnership for any reason. If the amount is exceeded, the partnership shall unconditionally assist Junmin Fund to reduce its portion of capital contribution in the partnership to satisfy the concentration requirement of Junmin Fund. In light of the exit of BSIF and Daxing Fund as well as the concentration requirement of Junmin Fund, the parties to the Original Tongfu Agreement negotiated on the new capital contribution to be made to the Tongfu Fund and the terms of the Amended Tongfu Agreement. All unused paid-in capital of BSIF and Daxing Fund will be returned to reflect the exit of BSIF and Daxing Fund, and part of paid-in capital of Tongchuang Investment and Junmin Fund will be returned to reflect the adjustment to proportion percentage of remaining partners. It is expected that return of unused paid-in capital will be completed as soon as the Independent Shareholders have approved the amendment to the Original Tongfu Agreement. After the amendment to the Original Tongfu Agreement, the Tongfu Fund will continue to make investments in which BSIF and Daxing Fund will no longer participate.

As stated in the sub-section headed “A. The Renewed Financial Services Agreement – 1. Information of the Group, CNNC, CNNCFC, CNNC Financial Leasing Company and CNNC Factoring – (i) The Group” above, to cope with the expected increase in demand and as part of the strategic development plan of the Group, various pharmaceutical centers, R&D and production base projects have either commenced or completed construction in 2022, thereby enhancing the R&D and production capability of the Group in the provision of radioactive medical solutions across segments of the Group. As advised by the management of the Group, as the impact of the pandemic and lockdown measures eased since the beginning of 2023, the approval and construction progress had rapidly picked up to catch the original progress. In particular, the Company entered into several construction contracts in 2022 for the construction of the Qinshan isotope production base, the diagnostic and therapeutic molecular targeted drugs R&D and production centres located in Shanghai and Hebei and the radioactive source R&D and manufacturing bases in Sichuan, with the total contract sum of these four contracts amounted to approximately RMB902.5 million. Hence, in order to preserve the resources for business development, although the Company had significant amount of cash at bank and on hand of approximately RMB2,923.2 million as at 31 December 2022, the Group did not make additional investment in Tongfu Fund this time and maintained its committed contribution under the Amended Tongfu Agreement.

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**LETTER FROM RAINBOW CAPITAL**

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**3. Principal terms of the Amended Tongfu Agreement**

*(i) Parties*

- (a) Tongchuang Investment (as the general partner);
- (b) The Company (as the limited partner);
- (c) CNNC Capital (as the limited partner);
- (d) BSIF (as the limited partner);
- (e) Junmin Fund (as the limited partner); and
- (f) Daxing Fund (as the limited partner)

*(ii) Name of partnership*

Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership)

*(iii) Place of registration*

Beijing

*(iv) Amount of contribution*

The new committed capital amount, the total amount of contribution paid by the partners and the amounts to be refunded are as follows:

	<b>Committed capital (RMB)</b>	<b>Paid-in capital (RMB)</b>	<b>Unused paid-in capital to be refund (RMB)</b>	<b>Percentage of the contributions to the Tongfu Fund %</b>
Tongchuang				
Investment	11,370,050.48	20,000,000	8,629,949.52	1.0000
The Company	480,000,000.00	480,000,000	0	42.2162
CNNC Capital	320,000,000.00	320,000,000	0	28.1441
BSIF	46,531,888.85	180,000,000	133,468,111.15	4.0925
Junmin Fund	227,401,009.51	400,000,000	172,598,990.49	20.0000
Daxing Fund	51,702,098.72	200,000,000	148,297,901.28	4.5472
<b>Total</b>	<b>1,137,005,047.56</b>	<b>1,600,000,000</b>	<b>462,994,952.44</b>	<b>100.0000</b>

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## LETTER FROM RAINBOW CAPITAL

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The Company will not consolidate its financial statements with those of the Tongfu Fund.

(v) *Method of contribution*

All partners shall make contribution to the Tongfu Fund in RMB in cash.

(vi) *Liabilities of partners for the debts of the Tongfu Fund*

The general partner assumes unlimited liability for the debts of the Tongfu Fund, and the limited partners are responsible for the debts of the Tongfu Fund to the extent of the amount of contribution paid by them.

(vii) *Scope of investment*

The Tongfu Fund invests in the application areas of nuclear technology, including the production of nuclides, radioactive source, nuclear medicine, other diagnostic and therapeutic drugs in nuclear medicine application, medical devices, vitro diagnosis, medical services and industrial nuclear applications, and other areas considered and agreed by resolution of the investment decision committee that could generate synergy with the applications of nuclear technology.

Other areas considered by the investment decision committee include upstream, downstream and supporting projects that subject to judgment by the investment decision committee, have synergy with the Group's businesses or those for core businesses, such as core components in nuclear medical equipment (nuclear medical detectors and their crystalline materials), and non-radioactive precursor compounds used to prepare nuclear drugs.

(viii) *Investment region*

Tongfu Fund mainly conducts investment business inside the PRC and enhances the guidance that investment projects should be based in Beijing to realize the implementation of high-end scientific research results in Beijing. The total amount, invested by Tongfu Fund to enterprises registered in Beijing and enterprises not registered in Beijing but conforming to the functional position of the capital city, shall not be less than 2 times of the paid-in capital contribution of BSIF (i.e. RMB46,531,888.85).

During the investment period of the Tongfu Fund, the total amount of funds invested in and/or introduced for Daxing District of Beijing by Tongfu Fund, the general partner and the manager shall not be less than 2 times of the paid-in capital contribution of Daxing Fund (i.e. RMB51,702,098.72), and the obligation for designated investment shall be completed as scheduled. The project amount invested in Daxing District and Beijing can be double-counted. In other words, the project amount invested in Daxing District can be counted as the amount invested in Beijing at the same time, but not vice versa.

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## LETTER FROM RAINBOW CAPITAL

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The Amended Tongfu Agreement reduced the amount required to be invested in Beijing from no less than 70% of the target initial size of proceeds raised (i.e. RMB2,500 million) to 2 times of the paid-in capital contribution of BSIF (i.e. RMB46,531,888.85), which was mainly due to the exit of BSIF. As at the Latest Practicable Date, the Tongfu had already invested RMB100 million in an enterprise registered in Daxing District of Beijing. As such, the Board consider that such amendment under the Amended Tongfu Agreement would not cause any burden or limitation on the investment decision of the Tongfu Fund.

*(ix) Pre-emptive right of the Company*

When the Tongfu Fund exits from an invested project, the Company shall have the pre-emptive right to acquire the equity interest of such project held by the Tongfu Fund under the same conditions at the same price as other potential buyers. The price is based on the value assessment from independent third party and is combined with the market accepted price.

