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

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

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



# CNNC INTERNATIONAL LIMITED
# 中 核 國 際 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2302)**

# (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED INVESTMENTS IN CNNC FINANCIAL LEASING COMPANY LIMITED; AND (2) NOTICE OF EGM

**Financial adviser to CNNC International Limited**

OPTIMA CAPITAL

**Optima Capital Limited**

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

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 5 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from Gram Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 38 of this circular.

A notice convening the EGM to be held at Pacific Room, 2/F, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on 30th November, 2018 at 3:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.

12th November, 2018

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

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| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "Capital Increase" | the proposed increase in the registered capital of CNNC Leasing from RMB1 billion to RMB2 billion through the Second Tranche Investment as well as capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors |
| "China United" | China United Assets Appraisal Group Company Limited (中聯資產評估集團有限公司), an independent professional valuer |
| "CNNC" | China National Nuclear Corporation (中國核工業集團有限公司), which is wholly-owned by the SASAC |
| "CNNC Group" | CNNC and its subsidiaries |
| "CNNC Leasing" | CNNC Financial Leasing Company Limited (中核融資租賃有限公司), a company established in the PRC with limited liability |
| "Company" | CNNC International Limited, a company incorporated in the Cayman Islands, whose issued Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2302) |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Contribution Rights" | the right to contribute to the registered capital of CNNC Leasing in the amount of RMB120.19 million |
| "controlling Shareholder" | has the meaning ascribed to it under the Listing Rules |
| "Director(s)" | director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve (i) the Transfer Framework Agreement and the transactions contemplated thereunder; and (ii) the Investment Framework Agreement and the transactions contemplated thereunder |
| "Enlarged Group" | the Group as enlarged by the Investments (assuming completion of the Investments has taken place) |
| "First Long Stop Date" | 31st December, 2018, or such other date as extended and agreed by the parties to the Transfer Framework Agreement |

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| "First Tranche Investment" | the investment in the amount of RMB120.19 million by the Investor in the registered capital of CNNC Leasing pursuant to the terms of the Transfer Framework Agreement |
| "Gram Capital" or "Independent Financial Adviser" | Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "IA Extension Confirmation" | the confirmation dated 30th July, 2018 entered into between the Investor and CNNC Leasing in relation to, among other things, the extension of the Second Long Stop Date to 31st December, 2018 |
| "Independent Board Committee" | the independent committee of the Board, comprising Mr. Cheong Ying Chew Henry, Mr. Cui Liguo and Mr. Zhang Lei, all being independent non-executive Directors, established to give recommendations to the Independent Shareholders in respect of the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder |
| "Independent Shareholder(s)" | the Shareholder(s) other than CNNC and its associates |
| "Investment Agreement Confirmation" | the confirmation dated 6th September, 2018 entered into between the Investor and CNNC Leasing in relation to, among other things, the amount of the Second Tranche Investment Capital of approximately RMB248.8 million |
| "Investment Completion Date" | the date on which all the conditions precedent to the Investment Framework Agreement having been fulfilled (or waived, as the case maybe) and the registration of change of shareholders of CNNC Leasing having been completed |
| "Investment Framework Agreement" | the investment framework agreement dated 12th March, 2018 (as supplemented by the IA Extension Confirmation and the Investment Agreement Confirmation) entered into between the Investor and CNNC Leasing in relation to the Second Tranche Investment |

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| "Investments" | the First Tranche Investment and the Second Tranche Investment |
| "Investor" | CNNC International (HK) Limited (中核國際(香港)有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company |
| "Latest Practicable Date" | 7th November, 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "PRC" | The People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "SASAC" | the State-owned Assets Supervision and Administration Commission of the State Council of the PRC |
| "Second Long Stop Date" | 31st December, 2018, or such other date as extended and agreed by the parties to the Investment Framework Agreement |
| "Second Tranche Investment" | the investment in the Second Tranche Investment Capital by the Investor pursuant to the terms of the Investment Framework Agreement |
| "Second Tranche Investment Capital" | the amount of registered capital to be invested by the Investor pursuant to the terms of the Investment Framework Agreement |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | the ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | the holder(s) of the issued Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "TA Extension Confirmation" | the confirmation dated 30th July, 2018 entered into among the Investor, XHK and CNNC Leasing in relation to, among other things, the extension of the First Long Stop Date to 31st December, 2018 |

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| "Transfer Agreement Confirmation" | the confirmation dated 6th September, 2018 entered into among the Investor, XHK and CNNC Leasing in relation to, among other things, the consideration of the Contribution Rights of RMB2.22 million |
| "Transfer Completion Date" | the date on which all the conditions precedent to the Transfer Framework Agreement having been fulfilled (or waived, as the case maybe) and the registration of change of shareholders of CNNC Leasing having been completed |
| "Transfer Framework Agreement" | the transfer framework agreement dated 12th March, 2018 (as supplemented by the TA Extension Confirmation and the Transfer Agreement Confirmation) entered into among the Investor, XHK and CNNC Leasing in relation to the transfer of the Contribution Rights and the First Tranche Investment |
| "XHK" | Xie He Kong Company Limited (協和港有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the CNNC |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "%" | per cent. |

# CNNC INTERNATIONAL LIMITED
# 中 核 國 際 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2302)**

*Chairman and Non-executive Director:*
Mr. Yang Chaodong

*Executive Director and Chief Executive Officer:*
Mr. Bai Donghai

*Non-executive Director:*
Mr. Li Zhihuang

*Independent Non-executive Directors:*
Mr. Cheong Ying Chew Henry
Mr. Cui Liguo
Mr. Zhang Lei

*Registered Office:*
P.O. Box 309GT
Ugland House
South Church Street
Grand Cayman
Cayman Islands

*Head Office and Principal Place of Business:*
Unit 3009,
30th Floor,
No. 118 Connaught Road West,
Hong Kong

12th November, 2018

*To the Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED INVESTMENTS IN CNNC FINANCIAL LEASING COMPANY LIMITED

### A. INTRODUCTION

Reference is made to the announcement of the Company dated 12th March, 2018. After the trading hours of the Stock Exchange on 12th March, 2018, the Investor (a direct wholly-owned subsidiary of the Company), XHK and CNNC Leasing entered into the Transfer Framework Agreement, pursuant to which XHK conditionally agreed to transfer, and the Investor conditionally agreed to accept, the Contribution Rights, at a consideration which is subject to a cap of RMB3 million. Subsequently, and pursuant to the Transfer Agreement Confirmation, the parties have confirmed the consideration of the Contribution Rights to be RMB2.22 million. The Contribution Rights confer upon the Investor the right to contribute to the registered capital of CNNC Leasing in the amount of RMB120.19 million and acquire 12.019% of the registered capital in CNNC Leasing (i.e. the First Tranche Investment).

On the same day, the Investor and CNNC Leasing entered into the Investment Framework Agreement, pursuant to which the Investor conditionally agreed to make the Second Tranche Investment in the amount of RMB250 million to obtain certain amount in the Second Tranche Investment Capital, subject to completion of the First Tranche Investment and capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase. Pursuant to the Investment Agreement Confirmation, the parties have confirmed the amount of the Second Tranche Investment Capital to be approximately RMB248.8 million. Upon completion of the First Tranche Investment and the Second Tranche Investment, together with the capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase, the issued and paid-up registered capital of CNNC Leasing will be enlarged to RMB2 billion and the Investor will hold, in aggregate, approximately 18.45% of the registered capital in CNNC Leasing.

As one of the applicable percentage ratios (as defined under the Listing Rules) is greater than 25% but less than 100%, the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder constitute major transactions for the Company and are subject to the reporting, announcement, circular and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company was owned as to approximately 66.72% by CNNC Overseas Uranium Holding Limited, an indirect wholly-owned subsidiary of CNNC, and the controlling Shareholder of the Company. XHK is an indirect wholly-owned subsidiary of CNNC and, as at the Latest Practicable Date, held 25% equity interest in CNNC Leasing, including both the paid-up capital of RMB129.81 million and the unpaid-up capital of RMB120.19 million to be transferred to the Investor pursuant to the Transfer Framework Agreement (i.e. the Contribution Rights). All other existing shareholders of CNNC Leasing are companies within the CNNC Group. Accordingly, XHK and CNNC Leasing are connected persons of the Company under the Listing Rules, and therefore the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder also constitute non-exempt connected transactions for the Company and are subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder. CNNC is regarded as having material interests in the Transfer Framework Agreement and the Investment Framework Agreement by virtue of CNNC's interests in the Investor, XHK and CNNC Leasing. Accordingly, CNNC and its associates will be required to abstain from voting on the relevant resolutions in relation to the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder to be proposed at the EGM.

The Independent Board Committee which comprises Mr. Cheong Ying Chew Henry, Mr. Cui Liguo and Mr. Zhang Lei, all being independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among others things, (i) details of the Transfer Framework Agreement and the transactions contemplated thereunder; (ii) details of the Investment Framework Agreement and the transactions contemplated thereunder; (iii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iv) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders; (v) the financial information of the Group; (vi) the financial information of CNNC Leasing; (vii) the unaudited pro forma financial information of the Enlarged Group; (viii) the summary valuation report; (ix) other information required to be disclosed under the Listing Rules; and (x) the notice of the EGM.