We are of the opinion that the pre-emptive right gives the Company an option to maintain its interest in the investment projects and is therefore beneficial to the Company.

*(x) Term of operation*

The “valid duration” of Tongfu Fund is 8 years from the establishment date of Tongfu Fund;

For assessment of the fairness and reasonableness of term of operation, please refer to the section headed “C. The Amended Tongfu Agreement – 4. Market comparable analysis” below in this letter for further details.

*(xi) Valid duration, investment period, exit period and extension period*

During the valid duration of Tongfu Fund, the “investment period” is 5 years from the first settlement day of Tongfu Fund or until the day when the total amount of capital contribution by the partners have been fully utilized in project investment and for payment of partnership fees.

The “exit period” of Tongfu Fund commences from the day after the expiry of the investment period and ends on the expiry date of the valid duration of Tongfu Fund. At the beginning of the exit period, the executive partner shall, after properly reserving the partnership fees required during the exit period and the funds required to complete the investment according to the legally binding investment transaction documents signed before the end of the investment period, return the remaining capital contributions by partners that have not been used for investment and payment of partnership fees to each partner in accordance with the relative ratio of the principal of investment by all partners to be invested in the proposed investment projects in the table in Annex IV to the Amended Tongfu Agreement (including Tongchuang High-tech).

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## LETTER FROM RAINBOW CAPITAL

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Upon expiry of the valid duration of Tongfu Fund, if it is necessary to extend the valid duration due to the application for listing or the exit from lock-up period by projects invested by Tongfu Fund or other reasons, consent from all partners is required.

For assessment of the fairness and reasonableness of valid duration, investment period, exit period and extension period, please refer to the section headed “C. The Amended Tongfu Agreement – 4. Market comparable analysis” below in this letter for further details.

*(xii) Implementation of partnership affairs*

The general partner acts as executive partner to implement partnership affairs, and CNNC Industrial Fund Management Co., Ltd. acts as manager to provide daily operation and investment management services to Tongfu Fund.

*(xiii) Management fee*

As consideration for the management and other services provided to Tongfu Fund in the capacity of fund manager, all parties have agreed that the management fees shall be paid by Tongfu Fund at the fee rate of 1.6% per annum based on the total paid-in capital contribution amount of limited partners. No management fees will be charged for the extension period, the suspension of the investment period and the liquidation period.

For assessment of the fairness and reasonableness of management fee, please refer to the section headed “C. The Amended Tongfu Agreement – 4. Market comparable analysis” below in this letter for further details.

*(xiv) Distribution*

(a) Cash distribution

(1) Cash income from invested projects prior to the date of adjustment to the fund size:

1. Distribution of cash income received by the project shall be carried out according to the following order:

- (i) Firstly, refund of capital contribution to limited partners. The distributable cash of the partnership shall be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the invested projects by all limited partners, until the accumulative amount received by all limited partners from the invested projects based on this item (i) reaches the amount of paid-in capital contribution used.

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## LETTER FROM RAINBOW CAPITAL

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- (ii) Secondly, refund of capital contribution to general partners. If remaining balance exists, on the premise that general partners participate in the project investment, it will be fully distributed to general partners until the accumulative amount received by general partners from the invested projects based on this item (ii) reaches the amount of paid-in capital contribution used. All partners agreed that the refund of capital contribution that the general partners should receive will only be accrued for the time being, and will not be distributed until all cash income from projects received by all limited partners from the partnership reaches the full amount of paid-in capital contribution. Otherwise, the refund of capital contribution accrued by the general partners will be distributed to all limited partners until all cash income from projects received from the partnership reaches the full amount of paid-in capital contribution.
  
- (iii) Thirdly, the amount will be distributed as hurdle return to limited partners. If remaining balance exists, it will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the invested projects by all limited partners, until the corresponding limited partners receive an amount calculated at an internal rate of return of eight percent (8%) based on their paid-in capital contribution used.
  
- (iv) After that, compensation to general partners. If remaining balance exists, it will be fully distributed to the general partners until the accumulative amount received by them based on this item (iv) equals twenty-five percent (25%) of the amount received by the limited partners under item (iii) above. All partners agreed that the compensation to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the compensation accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.

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## LETTER FROM RAINBOW CAPITAL

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- (v) Finally, the excess profit will be shared on pro rata basis. If remaining balance exists, eighty per cent (80%) will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners; and twenty per cent (20%) will be distributed among general partners.

All partners agreed that the excess profit to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the excess profit accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.

- (vi) The parties agreed that each of items (i) to (iv) of this provision takes turns to be the prerequisite for the item after it.
- (2) Cash income from proposed projects after the date of adjustment to the fund size:
- (i) Firstly, refund of capital contribution to limited partners. The distributable cash of the partnership shall be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners, until the accumulative amount received by all limited partners from the proposed projects based on this item (i) reaches the amount of paid-in capital contribution unused.
  - (ii) Secondly, refund of capital contribution to general partners. If remaining balance exists, on the premise that general partners participate in the project investment, it will be fully distributed to general partners until the accumulative amount received by general partners from the proposed projects based on this item (ii) reaches the amount of paid-in capital contribution unused.

All partners agreed that the refund of capital contribution that the general partners should receive will only be accrued for the time being, and will not be distributed until all cash income from projects received by all limited partners from the partnership reaches the full amount of paid-in capital

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## LETTER FROM RAINBOW CAPITAL

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contribution. Otherwise, the refund of capital contribution accrued by the general partners will be distributed to all limited partners until all cash income from projects received from the partnership reaches the full amount of paid-in capital contribution.

- (iii) Thirdly, the amount will be distributed as hurdle return to limited partners. If remaining balance exists, it will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners, until the corresponding limited partners receive an amount calculated at an internal rate of return of eight percent (8%) based on their paid-in capital contribution unused. When the IRR of such cash distribution (excluding other distributable income obtained from idle fund management) is less than or equal to 8%, the actual distribution amount will be distributed to the limited partners in accordance with the relative ratio of the principal of the proposed projects by all limited partners.
- (iv) After that, compensation to general partners. If remaining balance exists, it will be fully distributed to the general partners until the accumulative amount received by them based on this item (iv) equals twenty-five percent (25%) of the amount received by the limited partners under item (iii) above.

All partners agreed that the compensation to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the compensation accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.

- (v) Finally, the excess profit will be shared on pro rata basis. If remaining balance exists, eighty per cent (80%) will be distributed among the corresponding limited partners participating in the project investment in accordance with the relative ratio of the principal of the proposed projects by all limited partners; and twenty per cent (20%) will be distributed among general partners.

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## LETTER FROM RAINBOW CAPITAL

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All partners agreed that the excess profit to general partners will only be accrued for the time being, and will not be distributed until the cash income received by all limited partners from the partnership achieves a IRR hurdle return of not less than 8% on all their paid-in capital contributions. Otherwise, the excess profit accrued by the general partners will be distributed to the corresponding limited partners, until the cash income from the partnership reaches the IRR hurdle return of not less than 8% on all their paid-in capital contributions.

- (vi) The parties agreed that each of items (i) to (iv) of this provision takes turns to be the prerequisite for the item after it.
- (vii) If the proposed projects after the date of adjustment to the fund size involve investment exclusion, the income distribution ratio will be adjusted in accordance with the provisions of this agreement.

2. Timing for distribution of cash income:

- (1) Unless otherwise agreed in this agreement, Tongfu Fund shall distribute income within 30 days from the date of receipt of cash income from the investment project.
- (2) From the effective date of this agreement, during the valid duration of the partnership, other after-tax distributable income other than investment income shall be distributed before the end of the first quarter and the third quarter of each year among all partners in accordance with the relative ratio of paid-in capital contribution made by each of Tongchuang Investment, CNNC Capital, the Company and Junmin Fund.

3. On dissolution or liquidation of the Tongfu Fund, after overall accounting is completed, any partner who has received any excess amount above the income distribution amount that should be received according to the provisions of this agreement (such as calculation error, including the distribution amounts received by such partner due to capital reduction or exit from partnership) must return such excess amount to Tongfu Fund, or such excess amount shall be deducted from his receivable amount of liquidation distribution, whether he is still a partner of the Tongfu Fund by then. Particularly, when the total income received by general partners has exceeded income amount receivable when calculated according to the investment in the entire Tongfu Fund project pursuant to the distribution method stipulated under this agreement, the general

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## LETTER FROM RAINBOW CAPITAL

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partners shall return the excess amount to the Tongfu Fund, and such excess amount shall be distributed by the partnership accordingly pursuant to all the projects participated by each of its limited partners.

(b) Non-cash distribution

1. Before liquidation of the Tongfu Fund, the fund manager shall make his best efforts to realize the investment in Tongfu Fund and avoid to make non-cash distribution; before the expiry of the operation period of Tongfu Fund, the distribution of Tongfu Fund is usually made in cash, but when in compliance with the applicable laws and agreed terms, after consideration by the meeting of partners and consent given by partners accounting for more than 85% of the paid-in capital contribution by partners, marketable securities traded in open market or other forms of non-cash assets may be distributed to the general partners in lieu of cash distribution. After dissolution of the Tongfu Fund, securities with restricted liquidity or other fund assets may be distributed.

Subject to the above terms of agreement, before completion of the liquidation of Tongfu Fund, the general partners shall make their best efforts to realize the investment in Tongfu Fund in cash and avoid to make non-cash distribution as far as practicable; however if cash distribution is not possible due to the prevailing laws and regulations, and after consideration by the meeting of partners and consent has been given by partners accounting for more than 85% of the paid-in capital contribution by partners, the general partners may receive distribution in non-cash form. If the non-cash assets for distribution are marketable securities traded in open market, the value shall be determined by the average trading price of such marketable securities within twenty (20) trading days of such securities prior to the determination date of distribution; the value of other non-cash assets shall be reasonably determined by the general partners in accordance with the fair market value confirmed by a reputable third party valuation assessment institution which is confirmed by the general partners and agreed by the consultation committee.

2. When non-cash distribution is made by the Tongfu Fund, the fund manager shall be responsible for assisting all partners to complete the registration procedure for the transfer of distributed assets, and to assist the partners to perform the information disclosure obligations in respect of accepting the transfer of such assets in accordance with the relevant laws and regulations; partners who accept non-cash distributions may also entrust their distributed non-cash assets to the fund manager for disposal according to their instructions, the specific details of the entrustment shall be agreed by separate agreements between the fund manager and relevant limited partners.

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## LETTER FROM RAINBOW CAPITAL

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For assessment of the fairness and reasonableness of distribution policy, please refer to the section headed “C. The Amended Tongfu Agreement – 4. Market comparable analysis” below in this letter for further details.

*(xv) Investment decision committee*

Tongfu Fund has put in place a five-member investment decision committee of which the members are appointed and dismissed by the executive partner. The Company may nominate one (1) member and one (1) industry expert, the executive partner may nominate one (1) member, CNNC Capital may nominate one (1) member and Junmin Fund may nominate one (1) member. The chairman of the investment decision committee shall be either one of members nominated by the executive partner. The chairman of the investment decision committee is responsible for convening and presiding over meetings of the investment decision committee.

The investment decision committee makes decisions on projects investment and exit of investment for the Tongfu Fund. Each member has one vote. For matters requiring decision of the investment decision committee, it must be approved by three (3) or more members. The decisions made by the investment decision committee will be considered and executed by the executive partner and the fund manager. The investment decision committee does not act as an agent for or represent the Tongfu Fund.

By appointing two members to the investment decision committee, the Company maintains its veto right in the investment decision committee of the Tongfu Fund, and we consider this to be of the interest of the Company.

*(xvi) Consultation committee*

The executive partner shall form a consultation committee composed of a certain number of representatives of limited partners to review and approve related matters. The consultation committee consists of three (3) members. BSIF, Junmin Fund and Daxing Fund have the right to appoint one member respectively. The executive partner is the convener for the consultation committee.

Unless otherwise agreed, for matters involving voting by the consultation committee on investment projects completed by the partnership before this agreement takes effect, all three (3) members shall have the right to vote; in addition, for any other matters that require voting by the consultation committee, only the one (1) member nominated by Junmin Fund shall have the right to vote, while the members nominated by Daxing Fund and BSIF shall not have the right to vote, nor shall they have the right to obtain materials involved in the voting matters and attend relevant meetings as non-voting delegates. Resolutions of the consultation committee meeting are subject to unanimous approval by members having the voting rights.

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## LETTER FROM RAINBOW CAPITAL

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The consultation committee has the right to review transactions between the general partner, the manager, the Key persons or the core management team, and the connected persons of the aforementioned persons, or the entities of which the actual controller, shareholder, administrator, director or consultant are the aforesaid persons and the fund, and limited partners (i.e. connected transactions and the single or total amount of investment by Tongfu Fund in a project exceeding RMB300 million (exclusive)).

We are of the view that the consultation committee is important to safeguard the interests of all partners in the Tongfu Fund for the connected transactions (as defined in the Amended Tongfu Agreement), and it is an useful internal control.