## B. THE INVESTMENTS

### 1. THE TRANSFER FRAMEWORK AGREEMENT

**Date**

12th March, 2018

**Parties**

(i) the Investor, a direct wholly-owned subsidiary of the Company, being the transferee;

(ii) XHK, being the transferor; and

(iii) CNNC Leasing.

As at the Latest Practicable Date, the Company was owned as to approximately 66.72% by CNNC Overseas Uranium Holding Limited, an indirect wholly-owned subsidiary of CNNC, and the controlling Shareholder of the Company. CNNC is wholly-owned by the SASAC, and the CNNC Group (excluding the Group) is principally engaged in, among other things, nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, application of nuclear technologies, non-nuclear civilian products, new energy sources in the PRC, etc. (including investing in uranium resources and trading in electronic products).

XHK is an indirect wholly-owned subsidiary of CNNC and, as at the Latest Practicable Date, held 25% equity interest in CNNC Leasing, including both the paid-up capital of RMB129.81 million and the unpaid-up capital of RMB120.19 million to be transferred to the Investor pursuant to the Transfer Framework Agreement (i.e. the Contribution Rights). XHK is principally engaged in the trading of electronic products. All other existing shareholders of CNNC Leasing are companies within the CNNC Group. Accordingly, XHK and CNNC Leasing are connected persons of the Company under the Listing Rules.

**Subject matter**

Pursuant to the Transfer Framework Agreement, XHK conditionally agreed to transfer, and the Investor conditionally agreed to accept, the Contribution Rights, which confer upon the Investor the right to make the First Tranche Investment in the amount of RMB120.19 million and acquire 12.019% of the registered capital in CNNC Leasing.

**Consideration for the Contribution Rights and the First Tranche Investment**

Pursuant to the Transfer Framework Agreement, the consideration for the Contribution Rights shall be determined with reference to the asset appraisal report of CNNC Leasing, and shall be confirmed by XHK and the Investor, subject to a cap of RMB3 million.

On 6th September, 2018, the Investor, XHK and CNNC Leasing entered into the Transfer Agreement Confirmation to supplement the Transfer Framework Agreement to confirm the consideration of RMB2.22 million for the Contribution Rights and that the Investor shall not be entitled to the retained earnings of CNNC Leasing previously earned before the First Tranche Investment is made.

As advised by CNNC Leasing, it has prepared the asset appraisal report of CNNC Leasing as at 31st December, 2017 which is a valuation report for submission to and approval by the authorised unit of the SASAC, and the Contribution Rights based on the asset appraisal report shall amount to RMB2.22 million. In order to determine the consideration for the Contribution Rights, the Investor has commissioned China United to conduct a valuation on CNNC Leasing as at 31st May, 2018 (a summary of which is set out in Appendix IV to this circular). China United has appraised the equity value of CNNC Leasing to be in the range of approximately RMB998.1 million to RMB1,037.5 million (without accounting for the unpaid-up capital of RMB120.19 million). Having (i) added the First Tranche Investment of RMB120.19 million to; and (ii) deducted the retained earnings of CNNC Leasing as shown in its unaudited management account as at 31st May, 2018 of approximately RMB105.9 million from the appraised equity value of CNNC Leasing, the adjusted appraised equity value of CNNC Leasing as at 31st May, 2018 (the "**Adjusted Value**") shall be in the range of approximately RMB1,012.4 million and RMB1,051.8 million. Accordingly, the equity value of 12.019% of CNNC Leasing (representing the First Tranche Investment) shall be in the range of approximately RMB121.7 million and RMB126.4 million. After taking into account: (i) the sum of the First Tranche Investment and the amount of the

Contribution Rights of RMB2.22 million, to be approximately RMB122.41 million (the "**Summed Amount**"), which is within the range of the Adjusted Value; and (ii) the fact that the Contribution Rights of RMB2.22 million, is below the cap of RMB3 million pursuant to the Transfer Framework Agreement, the Investor agreed with XHK and CNNC Leasing after arm's length negotiation that the consideration for the Contribution Rights was determined at RMB2.22 million.

Having discussed with China United, the Directors understood that the financial figures of the comparable cases adopted in the valuation are prepared in accordance with the generally accepted accounting principle in the PRC (the "**PRC GAAP**") and therefore the unaudited management accounts of CNNC Leasing dated 31st May, 2018, which are prepared in accordance with the PRC GAAP, are used in the valuation of CNNC Leasing for consistency. If the valuation were to be prepared based on the audited accounts of CNNC Leasing as at 31st May, 2018 as set out in Appendix I to this circular, the Adjusted Value would range from approximately RMB1,009.5 million to RMB1,047.3 million (representing differences of approximately 0.29% and 0.43% as compared with the above Adjusted Value calculated based on the unaudited management accounts of CNNC Leasing). Having considered that (i) the using of unaudited management accounts of CNNC is more consistent with the comparable cases adopted in the valuation; and (ii) the difference in Adjusted Value using the two different accounts of CNNC Leasing is less than approximately 0.5%, the Directors consider that the valuation prepared based on unaudited management accounts of CNNC Leasing is fair and reasonable and is appropriate for the purpose of assessing the proposed Investments.

Having considered (i) the Summed Amount is within the range of the Adjusted Value; (ii) the consideration for the Contribution Rights is below the cap of RMB3 million as agreed in the Transfer Framework Agreement; (iii) the acquisition of the Contribution Rights (which is subject to the cap of RMB3 million) allows the Investor to invest in and acquire 12.019% equity interests in CNNC Leasing with certainty in the cash outlay, whereby a capital injection in a state-owned enterprise may be subject to the prevailing value of assets to be appraised at the time of making the investment which poses more uncertainty to the Investor; (iv) the business prospects and the financial performance of CNNC Leasing; and (v) that the Group has been exploring possible opportunities to expand and diversify its business, the Board is of the view that the terms of the Transfer Framework Agreement (including the consideration for the Contribution Rights of RMB2.22 million) is fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Upon the transfer of the Contribution Rights, the Investor will then contribute the First Tranche Investment in the amount of RMB120.19 million as its proportion to the registered capital of CNNC Leasing. The Investor intends to finance the consideration for the Contribution Rights and the First Tranche Investment by the internal resources of the Group.

**Conditions precedent to the Transfer Framework Agreement**

The transactions contemplated under the Transfer Framework Agreement are conditional upon the fulfillment of the following conditions:

(i) the transfer of the Contribution Rights and the First Tranche Investment having been approved by the authorised unit of the SASAC;

(ii) the asset appraisal report of CNNC Leasing having been approved by the authorised unit of the SASAC and the consideration for the Contribution Rights having been confirmed by XHK and the Investor;

(iii) the completion of satisfactory legal, financial and business due diligence review on CNNC Leasing by the Investor;

(iv) the approval by the Stock Exchange of the issuance by the Company of a circular to the Shareholders in relation to the Transfer Framework Agreement and the transactions contemplated thereunder;

(v) the Independent Shareholders having approved the Transfer Framework Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

(vi) the Investor having obtained a legal opinion (in such form and substance to the satisfaction of the Investor) issued by a PRC legal adviser acceptable to the Investor in respect of CNNC Leasing and its business;

(vii) the parties to the Transfer Framework Agreement (including the Company) having obtained all necessary approvals, consents and authorisations (if applicable) in relation to the Transfer Framework Agreement and the transactions contemplated thereunder;

(viii) the representations and warranties given by XHK and CNNC Leasing in the Transfer Framework Agreement being true and accurate as at the Transfer Completion Date, for which XHK and CNNC Leasing shall have performed or complied with at or before the Transfer Completion Date (as the case may be);

(ix) there being no form of legal restriction on the completion of transactions contemplated under the Transfer Framework Agreement or which may have a material adverse effect on the Investor or CNNC Leasing as at the Transfer Completion Date;

(x) there being no material adverse change in the business, financial or operation positions, or assets, liabilities or profitability or prospects of CNNC Leasing, or an event reasonably likely to result in such a material adverse change as at the Transfer Completion Date;

(xi) the Investor having obtained sufficient financing on terms and conditions considered to be appropriate by it for the transactions contemplated under the Transfer Framework Agreement; and

(xii) the Investor and CNNC Leasing having completed the registration of change of shareholders of CNNC Leasing in competent industry and commerce authority in respect of the transactions contemplated under the Transfer Framework Agreement.

Conditions (i), (ii), (iv), (v) and (vii) above are not capable of being waived by any party. The Investor may waive in whole or in part all or any of the other conditions or extend the period in which the conditions are to be satisfied.

If any of the conditions shall not have been fulfilled (or waived, as the case may be) on or before the First Long Stop Date (i.e. 31st December, 2018, which was extended pursuant to the TA Extension Confirmation), the Transfer Framework Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breaches of the Transfer Framework Agreement. Completion of the Transfer Framework Agreement is not conditional on the completion of the Investment Framework Agreement.

As at the Latest Practicable Date, conditions (i) to (iv) and (vi) set out above had been fulfilled.

**Completion of the transfer of the Contribution Rights and the First Tranche Investment**

Completion of the transfer of the Contribution Rights shall take place upon all the conditions as mentioned above having been fulfilled (or waived, as the case may be) and on the day on which registration of the change of shareholders of CNNC Leasing having been completed. Subject as aforesaid, the Investor shall pay for the consideration for the Contribution Rights and make the First Tranche Investment within seven days after the Transfer Completion Date.

Upon completion of the First Tranche Investment, the Investor will hold, 12.019% of the registered capital in CNNC Leasing and such equity investment will be accounted for as an available-for-sale investment of the Company.