*(xvii) Key person provisions*

The Key persons of the executive partner management team are Yu Hongwei, Liu Longwen and Yao Yong. During the valid duration of the partnership, the management team's Key persons shall not change without the consent of the partners in meeting.

If any Key person fails to perform their duties for three consecutive months or more than 90 days in a year, deceases, loses capacity for civil conduct or resigns, it constitutes a "Key person event". After the Key person event occurs, the investment period is automatically suspended. The executive partner shall recommend a successor within 60 days from the date of occurrence of the above matters to take the role of a Key person after consideration by the partner meeting and with the unanimous consent of all partners. If the successor recommended by the executive partner fails to obtain the unanimous consent of all partners within 90 days from the date of occurrence of the Key person event, the partner meeting has the right to decide to replace the executive partner or to decide that the Tongfu Fund should be dissolved and liquidated. If all partners agree to the successor of the Key person, the investment period of the Tongfu Fund shall continue. For the avoidance of doubt, during the suspension of the investment period of the Tongfu Fund, the administrator shall not charge any management fee for the suspension period.

In view of the above, we have obtained and reviewed the resume of each of the Key persons of the executive partner management team and noted their past experience in exercising their expertise in the relevant industry, investment scope and fund management. After reviewed the resume of each Key person, we are of the view that Yu Hongwei, Liu Longwen and Yao Yong are qualified to be the executive partner management team's Key persons.

*(xviii) Competition*

During the valid duration of the Tongfu Fund, the general partner and the manager may not invest, in priority to the Tongfu Fund, in any investment projects within the Tongfu Fund's target scope of investment. Projects that the general partner and the manager had invested in (subject to industrial and commercial registration of change), or projects in respect of which legally binding transaction documents have been signed are not subject to the above restrictions, prior to the establishment of the Tongfu Fund.

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## LETTER FROM RAINBOW CAPITAL

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Before the expiration of the Tongfu Fund's investment period (including any early termination of the investment period), or before 70% of the fund's total contribution (except for the default partner's subscribed capital contribution) has been used for investment or earmarked for investment (subject to the signature of legally binding documents), the key persons and the core management team and their connected persons, the executive partner, and the administrator shall not initiate or manage a RMB or USD follow-up fund that competes with the Tongfu Fund in terms of investment territory, investment field or investment stage.

During the valid duration of the Tongfu Fund, the limited partners may choose to invest separately or jointly with the Tongfu Fund in any investment activities that may compete with the Tongfu Fund.

We are of the opinion that the competition term specifies non-competition duties for the general partner, manager and related parties, and therefore reduces the possibility of conflict of interests and, thereby, safeguards the interest of the Tongfu Fund.

### *(xix) Co-investment mechanism and joint investment*

The fund manager and/or its management team may separately form an investment entity and/or through the investment fund or invest directly on all investment projects of the Tongfu Fund in order to conduct a co-investment. The fund manager and/or its management team's co-investment and Tongfu Fund shall be subject to the same conditions for the same investment project, and the key persons shall not withdraw from the investment project prior to the withdrawal of the Tongfu Fund.

In case of co-investment, the investment made by the fund manager and/or its management team in each investment project shall be not exceed 10% of the total amount invested in the project by the Tongfu Fund.

The Tongfu Fund gives some partners joint investment opportunities. Specifically, the investment opportunities of a project decided to be invested by the Tongfu Fund are shared among co-investors. The parties may agree on their shares of investment through amiable negotiation according to the situation, and the partners with co-investment appeals shall notify the fund manager when the Tongfu Fund is established or incorporated, otherwise it shall be deemed to have voluntarily given up the opportunity.

We are of the view that the co-investment mechanism and joint investment regulates the terms and the amount of co-investment which aligns interests of the partners of the Tongfu Fund.

For further details on amendments made to the principal terms of the Original Tongfu Agreement, please refer to the Letter form the Board.

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## LETTER FROM RAINBOW CAPITAL

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#### *4. Market comparable analysis*

In order to further assess the fairness and reasonableness of the principal terms of the Amended Tongfu Agreement, we have also compared its terms against those of similar fund partnership agreements or arrangements (the “**Comparable Partnerships**”) entered into and as announced by companies listed on the Shenzhen Stock Exchange or Shanghai Stock Exchange from 16 March 2023 to the date of the announcement of the Company in relation to the approval of the entering into of the Amended Tongfu Agreement (the “**Comparable Partnerships Review Period**”).

The duration of the Comparable Partnership Review Period, in our opinion, is sufficient to establish a reasonable and meaningful sample size of comparable fund partnership agreements reflecting the recent market practices and sentiment in the PRC. In addition, since the Amended Tongfu Agreement will be executed in the PRC, the comparison against fund partnership agreements entered into by companies listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange is considered appropriate and reasonable. Overall, we consider the 14 identified Comparable Partnerships are an exhaustive, fair and representative list of relevant fund partnership arrangements based on the said criteria above.

It should be noted that the Comparable Partnerships may have different investment scopes and regions as compared to those of the Tongfu Fund. Having said that, we are of the view that investment scopes and regions should not be a critical factor in determining the principal terms of the Comparable Partnerships. Accordingly, despite having potentially different investment scopes and regions, the Comparable Partnerships provide a general reference of the terms for this type of transaction in the PRC under the current market environment, we consider them to be relevant in assessing the fairness and reasonableness of the principal terms of the Amended Tongfu Agreement. Set out below is a summary comparing the principal terms of the Amended Tongfu Agreement and the Comparable Partnerships as set out in the relevant announcements.

## LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
30 March 2023	301367	BMC Medical Co., Ltd	7	4	N/A	N/A	N/A	80% of the profit will be distributed to the limited partner ("LP") and 20% to the general partner ("GP")	N/A	N/A	N/A	Innovative medical methods and treatment tools, medical equipment relating to genetic engineering, bioengineering and application technology
29 March 2023	300976	Dongguan Tarry Electronics Co., Ltd	5	3	2	Yes	2%, none for extension period	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an internal rate of return ("IRR") of 8%; (iii) distributed to the GP until the amount reach 25% of the distributable amount; and (iv) distributed as to 20% to the GP and 80% to all partners	8%	20%	N/A	Not less than 70% in start-up innovative enterprises and early to mid-stage innovative enterprises

## LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual management fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
28 March 2023	000739	Apelea Pharmaceutical Co., Ltd.	N/A	5	2	Yes	1.50%	after the partners receive an amount calculated at an IRR of 8%, remaining balance will be distributed as to 20% to the GP and 80% to all partners	8%	20%	Subject to consent of all partners	Pharmaceutical industry
20 March 2023	300825	IAT Automobile Technology Co., Ltd.	8	4	3	N/A	N/A	(i) return capital contribution to all partners; (ii) distributed to all LPs until the LPs receive an amount calculated at an IRR of 8%; (iii) distributed to the GPs until the GPs receive an amount calculated at an IRR of 8%; and (iv) distributed as to 20% to the GP and 80% to all LPs	8%	20%	Subject to consent of all partners	Intelligent manufacturing, electronic information, big data, artificial intelligence, 5G information technology, clean energy, new energy vehicles, biomedicine and other new economy industries

## LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual management fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
18 March 2023	000403	Pacific Shuanglin Bio-pharmacy Co., Ltd.	7	4	3	N/A	2%	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 8%; and (iii) distributed as to 20% to the GP and 80% to all partners	8%	20%	Subject to consent of GP	General health, innovative medical devices, artificial intelligence drug, innovative drugs and therapies, CXO and other fields
30 March 2023	600736	Suzhou New Area Hi-Tech Industry Co., Ltd.	8	5	3	Yes	2%	(i) return capital contribution to all LPs; (ii) return capital contribution to GPs; (iii) distributed to all LPs until the LPs receive an amount calculated at an IRR of 8%; (iv) distributed to GPs until the GP receive an amount calculated at an IRR of 8%; and (v) distributed as to 20% to the GP and 80% to all LPs	8%	20%	N/A	Medical equipment, biomedicine, medical informatization, etc.

## LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
30 March 2023	600783	Luxin Venture Capital Group Co., Ltd.	7	4	3	Yes	Investment period 2%, exit period 1%, none for extension period	(i) return capital contribution to all LPs; (ii) return capital contribution to GPs; (iii) distributed to all LPs until the LPs receive an amount calculated at an IRR of 8%; (iv) distributed to GPs until the GP receive an amount calculated at an IRR of 8%; and (v) distributed as to 20% to the GP and 80% to all LPs	8%	20%	N/A	Life science tools industry
30 March 2023	603043	Guangzhou Restaurant Group Company Limited	5	3	2	Yes	1 LP: Investment period 1%, exit period none Other LPs: Investment period 1%, exit period 0.8%	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 6%; and (iii) distributed as to 20% to the GPs and 80% to all partners	6%	20%	N/A	National chain catering, snacks, food supply chain, quick-frozen food, group meals, etc.

## LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
28 March 2023	600300	V V Food & Beverage Co.,Ltd.	8	5	3	Yes	1.50%	(i) return capital contribution to all LPs; (ii) distributed to all LPs until the LPs receive an amount calculated at an IRR of 8%; and (iii) distributed as to 20% to the GP and 80% to all LPs	8%	20%	N/A	Food and beverage, new consumption, agriculture
28 March 2023	600736	Suzhou New Area Hi-Tech Industry Co., Ltd.	7	3	4	Yes	RMB100,000	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 8%; (iii) distributed the amount in (ii)/80% * 20% to the GPs; and (iv) shall be distributed as to 80% to all LPs and 20% to GP	8%	20%	N/A	Upstream and downstream of new energy industry, electronic information and semiconductor industry
23 March 2023	605081	Shanghai Taihe Water Technology Development Co., Ltd.	7	3	4	Yes	Investment period 2%, exit period 1.5%, none for extension period	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 6%; (iii) distributed as to 20% to the GP and 80% to all LPs up to 300% of the contributed capital; and (iv) distributed as to 30% to the GP and 70% to all LPs	6%	20%, and 30% after the profit reach 300% of the contributed capital	N/A	Double-carbon green industry, China's new generation of information technology with AI, IC, and IT as core technologies and integrated circuit industry

# LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual management fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
21 March 2023	603187	Qingdao Hiron Commercial Cold Chain Co., Ltd.	7	5	2	Yes	2%	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 8%; (iii) distributed as to 20% to the GP and 80% to all LPs	8%	20%	N/A	Consumer technology and new consumption industry
20 March 2023	603886	Ganso Co., Ltd	7	4	3	Yes	Investment period 1%, exit period 0.75%, none for extension period	(i) return capital contribution to all partners; (ii) distributed to all partners until the partners receive an amount calculated at an IRR of 8%; and (iii) distributed as to 20% to the GPs and 80% to all partners. Distribution priority shall be given to the LPs until the LPs reach an IRR of 12%, thereafter priority should be given to the GP until the GP receive the amount equivalent to 25% of all distribution made. After that distribution shall be continued in the manner of (iii), being 20% to the GPs and 80% to all partners	8%	20%	N/A	Consumer brand, consumer technology, consumer service, consumer health and digital economy

# LETTER FROM RAINBOW CAPITAL

Date of announcement	Stock code	Company name	Duration (year)	Investment period (year)	Exit period (year)	Extension management of duration	Annual management fee	Distribution mechanism	Threshold rate for distribution of hurdle return after return of capital contribution	Distribution of excess profit to the general partners after the return of capital contribution and distribution of hurdle return	Restriction of transfer on limited partner	Investment scope(s) (and region(s), if applicable)
17 March 2023	600704	Wuchan Zhongda Group Co., Ltd.	5	N/A	N/A	N/A	1%	(i) distributed to all partners until the partners receive an amount calculated at an IRR of 8%; and (ii) distributed as to 20% to the GP and 80% to all LPs	8%	20%	N/A	New materials, new technologies, circular economy and other industrial fields
		<b>Maximum</b>	8	5	4		2%		8%	20%		
		<b>Minimum</b>	5	3	2		none		6%	20%		
30 March 2023	1763	The Company	8	5	3	Yes	1.6%, none for extension period	Same methodology for projects before and after adjustment of fund size, being: (i) return capital contribution to LPs; (ii) return of capital contribution to GPs; (iii) distributed to all LPs until the LPs receive an amount calculated at an IRR of 8%; (iv) distribute up to 25% of the hurdle return to LP; and (v) distributed as to 20% to the GP and 80% to all partners	8%	20%	N/A	Nuclear technology related industries and industrial nuclear applications

*Note:* N/A in the table above denotes the information were not disclosed in the announcement.

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## LETTER FROM RAINBOW CAPITAL

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As illustrated in the table above, (i) the duration of the Comparable Partnerships ranged from 5 years to 8 years; (ii) the investment period of the Comparable Partnership ranged from 3 years to 5 years; (iii) the exit period of the Comparable Partnership ranged from 2 years to 4 years; (iv) the annual management fee of the Comparable Partnerships ranged from none to 2.0%; (v) threshold rate for distribution of hurdle return after return of capital contribution of the Comparable Partnership at annualised return rate ranged from 6% to 8%; (vi) distribution of excess profit to the GP are all in 20%; and (vii) the absence of the restriction of transfer by the LP in the Amended Tongfu Agreement is similar to some of the Comparable Partnerships.

Generally, the Comparable Partnerships share similar distribution mechanism to that of the Tongfu Fund, being (i) first to return the capital contributions to partners; (ii) a hurdle rate is set based on the IRR on the capital contributions; and (iii) distribution of remaining profits between the GP and LPs. While there are minor differences in distribution arrangements, such as the order of returning the capital contribution and the distribution of profit under the hurdle rate to GP and LP, the excess compensation payable to the GP based on the hurdle rate profit and the increase in distribution to LP after the profit reach certain threshold, we consider that the distribution mechanism of the Tongfu Fund is generally in line with the Comparable Partnerships. In view of the above, we consider that the principal terms (including the distribution policy) of the Amended Tongfu Agreement are generally in line with the principal terms of the Comparable Partnerships.

### ***5. Financial effects of entering into the Amended Tongfu Agreement on the Group***

According to the Amended Tongfu Agreement, all parties to the Amended Tongfu Agreement had completed their capital contribution, and Tongchuang Investment, BSIF, Junmin Fund and Daxing Fund would be refunded of their contributed capital due to their reduction in committed capital. As the Company's committed capital in Tongfu Fund would be reduced to the amount already contributed, the Group would not receive any refund from the Tongfu Fund and the Group does not need to contribute any additional capital to the Tongfu Fund.

#### *(i) Earnings*

As advised by the management of the Group, the Tongfu Fund had already invested in a few projects and all of them are expected to generate positive returns, with their expected exit period ranged from 2024 to 2026. Given the targeted exit timeframe of the projects and the profit distribution mechanism of the Tongfu Fund, the TongFu Fund is not expected to bring any significant contribution to the earnings of the Group for the year ending 31 December 2023 while earnings of the Group is expected to be increased for the three years ending 31 December 2026.

#### *(ii) Net asset value*

The equity attributable to the Shareholders was approximately RMB4,465.3 million as at 31 December 2022. The Company's investments in the Tongfu Fund will continue to be recognized as interests in joint ventures in the consolidated financial statements of the Company. The Amended Tongfu Agreement is not expected to have any immediate material impact on the net asset value of the Group.

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## LETTER FROM RAINBOW CAPITAL

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*(iii) Liquidity and gearing*

As at 31 December 2022, cash at bank and on hand and net current assets (i.e. total current assets less total current liabilities) of the Group were approximately RMB2,923.2 million and approximately RMB3,524.9 million respectively. As mentioned above, since the Company's committed capital in the Tongfu Fund would be reduced to the amount the Company already contributed, the Group would not receive any refund from the Tongfu Fund and does not need to contribute any additional capital to the Tongfu Fund. Hence, there are no material impact on the liquidity position and gearing ratio of the Group.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Renewed Financial Services Agreement and the Engineering Construction Services Framework Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Renewed Financial Services Agreement (including the proposed annual caps) and Engineering Construction Services Framework Agreement (including the Revised Annual Caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. On the other hand, although the Amended Tongfu Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Amended Tongfu Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the AGM to approve the Transactions.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**  
**Larry Choi**  
*Managing Director*

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

**1. FINANCIAL INFORMATION**

Financial information of the Company for the year ended 31 December 2020 is disclosed in the 2020 annual report of the Company, financial information of the Company for the year ended 31 December 2021 is disclosed in the 2021 annual report of the Company, and financial information of the Company for the year ended 31 December 2022 is disclosed in the 2022 annual report of the Company, hyperlinks to which are set out below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042001745.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700367.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042602249.pdf>

**2. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Company since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up.

**3. WORKING CAPITAL**

Taking into account the financial resources available to the Group and the proposed continuing connected transactions contemplated under the Renewed Financial Services Agreement, the Directors are of the opinion that the Group has sufficient working capital for its present requirements that is for at least 12 months from the date of this circular.

**4. INDEBTEDNESS OF THE GROUP**

As at the close of business on 31 March 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had (i) long-term borrowings of RMB753.53 million, which represents interest-bearing unsecured and unguaranteed bank loans; (ii) long-term borrowings of RMB6.38 million, which represents interest-bearing bank loans that is secured by the Group's certain properties and land use right; (iii) short-term borrowings of RMB10.00 million, which represents interest-bearing bank loans that is secured by the Group's certain properties and land use right; and (iv) lease liabilities of RMB78.63 million.

Save as disclosed, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing, mortgages, charges, guarantees or other material contingent liabilities as at the close of business on 31 March 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

**5. FINANCIAL AND TRADING PROSPECTS**

CNNCFC, a non-bank financial company and a subsidiary of CNNC, has deep understanding in the industry characteristics, capital structures, business operations, financing need, cash flow patterns and the entire financial management system of the Group through its historical cooperative relationship with the Company. It provides services to the Group on equal or better commercial terms compared to those offered by other external independent commercial banks. In addition, as it is a major clearing and settlement platform of CNNC and its associates, engaging CNNCFC enables the Company to reduce costs, maximise efficiency and benefit from the capital pool managed by CNNC.

In respect of the Renewed Financial Services Agreement, (i) deposits to be placed by the Group with CNNC and/or its associates will generate interest income for the Company and (ii) entrusted loan, settlement, foreign exchange and other services, financial leasing services, as well as factoring services to be provided by CNNC and/or its associates to the Group are not expected to have any significant effect on the Group's earnings, assets and liabilities.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTEREST

### Directors, Supervisors and chief executive of the Company

As at the Latest Practicable Date, based on the information available to the Company and to the best knowledge of the Directors, none of the Directors, Supervisors or chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register pursuant to section 336 of SFO:

Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the relevant class of Shares %	Approximate percentage of shareholding in the total share capital of our Company %
CNNC <sup>(1)</sup>	Domestic Shares	Beneficial owner/ Interest of controlled corporation	236,150,233(L)	98.43(L)	73.83(L)
CIAE <sup>(1)</sup>	Domestic Shares	Beneficial owner	58,534,835(L)	24.40(L)	18.30(L)
NPIC <sup>(1)</sup>	Domestic Shares	Beneficial owner	46,994,835(L)	19.59(L)	14.69(L)
CNNC Fund <sup>(1)</sup>	Domestic Shares	Beneficial owner	18,779,342(L)	7.83(L)	5.87(L)

Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the relevant class of Shares %	Approximate percentage of shareholding in the total share capital of our Company %
Shanghai Industrial Investment (Holdings) Company Limited (“SIIC”) <sup>(2)</sup>	H Shares	Interest of controlled corporation	8,906,400(L)	11.14(L)	2.78(L)
Shanghai Industrial Investment Treasury Company Limited <sup>(2)</sup>	H Shares	Interest of controlled corporation	8,906,400(L)	11.14(L)	2.78(L)
Shanghai Investment Holdings Limited <sup>(2)</sup>	H Shares	Interest of controlled corporation	8,906,400(L)	11.14(L)	2.78(L)
Shanghai Industrial Holdings Limited (“SIHL”) <sup>(2)</sup>	H Shares	Interest of controlled corporation	8,906,400(L)	11.14(L)	2.78(L)
S.I. Infrastructure (Holdings) Limited <sup>(2)</sup>	H Shares	Interest of controlled corporation	8,906,400(L)	11.14(L)	2.78(L)
Sure Advance Holdings Limited (“Sure Advance”) <sup>(2)</sup>	H Shares	Beneficial owner	8,906,400(L)	11.14(L)	2.78(L)
Lianwen Ltd <sup>(3)</sup>	H Shares	Beneficial owner	13,541,600(L)	16.93(L)	4.23(L)
Li Hongbo <sup>(3)</sup>	H Shares	Interest of controlled corporation	16,041,600(L)	20.06(L)	5.01(L)
Serenity Capital Management, Ltd. <sup>(4)</sup>	H Shares	Investment manager	4,801,600(L)	6.00(L)	1.50(L)
Serenity Investment Master Fund Limited <sup>(4)</sup>	H Shares	Beneficial owner	4,801,600(L)	6.00(L)	1.50(L)
UBS Group AG	H Shares	Interest of controlled corporation	4,265,077(L)	5.33(L)	1.33(L)
JPMorgan Chase & Co.	H Shares	Interest of controlled corporation and person having a security interest in shares	5,633,094(L) <sup>(5)</sup>	7.04(L)	1.76(L)
JPMorgan Chase & Co.	H Shares	Interest of controlled corporation	5,486,562(S) <sup>(6)</sup>	6.86(S)	1.72(S)

## Notes:

1. CNNC directly holds 106,676,903 Domestic Shares of the Company, representing approximately 44.47% of the domestic share capital of our Company. Each of CIAE and NPIC is a public institute controlled and managed by CNNC and holds 58,534,835 and 46,994,835 Domestic Shares, representing approximately 24.40% and 19.59% of the domestic share capital of our Company, respectively. CNNC Fund is a non-wholly-owned subsidiary of CNNC and holds 18,779,342 Domestic Shares, representing approximately 7.83% of the domestic share capital of our Company. Each of 404 Company and China Baoyuan is a wholly-owned subsidiary of CNNC and holds 3,755,868 Domestic Shares and 1,408,450 Domestic Shares, respectively, representing approximately 1.57% and 0.59% of the domestic share capital of our Company, respectively. By virtue of the SFO, CNNC is deemed to be interested in the Domestic Shares held by CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan, which in aggregate representing approximately 98.43% of the domestic share capital of our Company.

2. By virtue of the SFO, SIIC is deemed to be interested in the 8,906,400 H Shares held by Sure Advance a controlled corporation of SIIC. SIIC holds 100% equity interest in Shanghai Industrial Investment Treasury Company Limited, while Shanghai Industrial Investment Treasury Company Limited directly held 100% equity interest in Shanghai Investment Holdings Limited, which in turn holds approximately 55.13% equity interest in SIHL. SIHL directly holds 100% equity interest in S.I. Infrastructure (Holdings) Limited, which directly held 100% equity interest in Sure Advance.
3. Lianwen Ltd is 100% controlled by Li Hongbo. By virtue of the SFO, Li Hongbo is deemed to be interested in the 13,541,600 H shares held by Lianwen Ltd.
4. Serenity Investment Master Fund Limited is 100% controlled by Serenity Capital Management, Ltd. By virtue of the SFO, Serenity Capital Management, Ltd. is deemed to be interested in the 4,801,600 H Shares held by Serenity Investment Master Fund Limited.
5. Among these 5,633,094 H shares, 5,267,000 H shares are held by JPMorgan Chase Bank, National Association, a direct wholly-owned subsidiary of JPMorgan Chase & Co., and 366,094 H shares are held by J.P. Morgan Securities PLC, an indirect wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. is deemed as the owner of the H share equity interests held by its aforesaid subsidiaries.
6. Among these 5,486,562 H shares, 5,267,000 H shares are held by JPMorgan Chase Bank, National Association, a direct wholly-owned subsidiary of JPMorgan Chase & Co., and 219,562 H shares are held by J.P. Morgan Securities PLC, an indirect wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. is deemed as the owner of the H share equity interests held by its aforesaid subsidiaries.

Save as disclosed and so far as was known to the Directors, as at the Latest Practicable Date, no other persons (other than the Directors, Supervisors and chief executive of the Company) had any interest or short position in the Shares or underlying shares of the Company which was required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which was required to be entered in the register kept by the Company pursuant to section 336 of SFO.

### **Interests in assets or contracts or arrangements significant to the Group**

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any asset which has been, since 31 December 2022 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or is proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at such date and which is significant in relation to the business of the Group.

### **Service contracts**

As at the Latest Practicable Date, there was no existing or proposed service contract (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)) between any of the Directors or Supervisors and any member of the Group.

### **Competing interest**

As at the Latest Practicable Date, none of the Directors or any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete directly or indirectly with the Group's business.

### 3. MATERIAL LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

### 4. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the Independent Financial Adviser who has given its advice for inclusion in this circular:

<b>Name</b>	<b>Qualification</b>
Rainbow Capital (HK) Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Rainbow Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Rainbow Capital had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Rainbow Capital had no direct or indirect interest in any asset which has been, since 31 December 2022 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or is proposed to be acquired or disposed of by or leased to any member of the Group.

The letter and recommendation from Rainbow Capital are set out on pages 55 to 118 of this circular and are given for incorporation in this circular.

### 5. GENERAL

- (i) The Company's registered office is at Room 418, South 4th Floor, Building 1, No. 66 Changwa Middle Street, Haidian District, Beijing, China.
- (ii) The Company's head office and principal place of business in the PRC is No. 66 Changwa Middle Street, Haidian District, Beijing, China.
- (iii) The Company's principal place of business in Hong Kong at 5/F, Manulife Place, No. 348 Kwun Tong Road, Kowloon, Hong Kong.