## 2. THE INVESTMENT FRAMEWORK AGREEMENT

**Date**

12th March, 2018

**Parties**

(i) the Investor; and

(ii) CNNC Leasing.

As mentioned in the section headed "the Transfer Framework Agreement" above, CNNC Leasing is a connected person of the Company under the Listing Rules.

**Subject matter**

Pursuant to the Investment Framework Agreement, the Investor conditionally agreed to make the Second Tranche Investment in the amount of RMB250 million to obtain certain amount in the Second Tranche Investment Capital, subject to completion of the First Tranche Investment and the capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase. Upon completion of the First Tranche Investment and the Second Tranche Investment, together with the capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase, the issued and paid-up registered capital of CNNC Leasing will be enlarged to RMB2 billion and the Investor will hold, in aggregate, approximately 18.45% of the registered capital in CNNC Leasing.

In relation to the Capital Increase, the Investor may enter into agreement(s) with other existing shareholders of CNNC Leasing and/or other potential investors regarding the capital contributions by them.

**The Second Tranche Investment and the Second Tranche Investment Capital**

The Investor shall make the Second Tranche Investment in the amount of RMB250 million pursuant to the terms of the Investment Framework Agreement.

On 6th September, 2018, the Investor and CNNC Leasing entered into the Investment Agreement Confirmation to supplement the Investment Framework Agreement to confirm (i) the Second Tranche Investment Capital to be approximately RMB248.8 million; (ii) that the Investor shall not be entitled to the retained earnings of CNNC Leasing previously earned before the Second Tranche Investment is made; and (iii) the Investor's entitlement to approximately 18.45% of the equity interests in CNNC Leasing (in aggregate with the First Tranche Investment) upon completion of the Capital Increase.

As advised by CNNC Leasing, the Second Tranche Investment Capital based on the asset appraisal report of CNNC Leasing dated 31st December, 2017 shall be approximately RMB248.8 million. After taking into account (i) the Adjusted Value in the range of approximately RMB1,012.4 million and RMB1,051.8 million; (ii) the total amount of the Capital Increase of RMB1 billion, which, when added to the Adjusted Value, increases the valuation range of CNNC Leasing to approximately RMB2,012.4 million and RMB2,051.8 million; (iii) the total amount of the Investments (being the sum of the consideration for the Contribution Rights of RMB2.22 million, the First Tranche Investment in the amount of RMB120.19 million and the Second Tranche Investment in the amount of RMB250 million) of RMB372.41 million, representing approximately 18.51% and 18.15%, respectively, of the Adjusted Value; and (iv) the Investor's entitlement to approximately 18.45% of the equity interests in CNNC Leasing (in aggregate with the First Tranche Investment) upon completion of the

Capital Increase, the Board is of the view that the terms of the Investment Framework Agreement and the Second Tranche Investment are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Investor intends to finance the Second Tranche Investment by the internal resources of the Group and a banking facility offered to the Investor by a bank, which shall be materialised subject to conditions such as execution of the facility agreement. The Investor shall pledge the 18.45% interest in the registered capital of CNNC Leasing to the bank as security for such banking facility.

**Conditions precedent to the Investment Framework Agreement**

The transactions contemplated under the Investment Framework Agreement are conditional upon the fulfillment of the following conditions:

(i) the Second Tranche Investment having been approved by the authorised unit of the SASAC;

(ii) the asset appraisal report of CNNC Leasing having been approved by the authorised unit of the SASAC and the final amount of the Second Tranche Investment Capital having been confirmed by CNNC Leasing and the Investor;

(iii) the completion of satisfactory legal, financial and business due diligence review on CNNC Leasing by the Investor;

(iv) the approval by the Stock Exchange of the issuance by the Company of a circular to the Shareholders in relation to the Investment Framework Agreement and the transactions contemplated thereunder;

(v) the Independent Shareholders having approved the Investment Framework Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

(vi) the Investor having obtained a legal opinion (in such form and substance to the satisfaction of the Investor) issued by a PRC legal adviser acceptable to the Investor in respect of CNNC Leasing and its business;

(vii) the parties to the Investment Framework Agreement (including the Company) having obtained all necessary approvals, consents and authorisations (if applicable) in relation to the Investment Framework Agreement and the transactions contemplated thereunder;

(viii) the representations and warranties given by CNNC Leasing in the Investment Framework Agreement being true and accurate as at the Investment Completion Date, for which CNNC Leasing shall have performed or complied with at or before the Investment Completion Date (as the case may be);

(ix) there being no form of legal restriction on the completion of transactions contemplated under the Investment Framework Agreement or which may have a material adverse effect on the Investor or CNNC Leasing as at the Investment Completion Date;

(x) there being no material adverse change in the business, financial or operation position or assets, liabilities or profitability or prospects of CNNC Leasing, or an event reasonably likely to result in such a material adverse change as at the Investment Completion Date;

(xi) the Investor having obtained sufficient financing on terms and conditions considered to be appropriate by it for the transactions contemplated under the Investment Framework Agreement;

(xii) the Transfer Framework Agreement having remained valid and the conditions stated thereunder having been satisfied;

(xiii) the other shareholders of CNNC Leasing and/or other investors having agreed to invest in the remaining portion of the Capital Increase (i.e. the portion not subscribed by the Investor); and

(xiv) the Investor, CNNC Leasing and XHK having completed the registration of change of shareholders of CNNC Leasing in competent industry and commerce authority in respect of the transactions contemplated under the Transfer Framework Agreement and the Investment Framework Agreement, and the other existing shareholders of CNNC Leasing and/or other potential investors having completed their registration of their respective capital contributions in competent industry and commerce authority in respect of the transactions contemplated under the Investment Framework Agreement.

Conditions (i), (ii), (iv), (v) and (vii) above are not capable of being waived by any party. The Investor may waive in whole or in part all or any of the other conditions or extend the period in which the conditions are to be satisfied.

If any of the conditions shall not have been fulfilled (or waived, as the case may be) on or before the Second Long Stop Date (i.e. 31st December, 2018, which was extended pursuant to the IA Extension Confirmation), the Investment Framework Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breaches of the Investment Framework Agreement.

As at the Latest Practicable Date, conditions (i) to (iv) and (vi) set out above had been fulfilled.

**Completion of the Second Tranche Investment**

Completion of the Second Tranche Investment shall take place upon all the conditions as mentioned above having been fulfilled (or waived, as the case may be) and on the day on which registration of change of shareholders of CNNC Leasing having been completed. Subject as aforesaid, the Investor shall make the Second Tranche Investment within seven days after the Investment Completion Date.

Upon completion of the Second Tranche Investment, the Investor will hold, in aggregate with the First Tranche Investment, approximately 18.45% of the enlarged registered capital of CNNC Leasing and the Investments will be accounted for as available-for-sale investments of the Company.

## 3. INFORMATION ON CNNC LEASING

CNNC Leasing is a company established in the China (Shanghai) Pilot Free Trade Zone of the PRC in December 2015. As at the Latest Practicable Date, it was owned as to 31% by CNNC, 25% by XHK (including the unpaid-up capital RMB120.19 million to be transferred to the Investor pursuant to the Transfer Framework Agreement) and 44% by eight other companies within the CNNC Group (other than the Group). As at the Latest Practicable Date, the registered capital of CNNC Leasing was RMB1 billion, the paid-up capital was RMB879.81 million whilst its unpaid-up capital (representing XHK's unpaid contribution to the registered capital) was RMB120.19 million.

CNNC Leasing is principally engaged in the provision of financial leasing and financial guarantees on clean energy-related projects including, but not limited to, nuclear energy, wind power and hydro power. It capitalises on the expertise of its shareholder in the nuclear industry and is strategically focused on the provision of financing for businesses engaged in the field of nuclear energy. It recorded a growth of more than 50% in profit after tax for the year ended 31st December, 2017 as compared to the corresponding period in 2016. During the early establishment of CNNC Leasing, it primarily utilised its own capital funds as loan input, incurred lower finance cost and generated higher net profit margin. However, due to vigorous expansion of financial leasing business since late September 2017, CNNC Leasing required additional loans for business development and the increase in finance cost resulted in decreasing profit after tax. Thus, net profit margin decreased from approximately 40.25% for the year ended 31 December 2016 to approximately 27.00% for the corresponding period in 2017, while total revenue increased due to business expansion. The proposed Investments and the Capital Increase shall help CNNC Leasing alleviate its capital burden and reduce finance cost expenses. CNNC Leasing intended to follow the above strategic focus with the aim to develop into the top nuclear-related financial leasing brand in the PRC. In order to support its future expansion, CNNC Leasing intended to enlarge its capital from RMB1 billion to RMB2 billion (i.e. the Capital Increase) through the Second Tranche Investment as well as capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors.

Set out below is a summary of the audited financial information of CNNC Leasing extracted from the accountants' report:

| | For the year ended 31st December, 2016 | For the year ended 31st December, 2017 | For the five months 31st May, 2018 |
|---|---|---|---|
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| | (audited) | (audited) | (audited) |
| Revenue | 54,098 | 124,238 | 109,591 |
| Profit before tax | 29,056 | 44,753 | 29,954 |
| Profit after tax | 21,774 | 33,540 | 22,454 |

| | As at 31st May, 2018 |
|---|---|
| | *(RMB'000)* |
| | (audited) |
| Net assets | 955,359 |

## 4. FINANCIAL EFFECTS OF THE INVESTMENTS

**Assets and liabilities**

Based on the unaudited pro forma financial information set out in Appendix III to this circular, the total assets of the Group as at 30th June, 2018 would increase from approximately HK$660.6 million to approximately HK$1,017.5 million; and its total liabilities as at 30th June, 2018 would increase from approximately HK$109.0 million to approximately HK$468.5 million, as a result of the Investments.

**Earnings**

Upon completion of the Investments, the Investor will hold, approximately 18.45% of the enlarged registered capital in CNNC Leasing and such equity investments will be accounted for as available-for-sale investments of the Company. Except for the transaction costs of approximately HK$2.6 million directly attributable to the Investments, there will be no immediate material effect on earnings of the Company associated with the Investments. After completion of the Investments, save for the retained earnings previously earned by CNNC Leasing to which the Investments are not entitled, dividends that may be declared by CNNC Leasing and received by the Investor from CNNC Leasing will be recognised as income of the Company. As at the Latest Practicable Date, CNNC Leasing had not declared nor distributed any dividend since its establishment.

## 5. REASONS FOR THE INVESTMENTS

The Company is an investment holding company principally engaged in the investment in uranium resources and trading in uranium products. In 2018, it also commenced the business of trading in electronic products and other products such as metal raw materials. As stated in the 2017 annual report of the Company, the Group aims to expand and diversify its business by leveraging on the strengths of CNNC, in the field of nuclear energy, to develop project with reasonable returns.

In the last decade, the financial leasing industry in the PRC has experienced robust growth and rapid expansion in terms of business volume. According to the estimation of China Leasing Union (中國租賃聯盟) and Tianjin Binhai Financial Leasing Research Institute (天津濱海融資租賃研究院), the contracted balance of financial lease in the PRC increased by RMB730 billion from approximately RMB5,330 billion as at the end of 2016 to to approximately RMB6,060 billion as at the end of 2017, representing a year-on-year increase of approximately 13.7%. With regard to market penetration rate measured through fixed asset penetration rate (transaction amount of the leasing industry divided by amount of completed investments in fixed assets of the society throughout the year) and GDP penetration rate (transaction amount of the leasing industry divided by the yearly gross domestic product), fixed asset penetration rate and GDP penetration rate increased from approximately 6.4% and approximately 5.0% in 2012 to approximately 9.6% and approximately 7.3% in 2017, respectively. As the market penetration rate of financial leasing industry in developed regions such as Europe and the United States ranges from approximately 15% to 30%, the management believes that there will be considerable potential for the development of financial leasing business in the PRC.

Moreover, the management is of the view that, by leveraging on the market expertise and experience of its shareholders including CNNC, a leader in the nuclear energy market, CNNC Leasing could be able to develop into a promising business and generate satisfactory returns to its shareholders. As mentioned in the section headed "Information on CNNC Leasing", it recorded a significant growth in net profit in 2017. The management expects the growth of CNNC Leasing to be sustainable under CNNC's management and believes that it is beneficial for the Group to invest in CNNC Leasing in its early growth stage. The management therefore considers that the proposed investments contemplated under the Transfer Framework Agreement and the Investment Framework Agreement are beneficial to the Group and its Shareholders as a whole.

The Directors (including the independent non-executive Directors after receiving the advice from Gram Capital) consider that the respective terms of the Transfer Framework Agreement and the Investment Framework Agreement are fair and reasonable and on normal commercial terms, and the transactions contemplated under the Transfer Framework Agreement and the Investment Framework Agreement, although not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as whole.

## C. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under the Listing Rules) is greater than 25% but less than 100%, the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder constitute major transactions for the Company and are subject to the reporting, announcement, circular and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company was owned as to approximately 66.72% by CNNC Overseas Uranium Holding Limited, an indirect wholly-owned subsidiary of CNNC, and was the controlling Shareholder of the Company. XHK is an indirect wholly-owned subsidiary of CNNC and holds 25% equity interest in CNNC Leasing, including both the paid-up capital of RMB129.81 million and the unpaid-up capital of RMB120.19 million to be transferred to the Investor (i.e. the Contribution Rights). All other existing shareholders of CNNC Leasing are companies within the CNNC Group (other than the Group). Accordingly, XHK and CNNC Leasing are connected persons of the Company under the Listing Rules, and therefore the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder also constitute non-exempt connected transactions for the Company and are subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## D. GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder.

CNNC is regarded as having material interests in the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder by virtue of CNNC's interests in the Investor, XHK and CNNC Leasing. Accordingly, CNNC and its associates (who were interested in 326,372,273 Shares, representing approximately 66.72% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting on the relevant resolutions in relation to the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder to be proposed at the EGM. Mr. Yang Chaodong, Mr. Bai Donghai and Mr. Li Zhihuang, all being Directors, also held positions in other members of the CNNC Group or its associates and are regarded as having material interest in the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder. Mr. Yang Chaodong held positions in other members of the CNNC Group or its associates, including XHK. Mr. Bai Donghai held positions in other members of the CNNC Group or its associates, including XHK and CNNC Leasing. Mr. Li Zhihuang held positions in other members of the CNNC Group or its associates, including XHK. Accordingly, each of them had abstained from voting at the Board meeting on the relevant resolutions. To the best of the Directors' knowledge and information, no other Shareholder is required to abstain from voting on the relevant resolutions in relation to the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder.

## E. CLOSURE OF REGISTER OF MEMBERS AND THE EGM

The register of members of the Company will be closed from 27th November, 2018 to 30th November, 2018 (both dates inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the EGM. No transfer of shares of the Company will be registered during this period. Shareholders whose name appear on the register of members of the Company on 30th November, 2018 shall be entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 26th November, 2018.

The notice convening the EGM to be held at Pacific Room, 2/F, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on 30th November, 2018 at 3:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.

## F. RECOMMENDATION

The Directors (excluding members of the Independent Board Committee whose views have been set out below) consider that the terms of the Investments are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned, and the Investments are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding members of the Independent Board Committee whose views have been set out below) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Investments.

The Independent Board Committee, having considered the advice of Gram Capital, is of the opinion that (i) the terms of the Transfer Framework Agreement and the Investment Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Investments are not conducted in the ordinary and usual course of business of the Group, the Investments are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder.

## G. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contain their recommendation to the Independent Shareholders as to voting at the EGM and the letter from Gram Capital set out on pages 23 to 38 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Investments.

Your attention is also drawn to the financial information of the Group, CNNC Leasing and the Enlarged Group, the summary valuation report and other general information set out in the appendices to this circular.

By order of the Board
**CNNC International Limited**
**Li Philip Sau Yan**
*Company Secretary*

# CNNC INTERNATIONAL LIMITED
# 中核國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2302)**

12th November, 2018

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED INVESTMENTS IN CNNC FINANCIAL LEASING COMPANY LIMITED

We refer to the circular of the Company dated 12th November, 2018 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you (i) as to whether, in our opinion, (a) the terms of the Transfer Framework Agreement and the Investment Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the Investments are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) as to the voting in respect of the ordinary resolutions to be proposed at the EGM to approve the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder. Gram Capital has been appointed as the independent financial adviser to advise us and you in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 23 to 38 of the Circular.

Having considered the advice of Gram Capital, we are of the opinion that (i) the terms of the Transfer Framework Agreement and the Investment Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Investments are not conducted in the ordinary and usual course of business of the Group, the Investments are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transfer Framework Agreement and the Investment Framework Agreement and the respective transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

| **Mr. Cheong Ying Chew Henry** | **Mr. Cui Liguo** | **Mr. Zhang Lei** |
|---|---|---|
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transfer Framework Agreement and Investment Framework Agreement and the respective transactions contemplated thereunder for the purpose of inclusion in this circular.*

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

12 November 2018

*To: The independent board committee and the independent shareholders of CNNC International Limited*

Dear Sirs,

# MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED INVESTMENTS IN CNNC FINANCIAL LEASING COMPANY LIMITED

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transfer Framework Agreement and the Investment Framework Agreement (the "**Framework Agreements**") and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 12 November 2018 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 12 March 2018, the Investor (a direct wholly-owned subsidiary of the Company), XHK and CNNC Leasing entered into the Transfer Framework Agreement, pursuant to which XHK conditionally agreed to transfer, and the Investor conditionally agreed to accept, the Contribution Rights, at the consideration with reference to the asset appraisal report of CNNC Leasing and to be confirmed by XHK and the Investor. The consideration of the Contribution Rights is subject to a cap of RMB3 million. The parties to the Transfer Framework Agreement confirmed such consideration to be RMB2.22 million (the "**Consideration**") pursuant to the Transfer Agreement Confirmation dated 6 September 2018. The Contribution Rights confer upon the Investor the right to contribute to the registered capital of CNNC Leasing in the amount of RMB120.19 million and acquire 12.019% of the existing registered capital in CNNC Leasing (i.e. the First Tranche Investment) (the "**Transfer Transaction**").

On the even date, the Investor and CNNC Leasing entered into the Investment Framework Agreement, pursuant to which the Investor conditionally agreed to make the Second Tranche Investment in the amount of RMB250 million, subject to completion of the First Tranche Investment and capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase (the "**Investment Transaction**", together with Transfer Transaction, the "**Transactions**"). The parties to the Investment Framework Agreement confirmed the final amount of the Second Tranche Investment Capital to be approximately RMB248.8 million pursuant to the Investment Agreement Confirmation dated 6 September 2018.