- (iv) The Company's joint company secretaries are Mr. Gui Youquan and Ms. Kam Mei Ha Wendy. Ms. Kam is a fellow member of both of the Hong Kong Chartered Governance Institute and the Chartered Governance Institute in the U.K..
- (v) The Company's H share registrar is Computershare Hong Kong Investor Services Limited, whose business address is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (vi) In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

## **6. DOCUMENTS ON DISPLAY**

The following documents will be posted on the website of the Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (<https://www.circ.com.cn/>) for at least 14 days from the date of this circular:

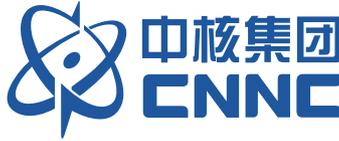
- (i) the amended Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement;
- (ii) the Engineering Construction Services Framework Agreement;
- (iii) the Renewed Financial Services Agreement;
- (iv) the letter from Rainbow Capital, the text of which is set out on pages 55 to 118 of this circular; and
- (v) the written consent of the Independent Financial Adviser referred to in the paragraph headed "Expert's Qualification and Consent" above in this appendix.

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## NOTICE OF ANNUAL GENERAL MEETING

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### CHINA ISOTOPE & RADIATION CORPORATION

### 中國同輻股份有限公司

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1763)**

#### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** by the board (the “**Board**”) of directors (the “**Directors**”) of China Isotope & Radiation Corporation (the “**Company**”) that the annual general meeting of the Company (the “**AGM**”) will be held at 10:00 a.m. on Friday, 30 June 2023 at Room 305, 3/F, No. 66 Changwa Middle Street, Haidian District, Beijing, China by way of physical meeting to consider and, if thought fit, approve the following resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. To consider and approve the appointment of Mr. Ding Jianmin as a non-executive Director.
2. To consider and approve the appointment of Mr. Poon Chiu Kwok as an independent non-executive Director.
3. To consider and approve the 2022 report of the Board.
4. To consider and approve the 2022 report of the board of Supervisors of the Company.
5. To consider and approve the 2022 final accounts of the Company.
6. To consider and approve the proposed declaration and distribution of a final dividend in the amount of RMB0.4407 per share (inclusive of tax) for the year ended 31 December 2022 (the “**Final Dividend**”).
7. To consider and approve the 2023 investment plan of the Company.
8. To consider and approve the 2023 financial budget plan of the Company.

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## NOTICE OF ANNUAL GENERAL MEETING

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9. To consider and approve the re-appointment of ShineWing Certified Public Accountants (Special Partnership) as the Company's domestic certified public accountant for annual audit in 2022 and its fee shall be 50% of the annual audit fee standard published by Beijing Municipal Bureau of Finance.
10. To consider and approve the re-appointment of SHINEWING (HK) CPA Limited as the Company's international auditor for the year ending 31 December 2023, for a term of office until the next annual general meeting of the Company, and its fee shall be RMB1.95 million.
11. To consider and approve the proposed amendment to the Tongfu Innovation Industrial Investment Fund Partnership (Limited Partnership) Partnership Agreement.
12. To consider and approve the proposed revision of annual caps of engineering construction services provided by CNNC and/or its associates to the Company and its subsidiaries under the Engineering Construction Services Framework Agreement for the year ended 31 December 2023.
13. To consider and approve the Renewed Financial Services Agreement proposed to be entered into between the Company and CNNC for a term from 1 July 2023 to 31 December 2025, the transactions contemplated thereunder and the proposed annual caps of the services to be provided thereunder.

By Order of the Board  
**China Isotope & Radiation Corporation**  
**Wang Suohui**  
*Chairman*

Beijing, the PRC, 15 May 2023

*As at the date of this notice, the Board comprises Mr. Wang Suohui, Mr. Xu Hongchao and Mr. Du Jin as executive Directors; Mr. Chen Shoulei, Mr. Dai Shuquan, Ms. Chang Jinyu and Ms. Liu Xiuhong as non-executive Directors; Mr. Hui Wan Fai, Mr. Tian Jiahe, Ms. Chen Jingshan and Mr. Lu Chuang as independent non-executive Directors.*

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## NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

1. The register of members of the Company will be closed from Tuesday, 27 June 2023 to Friday, 30 June 2023 (both dates inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on 30 June 2023 will be entitled to attend and vote at the AGM. In order to be qualified to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with (in respect of holders of H Shares) the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or, (in respect of holders of Domestic Shares) the Company's head office and principal place of business in the PRC at No. 66 Changwa Middle Street, Haidian District, Beijing, China, for registration no later than 4:30 p.m. on Monday, 26 June 2023.
2. The register of members of the Company will be closed from Thursday, 6 July 2023 to Wednesday, 12 July 2023 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on Wednesday, 12 July 2023 will be entitled to receive the Final Dividend. In order to be entitled to the Final Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with (in respect of holders of H Shares) the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or, (in respect of holders of Domestic Shares) the Company's head office and principal place of business in the PRC at No. 66 Changwa Middle Street, Haidian District, Beijing, China, for registration no later than 4:30 p.m. on Wednesday, 5 July 2023.
3. Each Shareholder who is entitled to attend and vote at the AGM may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a Shareholder.
4. The instrument appointing a proxy must be in writing by the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or signed by a director or a duly authorised attorney. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.
5. To be valid, the proxy form and notarised power of attorney or other authorisation document must be delivered to (in respect of holders of H Shares) the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or (in respect of holders of Domestic Shares) the Company's head office and principal place of business in the PRC at No. 66 Changwa Middle Street, Haidian District, Beijing, China, as soon as possible but in any event no later than 24 hours before the time stipulated for holding the AGM (i.e. before 10:00 a.m. on Thursday, 29 June 2023) or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the AGM or at any adjourned meeting if you so wish. If a shareholder appoints more than one proxy, such proxies shall only exercise the right to vote by poll.
6. Shareholders or their proxies should produce proof of identity when attending the AGM. If a Shareholder is a legal entity, its legal representative or other person authorised by the board of directors or other governing body of such shareholder may attend the AGM by producing a notarially certified copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the AGM.
7. If Shares are held by joint holders, any such person may vote in person or by proxy at the AGM or at any adjourned meeting thereof, in respect of such Shares as if he/she was solely entitled thereto; whereas when two or more joint holders attend the AGM in person or by proxy(ies), only the person whose name appears first in the register of members in respect of such Shares shall alone be entitled to vote in respect thereof.
8. The AGM is expected to last for no more than half a day. Shareholders (or their proxies) attending the AGM in person are responsible for their own transportation and accommodation expenses.
9. Contact information of the Company  
  
Address: No. 66 Changwa Middle Street, Haidian District, Beijing, China  
(For the attention of the Joint Company Secretary)  
Tel: +86 10 68511807  
Fax: +86 10 68512374  
Email: ir@circ.com.cn
10. References to dates and times in this notice are to Hong Kong dates and times.