Upon completion of the First Tranche Investment and the Second Tranche Investment, together with the capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase, the issued and paid-up registered capital of CNNC Leasing will be enlarged to RMB2 billion and the Investor will hold, in aggregate, approximately 18.45% of the enlarged registered capital in CNNC Leasing.

With reference to the Board Letter, the Transactions constitute major and connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and shareholder's approval requirements under Chapter 14 and 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Cheong Ying Chew Henry, Mr. Cui Liguo and Mr. Zhang Lei (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the Framework Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

## BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors'representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group, the CNNC Leasing or its subsidiaries, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on CNNC Leasing (the "**Valuation Report**") as prepared by China United, the summary of which is set out in Appendix IV to the Circular. Since we are not experts in the valuation of assets or business, we have relied solely upon the Valuation Report for the equity value of CNNC Leasing.

The 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 the 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 the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNNC, the Investor, XHK, CNNC Leasing or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Framework Agreements and the transactions contemplated thereunder. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

### 1. Background of and reasons for the Transactions

***Business overview of the Group***

With reference to the Board Letter, the Company is an investment holding company principally engaged in the investment in uranium resources and trading in uranium products. It has also commenced the business of trading in electronic products in 2018. The Company is owned as to approximately 66.72% by CNNC Overseas Uranium Holding Limited, an indirect wholly-owned subsidiary of CNNC.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2017 as extracted from the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**") and the Company's interim report for the six months ended 30 June 2018 ("**HY2018**") (the "**2018 Interim Report**"):

| | For the six months ended 30 June 2018 *(unaudited)* *HK$'000* | For the year ended 31 December 2017 *(audited)* *HK$'000* | For the year ended 31 December 2016 *(audited)* *HK$'000* | Change from 2016 to 2017 *%* |
|---|---|---|---|---|
| Revenue | 717,899 | 652,060 | 189,429 | 244.22 |
| *— Trading of mineral property* | *231,274* | *652,060* | *189,429* | *244.22* |
| *— Exploration and trading of mineral properties* | *Nil* | *Nil* | *Nil* | *N/A* |
| *— Supply chain* | *486,625* | *Nil* | *Nil* | *N/A* |
| Gross profit/(loss) | 6,205 | 14,230 | (15,108) | N/A |
| Profit/(loss) for the year/period | 5,246 | 257 | (28,192) | N/A |

| | As at 30 June 2018 *(unaudited)* *HK$'000* | As at 31 December 2017 *(audited)* *HK$'000* | As at 31 December 2016 *(audited)* *HK$'000* | Change from 2016 to 2017 *%* |
|---|---|---|---|---|
| Bank balances and cash | 84,451 | 247,743 | 285,020 | (13.08) |
| Net assets | 551,600 | 545,706 | 541,883 | 0.71 |

As depicted from the above table, the revenue of the Group increased by approximately 244.22% to approximately HK$652.06 million for the year ended 31 December 2017 ("**FY2017**") as compared to approximately HK$189.43 million for the year ended 31 December 2016 ("**FY2016**"). In addition, the Group recorded gross profit of approximately HK$14.23 million and net profit of approximately HK$0.26 million respectively for FY2017 as compared with the loss position for FY2016. With reference to the 2017 Annual Report, the aforesaid increase in the Group's revenue and turnaround from loss to profit position for FY2017 were mainly due to the increase in trading volume of uranium products and the turnaround from gross loss to gross profit position. As at 31 December 2017, the Group had bank balances and cash of approximately HK$247.74 million and net assets of approximately HK$545.71 million.

With reference to the 2018 Interim Report, the Group commenced the business of trading in electronics products, including but not limited to trading of liquid crystal displays, flash drives, memory cards, etc. during HY2018. In view of the significant revenue generated from the business of trading in electronics products of the Group, the Group set up a new business segment, namely the "supply chain" segment and intends to diversify its trading activities to other products, such as metal raw materials and electrical appliances. The new supply chain segment generated substantial amount of revenue for the Group during HY2018 and the Group's revenue for HY2018 exceeded those for FY2017. The Group's profit for HY2018 was also significantly higher than those for FY2017. As advised by the Directors, it is mainly attributable to the income tax credit of approximately HK$4.98 million recorded in HY2018.

With reference to the 2018 Interim Report, the Group aims to expand and diversify its business by leveraging the strengths of CNNC in the field of nuclear energy, to develop projects with reasonable returns for the Group and continues to explore other possible investment opportunities.

***Information on the Investor***

The Investor, CNNC International (HK) Limited (中核國際(香港)有限公司), is a company established in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company.

*Information on XHK*

With reference to the Board Letter, XHK is principally engaged in the trading of electronic products. XHK is an indirect wholly-owned subsidiary of CNNC and holds approximately 25% equity interest in CNNC Leasing, including both the paid-up capital of RMB129.81 million and the unpaid-up capital of RMB120.19 million to be transferred to the Investor (i.e. the Contribution Rights).

*Information on CNNC Leasing*

With reference to the Board Letter, CNNC Leasing is a company established in the China (Shanghai) Pilot Free Trade Zone of the PRC in December 2015. As at the Latest Practicable Date, it was owned as to 31% by CNNC, 25% by XHK (including the unpaid-up capital to be transferred to the Investor (i.e. the Contribution Rights)) and 44% by eight other companies within the CNNC Group (other than the Group). The existing registered capital of CNNC Leasing is RMB1 billion and its paid-up capital is approximately RMB880 million (i.e. the unpaid-up capital in the amount of approximately RMB120 million represents the Contribution Rights proposed to be transferred to the Investor by XHK pursuant to the Transfer Framework Agreement).

With reference to the Board Letter, CNNC Leasing is principally engaged in the provision of financial leasing and financial guarantees on clean energy-related projects including but not limited to nuclear energy, wind power and hydro power. It capitalises on the expertise of its shareholder in the nuclear industry and is strategically focused on the provision of financing for business engaged in the field of nuclear energy. It recorded a growth of more than 50% in profit and total comprehensive income for FY2017 as compared to FY2016. CNNC Leasing intends to follow this strategic focus with the aim to develop into the top nuclear-related financial leasing brand in the PRC. In order to support its future expansion, CNNC Leasing intends to enlarge its capital from RMB1 billion to RMB2 billion (i.e. the Capital Increase) through the Investment Framework Agreement as well as capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors.

Set out below is a summary of the audited financial information of CNNC Leasing prepared in accordance with the Hong Kong Financial Reporting Standards as extracted from Appendix II to the Circular:

| | **For the year ended 31 December 2016** | **For the year ended 31 December 2017** | **For the five months ended 31 May 2018** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 54,098 | 124,238 | 109,591 |
| Profit before income tax | 29,056 | 44,753 | 29,954 |
| Profit and total comprehensive income | 21,774 | 33,540 | 22,454 |

| | As at 31 December 2016 | As at 31 December 2017 | As at 31 May 2018 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Net assets | 901,584 | 935,124 | 955,359 |

***Reasons for and benefits of the Transactions***

With reference to the Board Letter, the management of the Company (the "**Management**") believes that there is considerable potential for the development of a financial leasing business in the PRC. Moreover, the Management is of the view that, by leveraging on the market expertise and size of CNNC Leasing's shareholders, including CNNC (a market leader in the nuclear energy market), CNNC Leasing could be able to develop into a promising business and generate satisfactory returns to its shareholders. As mentioned above, CNNC Leasing recorded significant growth in net profit in from FY2016 to FY2017. The Management expects the growth of CNNC Leasing to be sustainable under CNNC's management and believes that it is beneficial for the Group to invest in CNNC Leasing in its early growth stage. The Management therefore considers that the proposed investments contemplated under the Transfer Framework Agreement and the Investment Framework Agreement are beneficial to the Group and its Shareholders as a whole.

According to《中國融資租賃業發展報告(2016–2017)》 (Report on the development of China's finance leasing industry (2016–2017)*) jointly published by the Department of Circulation Industry Development of Ministry of Commerce of the PRC and China International Electronic Commerce Center in August 2017, as at the end of 2016, (i) the number of registered finance leasing companies reached 6,158, which represented a substantial increase of 70.3% as compared to the number recorded as at the end of 2015; (ii) the aggregate registered capital and the amount of total assets of all the finance leasing companies reached RMB1,922.37 billion and RMB2,153.83 billion respectively, which represented increases of 31.3% and 32.4% respectively as compared to those as at the end of 2015; and (iii) energy equipment industry had the highest amount of finance leasing assets among other industries, with a substantial increase as compared to year 2015. The statistics above indicated a positive outlook of finance leasing industry in the PRC (in particular, for the energy equipment industry).

In light of the above and that CNNC Leasing made profit for the two years ended 31 December 2017, we concur with the Directors that the Transactions are in the interests of the Company and the Shareholders as a whole.

**2. The Transactions**

***Principal terms of the Framework Agreements***

Summarised below are the major terms for the Framework Agreements, details of which are set out under the section headed "THE INVESTMENTS" of the Board Letter.

*A. Transfer Framework Agreement*

Date:

12 March 2018

Parties:

(i) the Investor, being the transferee

(ii) XHK, being the transferor

(iii) CNCC Leasing

Subject matter

Pursuant to the Transfer Framework Agreement, XHK conditionally agreed to transfer, and the Investor conditionally agreed to accept, the Contribution Rights, at the Consideration with reference to the asset appraisal report of CNNC Leasing and to be confirmed by XHK and the Investor. The parties to the Transfer Framework Agreement confirmed the Consideration to be RMB2.22 million pursuant to the Transfer Agreement Confirmation dated 6 September 2018. The Contribution Rights confer upon the Investor the right to make the First Tranche Investment, which refers to the right to contribute to the registered capital of CNNC Leasing in the amount of RMB120.19 million and acquire 12.019% of the existing registered capital in CNNC Leasing.

Consideration

The Consideration of the Contribution Rights is RMB2.22 million. The Investor will make the First Tranche Investment in the amount of RMB120.19 million to acquire 12.019% of the existing registered capital of CNNC Leasing.

The Investor intends to finance the Transfer Consideration by the internal resources of the Group and bank borrowings.

Basis of determining the Consideration and the First Tranche Investment

With reference to the Board Letter and as advised by the Directors, the Consideration of the Contribution Rights was determined after arm's length negotiations among the parties to the Transfer Framework Agreement with reference to (i) that the Investor will not be entitled to the part of retained earnings of approximately RMB105.9 million previously earned by CNNC Leasing and as recorded on the management accounts of CNNC Leasing as at 31 May 2018 (the "**Retained Earnings**"); (ii) the equity value of CNNC Leasing as appraised by China United in the range of approximately RMB998.1 million and approximately RMB1,037.5 million (the "**Equity Value**"); and (iii) 12.019% of the registered capital in CNNC Leasing which the Investor will be interested in after the First Tranche Investment.

The Valuation Report

The Valuation Report as prepared by China United is set out in Appendix IV to the Circular. With reference to the Valuation Report, the Equity Value of CNNC Leasing as appraised by an independent valuer in the range of approximately RMB998.1 million and approximately RMB1,037.5 million.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement (including scope of work) of China United with the Company; (ii) the China United's qualification and experience in relation to the preparation of the Valuation Report, including its track record in providing valuation services for companies listed on the Stock Exchange; and (iii) the steps and due diligence measures taken by China United for the preparation of the Valuation Report. From the mandate letter and other relevant information provided by China United and based on our interview with them, we are satisfied with the terms of engagement of China United (including scope of work) as well as their qualification and experience for preparation of the Valuation Report. China United also confirmed that they are independent to the Group, CNNC, the Investor, XHK and CNNC Leasing.

The Valuation Report was prepared by China United using the market approach. As confirmed by China United, market approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice.

We understood that income approach and asset-based approach are other commonly adopted approaches for valuation. For the reasons set out under the section headed "VI. METHODOLOGY OF VALUE ENQUIRY" under the Valuation Report, China United adopted market approach for the Valuation Report. Upon our enquiry with China United, we understood that (i) income approach involves projection on CNNC Leasing's future income which may be influenced by CNNC Leasing's existing shareholders/management; and (ii) asset-based approach, also known as cost approach, focus on the replacement cost of balance sheet items instead of future economic benefits of an entity's assets.

Generally, income approach is a way of determining fair value indication of business ownership interest by converting anticipated future economic benefits into present value amount. Value is established based on the principle of anticipation. It means the value of a business ownership interest is the sum of the present value of future economic benefit streams. The income approach requires subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value. Having also considered that income approach involves projection on CNNC Leasing's future income which may be influenced by CNNC Leasing's existing shareholders/management, income approach may not be an appropriate methodology for the purpose of the Valuation Report.

Generally, asset-based approach is a general way of determining the value of a company based on the values of its underlying assets. Value is established based on the principle of substitution. It means the value of a business ownership interest depends on the cost of reproducing or replacing its net asset. As aforementioned, asset-based approach, also known as cost approach, focus on the replacement cost of balance sheet items instead of future economic benefits of an entity's assets. Given that CNNC Leasing was profit-making for the two years ended 31 December 2017 and the six months ended 30 June 2018, the asset-based approach may not be an appropriate methodology for the purpose of the Valuation Report.

Given the above, we did not consider other approaches to assess the Equity Value.

We have further reviewed and enquired into China United on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. We also obtained and discussed the supporting calculation/documents for the key assumptions and parameters under the Valuation Report.

With reference to the Valuation Report, the transaction comparison approach under the market approach was adopted by China United for the Valuation Report. Cases that are comparable to CNNC Leasing were selected when conducting valuation. The selection criteria was set out under the section headed "1. Selection Criteria for Comparable Cases" of the Valuation Report. Under the Valuation Report, 18 equity transfer transactions in the financial leasing industry over the past two years prior to the value enquiry base date (i.e. 31 May 2018) were found in the public domain. Focusing on companies operating in the same industry with matching principal activities and taking into account the integrity of financial data, China United's valuation staff eliminated 15 cases from the 18 cases above and retained 3 cases that were more comparable to the Transactions and CNNC Leasing (the "**Comparable Case(s)**"). Detailed selection basis (the "**Selection Basis**") was set out under the section headed "(III) Selection of Comparable Cases" of the Valuation Report.

We obtained further information of the Comparable Cases from China United and discussed the Selection Basis and the comparability of the Comparable Cases with China United. Based on the Selection Basis, our discussion and information obtained, we do not doubt the fairness and sufficiency of the Comparable Cases.

Given the reasons as set out under the section headed "(V) Calculation of Value Ratios and Initial Valuation" under the Valuation Report, in particular, capital is crucial for financial leasing companies given that the ratio of risk assets to net assets of financial leasing companies shall not exceed a leverage of 10x according to 《融資租賃企業監督管理辦法》 (Measures for the Management of Financial Leasing Companies*) (the "**Measures**"), price to book ratio was selected as the value ratio in the Valuation Report for the purpose of reasonable determination of the Equity Value.

We noticed from the website of the Department of Circulation Industry Development of the PRC Ministry of Commerce that the PRC Ministry of Commerce issued the Measures on 18 September 2013. According to the Measures, the amount of financial leasing company's risk assets cannot exceed 10 times of its net assets. This is consistent with China United's observation above. Upon our enquiry with the Company, we were advised that financial leasing company's risk assets include finance lease receivables derived from its ordinary course of business (i.e. provision of financial leasing services). Accordingly, a financial leasing company's net assets value is crucial as it might restrict the financial leasing company's size of business.

We understood that price to earnings ratio or EV/EBITDA ratio are two other commonly adopted value ratios. Nevertheless, we could not find the EBITDA of the subject company of the Comparable Cases on the announcements of the Comparable Cases. In addition, based on the announcements of the Comparable Cases, (i) one of the subject company of the Comparable Cases recorded net loss for the latest financial year prior to the transaction; and (ii) the consideration and the subject company's net profit for the latest financial year prior to the transaction of another Comparable Case derived anomalous price to earnings ratio of approximately 266 times.

Having considered the above, we have no doubt on the reasonableness for selection of the price to book ratio as the value ratio in the Valuation Report by China United and we did not consider other value ratio to assess the Equity Value.

As advised by China United, China United derived correcting coefficient of each comparable case by comparing the indicators (such as return on net assets, return on total assets, gearing ratio, etc.) of CNNC Leasing and the comparable cases. The correcting coefficient was then applied to adjust the price to book ratio of each comparable case. For our better understanding on the correcting coefficient, we also obtained the calculation of such correcting coefficient and discussed the basis in determining such correcting coefficient with China United.

During our discussion with China United in relation to the Valuation Report, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions, Selection Basis, value ratio, correcting coefficient and parameters adopted for the Valuation Report.

Based on the foregoing and in particular (i) that we are satisfied with the terms of engagement of China United (including scope of work) as well as their qualification and experience for preparation of the Valuation Report; (ii) our review on the Valuation Report; (iii) our analysis on the valuation methodology adopted for the Valuation Report; (iv) our understanding on the Comparable Cases; (v) our assessment on the value ratio in the Valuation Report; and (vi) our understanding on the correcting coefficient applied under the Valuation Report, it is appropriate to assess the fairness and reasonableness of the Consideration, the First Tranche Investment and the Second Tranche Investment with reference to the Valuation Report.

Nevertheless, Shareholders should note that Valuation Report involves assumptions and therefore the Equity Value may or may not reflect the true market value of CNNC Leasing accurately.

Assessment on the Consideration and the First Tranche Investment

Set out below is our quantitative assessment on the Consideration and the First Tranche Investment:

| **Items** | *RMB* |
|---|---|
| Range of the Equity Value as at 31 May 2018 | 998,133,600 to 1,037,545,400 |
| Retained Earnings as at 31 May 2018 | 105,900,000 |
| Range of the Equity Value as adjusted for the Retained Earnings as at 31 May 2018 (the "**Adjusted Value**") | 892,233,600 to 931,645,400 |
| First Tranche Investment | 120,190,000 |
| Consideration | 2,220,000 |
| **Sum of Consideration and First Tranche Investment** | **122,410,000** |
| Range of (i) Adjusted Value; and (ii) First Tranche Investment in aggregate (the "**First Sum**") | 1,012,423,600 to 1,051,835,400 |
| **Range of 12.019% of the First Sum** | **121,683,192 to 126,420,097** |

As illustrated in the above table, the Consideration and the First Tranche Investment in aggregate fall within the range of 12.019% of the First Sum. Accordingly, we are of the view that the Consideration and the First Tranche Investment are fair and reasonable so far as the Independent Shareholders are concerned.

Having considered the principal terms of the Transfer Framework Agreement, we are of the opinion that the terms of the Transfer Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

*B. Investment Framework Agreement*

Date:

12 March 2018

Parties:

(i) the Investor

(ii) CNCC Leasing

Subject matter

Pursuant to the Investment Framework Agreement, the Investor conditionally agreed to make the Second Tranche Investment in the amount of RMB250 million, subject to completion of the First Tranche Investment and capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase. The parties to the Investment Framework Agreement confirmed the final amount of the Second Tranche Investment Capital to be approximately RMB248.8 million pursuant to the Investment Agreement Confirmation dated 6 September 2018.

Upon completion of the First Tranche Investment and the Second Tranche Investment, together with the capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase, the issued and paid-up registered capital of CNNC Leasing will be enlarged to RMB2 billion and the Investor will hold, in aggregate, approximately 18.45% of the enlarged registered capital in CNNC Leasing.

In relation to the Capital Increase, the Investor may enter into agreement(s) with other existing shareholders of CNNC Leasing and/or other potential investors regarding the capital contributions by them.

Consideration

Subject to completion of the First Tranche Investment and capital contributions of other existing shareholders of CNNC Leasing and/or other potential investors in relation to the Capital Increase, the Investor conditionally agreed to make the Second Tranche Investment in the amount of RMB250 million.

The Investor intends to finance the Second Tranche Investment by the internal resources of the Group and bank borrowings.

Basis of determining the Second Tranche Investment

With reference to the Board Letter and advised by the Directors, the amount of the Second Tranche Investment and the Second Tranche Investment Capital were determined after arm's length negotiations between CNNC Leasing and the Investor with reference to (i) that the Investor will not be entitled to the part of Retained Earnings of approximately RMB105.9 million previously earned by CNNC Leasing and as recorded on the management accounts of CNNC Leasing as at 31 May 2018; (ii) the Equity Value in the range of approximately RMB998.1 million and approximately RMB1,037.5 million; (iii) the 12.019% interest of the Investor in CNNC Leasing after completion of the First Tranche Investment; (iv) the total amount of the Capital Increase of RMB1 billion; and (v) the Investor's entitlement to approximately 18.45% of the equity interests in CNNC Leasing (in aggregate with the First Tranche Investment) upon completion of the Capital Increase.

Assessment on the Second Tranche Investment

Set out below is our quantitative assessment on the Second Tranche Investment:

| **Items** | *RMB* |
|---|---|
| First Tranche Investment | 120,190,000 |
| Second Tranche Investment | 250,000,000 |
| Consideration | 2,220,000 |
| **Sum of Consideration, First Tranche Investment and Second Tranche Investment** | **372,410,000** |
| Total amount of Capital Increase | 1,000,000,000 |
| Range of (i) Adjusted Value; (ii) First Tranche Investment; and (iii) total amount of Capital Increase (the "**Second Sum**") | 2,012,423,600 to 2,051,835,400 |
| **Range of 18.45% of the Second Sum** | **371,292,154 to 378,563,631** |

As illustrated in the above table, the Consideration, the First Tranche Investment and the Second Tranche Investment in aggregate fall with the range of 18.45% of the Second Sum. Accordingly, we are of the view that the Second Tranche Investment is fair and reasonable so far as the Independent Shareholders are concerned.

Having considered the principal terms of the Investment Framework Agreement, we are of the opinion that the terms of the Investment Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

**3. Possible financial effects of the Transactions**

We were advised by the Directors that upon completion of the Transactions, CNNC Leasing will be accounted for available-for-sale investments of the Company.

The unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Information**") is included in Appendix III to the Circular.

As extracted from the 2018 Interim Report, the unaudited consolidated total assets and total liabilities of the Group were approximately HK$660.59 million and HK$108.99 million respectively as at 30 June 2018. According to the Pro Forma Information, the unaudited consolidated total assets and total liabilities of the Enlarged Group would be approximately HK$1,017.51 million and HK$468.51 million respectively as if the Transactions had taken place as at 30 June 2018.

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

**RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Framework Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
**Gram Capital Limited**
**Graham Lam**
*Managing Director*

* *For identification purpose only*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.*

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information on the Group for each of the three financial years ended 31st December, 2015, 2016 and 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.cnncintl.com/new-site/index.php):

- annual report of the Company for the year ended 31st December, 2015 published on 18th April, 2016 (pages 35 to 87);
- annual report of the Company for the year ended 31st December, 2016 published on 27th April, 2017 (pages 46 to 103); and
- annual report of the Company for the year ended 31st December, 2017 published on 25th April, 2018 (pages 48 to 111).

## 2. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

Apart from the intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30th September, 2018, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

## 3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's internally generated funds, the effect of the Transfer Framework Agreement and the Investment Framework Agreement and the additional banking facility offered to the Investor by a bank, which shall be materialised subject to conditions such as execution of the facility agreement to finance the Transfer Framework Agreement and the Investment Framework Agreement and in the absence of unforeseen circumstances, the Group will have sufficient working capital to meet its present requirement for the next twelve months from the date of this circular.

## 4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company principally engaged in the investment in uranium resources, trading in uranium products, and supply chain management which covers the Group's business of trading in electronic and other products. Following the commencement of the business of trading in electronics product, the Group recorded a significant increase in revenue and a net profit for the six months ended 30th June, 2018 as disclosed in the announcements of the Company dated 24th July, 2018 and 22nd August, 2018. As disclosed in the 2017 annual report of the Company, the Group will continue to develop its trading of uranium business and diversify its trading activities in other products such as electronics product. Besides, The Group aims to expand and diversify its business by leveraging on the strengths of CNNC, in the field of nuclear energy, to develop project with reasonable returns.

As mentioned in the section headed "Reasons for the Investments" in the letter from the Board contained in this circular, the management of the Company is of the view that, by leveraging on the market expertise and experience of its shareholders, CNNC Leasing could be able to develop into a promising business and generate satisfactory returns to its shareholders. The Investments is in line with the Group's development plan. Looking ahead, the Group will continue to explore investment projects with reasonable returns by leveraging on the strengths of CNNC to benefit the Group's long-term development and maximise returns to the Shareholders.

## 1. ACCOUNTANTS' REPORT OF CNNC LEASING

*The following is the text of a report set out on pages II-1 to II-54 received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CNNC INTERNATIONAL LIMITED

### Introduction

We report on the historical financial information of CNNC Financial Leasing Co., Ltd ("CNNC Leasing") set out on pages II-4 to II-54, which comprises, the statements of financial position of CNNC Leasing as at 31 December 2015, 2016 and 2017 and 31 May 2018 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows for the period from 22 December 2015 (date of incorporation) to 31 December 2015, the years ended 31 December 2016 and 2017 and the five months ended 31 May 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-54 forms an integral part of this report, which has been prepared for inclusion in the circular of the CNNC International Limited (the "Company") dated 12 November 2018 (the "Circular") in relation to the proposed investment by CNNC International (HK) Limited (a direct wholly-owned subsidiary of the Company) in the registered capital of CNNC Leasing.

### Directors' responsibility for the Historical Financial Information

The directors of CNNC Leasing are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information, and for such internal control as the directors of CNNC Leasing determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this circular in which the Historical Financial Information of CNNC Leasing is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of CNNC Leasing, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of CNNC Leasing's financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018, and of CNNC Leasing's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of CNNC Leasing which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the five months ended 31 May 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the CNNC Leasing are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons' responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information.

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

**Adjustments**

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

**Dividends**

We refer to Note 14 to the Historical Financial Information which states that no dividend has been declared or paid by CNNC Leasing in respect of the Track Record Period.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
12 November 2018

## HISTORICAL FINANCIAL INFORMATION OF CNNC LEASING

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

The financial statements of CNNC Leasing for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by Deloitte Touche Tohmatsu in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December 2016 | Year ended 31 December 2017 | Five months ended 31 May 2017 | Five months ended 31 May 2018 |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Revenue | 7 | — | 54,098 | 124,238 | 46,735 | 109,591 |
| Other income | 8 | — | 2,547 | 6,139 | 423 | 1,215 |
| Total revenue and other income | | — | 56,645 | 130,377 | 47,158 | 110,806 |
| Finance cost | 9 | — | (20,702) | (72,420) | (24,007) | (73,869) |
| Staff costs | | — | (4,220) | (8,225) | (2,488) | (4,387) |
| Other operating expenses | | — | (2,667) | (3,930) | (2,053) | (1,570) |
| Impairment losses | 10 | — | — | (1,049) | — | (1,026) |
| Profit before income tax | 11 | — | 29,056 | 44,753 | 18,610 | 29,954 |
| Income tax expense | 12 | — | (7,282) | (11,213) | (4,659) | (7,500) |
| Profit for the period/year | | — | 21,774 | 33,540 | 13,951 | 22,454 |
| Profit and total comprehensive income for the period/year | | — | 21,774 | 33,540 | 13,951 | 22,454 |

## STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at 31 May |
|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | | |
| Equipment | 16 | — | 147 | 183 | 229 |
| Intangible assets | | — | 55 | 353 | 400 |
| Available-for-sale investment | 17 | — | — | 50,000 | — |
| Equity investment at fair value through profit or loss | 17 | — | — | — | 50,000 |
| Finance lease receivables | 18 | — | 1,792,741 | 2,760,210 | 3,715,250 |
| Deferred tax assets | 20 | — | 3,412 | 8,517 | 13,846 |
| | | — | 1,796,355 | 2,819,263 | 3,779,725 |
| Current assets | | | | | |
| Finance lease receivables | 18 | — | 460,125 | 1,591,978 | 1,660,216 |
| Other receivables | 19 | — | 34,459 | 56,482 | 136,320 |
| Bank balances | 21 | — | 133,621 | 591,719 | 451,930 |
| | | — | 628,205 | 2,240,179 | 2,248,466 |
| Current liabilities | | | | | |
| Other payables | 22 | — | 1,209 | 55,620 | 62,594 |
| Deposits from finance lease customers | 18 | — | — | 1,798 | 4,206 |
| Income tax payables | | — | 3,454 | 5,534 | 3,628 |
| Deferred income | 23 | — | 1,955 | 5,283 | 5,985 |
| Borrowings | 24 | — | 181,325 | 2,106,334 | 2,639,489 |
| | | — | 187,943 | 2,174,569 | 2,715,902 |
| Net current assets/(liabilities) | | — | 440,262 | 65,610 | (467,436) |
| Total assets less current liabilities | | — | 2,236,617 | 2,884,873 | 3,312,289 |
| Capital and reserves | | | | | |
| Share capital | 26 | — | 879,810 | 879,810 | 879,810 |
| Reserves | 27 | — | 21,774 | 55,314 | 75,549 |
| Total equity | | — | 901,584 | 935,124 | 955,359 |
| Non-current liabilities | | | | | |
| Deposits from finance lease customers | 18 | — | 15,486 | 59,757 | 69,280 |
| Deferred income | 23 | — | 6,547 | 16,647 | 26,912 |
| Borrowings | 24 | — | 1,313,000 | 1,873,345 | 2,260,738 |
| | | — | 1,335,033 | 1,949,749 | 2,356,930 |
| | | — | 2,236,617 | 2,884,873 | 3,312,289 |

## STATEMENTS OF CHANGES IN EQUITY

| | | | Reserve | | | |
|---|---|---|---|---|---|---|
| | Notes | Share capital RMB'000 | Surplus reserve RMB'000 | Retained profits RMB'000 | Subtotal RMB'000 | Total RMB'000 |
| At 22 December 2015 (date of incorporation) and 1 January 2016 | | — | — | — | — | — |
| Capital injection | 26 | 879,810 | — | — | — | 879,810 |
| Profit for the year | | — | — | 21,774 | 21,774 | 21,774 |
| Appropriation to statutory surplus reserve | | — | 2,177 | (2,177) | — | — |
| At 31 December 2016 | | 879,810 | 2,177 | 19,597 | 21,774 | 901,584 |
| At 1 January 2017 | | 879,810 | 2,177 | 19,597 | 21,774 | 901,584 |
| Profit for the year | | — | — | 33,540 | 33,540 | 33,540 |
| Appropriation to statutory surplus reserve | | — | 3,354 | (3,354) | — | — |
| At 31 December 2017 | | 879,810 | 5,531 | 49,783 | 55,314 | 935,124 |
| At 1 January 2017 | | 879,810 | 2,177 | 19,597 | 21,774 | 901,584 |
| Profit for the period (unaudited) | | — | — | 13,951 | 13,951 | 13,951 |
| At 31 May 2017 (unaudited) | | 879,810 | 2,177 | 33,548 | 35,725 | 915,535 |
| At 1 January 2018 | | 879,810 | 5,531 | 49,783 | 55,314 | 935,124 |
| Restated for adoption of new accounting standards | 3 | — | (222) | (1,997) | (2,219) | (2,219) |
| Adjusted balance at 1 January 2018 | | 879,810 | 5,309 | 47,786 | 53,095 | 932,905 |
| Profit for the period | | — | — | 22,454 | 22,454 | 22,454 |
| At 31 May 2018 | | 879,810 | 5,309 | 70,240 | 75,549 | 955,359 |

## STATEMENTS OF CASH FLOWS

| | Notes | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December 2016 | Year ended 31 December 2017 | Five months ended 31 May 2017 | Five months ended 31 May 2018 |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Operating activities | | | | | | |
| Profit before tax | | — | 29,056 | 44,753 | 18,610 | 29,954 |
| Adjustments for: | | | | | | |
| Depreciation | 11 | — | 19 | 40 | 14 | 13 |
| Amortisation | 11 | — | 5 | 56 | 8 | 33 |
| Finance cost | 9 | — | 20,702 | 72,420 | 24,007 | 73,869 |
| Impairment losses | 10 | — | — | 1,049 | — | 1,026 |
| Operating cash flows before movement in working capital | | — | 49,782 | 118,318 | 42,639 | 104,895 |
| Increase in finance lease receivables | | — | (2,252,980) | (2,155,163) | (261,535) | (1,105,654) |
| (Increase)/decrease in other receivables | | — | (34,345) | 32,769 | 34,158 | (1,447) |
| Increase in other payables | | — | 1,209 | 54,411 | 2,069 | 6,974 |
| Increase in deferred income | | — | 8,502 | 13,428 | 424 | 10,967 |
| Increase in deposits from finance lease customers | | — | 14,730 | 44,398 | 8,901 | 8,642 |
| Cash used in operating activities | | — | (2,213,102) | (1,891,839) | (173,344) | (975,623) |
| Income tax paid | | — | (7,240) | (14,238) | (9,039) | (13,995) |
| Net cash used in operating activities | | — | (2,220,342) | (1,906,077) | (182,383) | (989,618) |
| Investing activities | | | | | | |
| Payments for intangible assets | | — | (60) | (354) | (154) | (80) |
| Purchase of available-for-sale investment | | — | — | (50,000) | (20,000) | — |
| Payments for purchase of equipment | | — | (166) | (76) | (29) | (59) |
| Net cash used in investing activities | | — | (226) | (50,430) | (20,183) | (139) |
| Financing activities | | | | | | |
| Capital injection | | — | 879,810 | — | — | — |
| Proceeds from borrowings | 25 | — | 1,512,600 | 2,671,520 | 280,867 | 928,000 |
| Repayment of borrowings | 25 | — | (20,000) | (189,550) | (46,600) | (30,283) |
| Interests paid | 25 | — | (18,221) | (67,365) | (12,787) | (47,749) |
| Net cash generated from financing activities | | — | 2,354,189 | 2,414,605 | 221,480 | 849,968 |
| Net increase/(decrease) in cash and cash equivalents | | — | 133,621 | 458,098 | 18,914 | (139,789) |
| Cash and cash equivalents at beginning of the period/year | | — | — | 133,621 | 133,621 | 591,719 |
| Cash and cash equivalents at end of the period/year, represented by bank balances | 21 | — | 133,621 | 591,719 | 152,535 | 451,930 |

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

CNNC Financial Leasing Co., Ltd (the "CNNC Leasing") is a limited liability company incorporated in China (Shanghai) Pilot Free Trade Zone, the People's Republic of China ("PRC") on 22 December 2015, with a registered capital of RMB1,000 million. The registered address of CNNC Leasing is Room 1020, The 1st Floor, Unit 1, No. 251 Yaohua Road, China (Shanghai) Pilot Free Trade Zone.

It is immediately and ultimately controlled by China National Nuclear Corporation ("CNNC"), a wholly state-owned company incorporated in Beijing, the PRC.

CNNC Leasing is principally engaged in the provision of finance to its customers under finance lease arrangements and factoring as approved by the Ministry of Commerce (the "MOFCOM") of the PRC.

The functional and presentation currency of CNNC Leasing is Renminbi ("RMB"), and the Historical Financial Information is presented in RMB.

### 2. GOING CONCERN

CNNC Leasing presented net current liabilities of approximately RMB467 million as at 31 May 2018 which was mainly resulted from the increase of short term borrowings.

The directors of CNNC Leasing have taken into account the current development of business of CNNC Leasing and extended one of the short term borrowings from CNNC amounting to RMB1.5 billion to long term borrowings. According to the new agreement, the loan term has been extended to 11 June 2019. Such change would reduce the current liabilities of CNNC Leasing as at the period end date by the same amount and would result in a turnaround from a net current liability position to a net current asset position.

### 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Historical Financial Information, CNNC Leasing has consistently applied Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and the related Interpretations ("HKFRICs") (herein collectively referred to as the "HKFRSs"), which are effective for the annual accounting period beginning on 1 January 2018 throughout the Track Record Period, except that CNNC Leasing adopted HKFRS 9 "Financial Instruments" since 1 January 2018. CNNC Leasing chooses to apply the transition relief given in HKFRS 9 and will not restate the financial information for the period from 22 December 2015 (date of incorporation) to 31 December 2015 and years ended 31 December 2016 and 2017 in the current year of the initial application. CNNC Leasing discloses accounting policies for financial instruments in Note 4 for both periods: accounting policies which conform with HKFRS 9 that are applicable from 2018 onwards and accounting policies which conform with HKAS 39 that are applicable for the period from 22 December 2015 (date of incorporation) to 31 December 2015 and each year ended 31 December 2016 and 2017. Any differences between the previous carrying amounts and the carrying amounts at 1 January 2018 that includes the date of initial application were recognised in the opening retained earnings.

In addition, CNNC Leasing has applied *Amendments to HKFRS 9 Prepayment Features with Negative Compensation* in advance of the mandatory effective date, i.e. 1 January 2019.

The followings are impacts on initial application of HKFRS 9 at initial recognition:

- **Classification and measurement**

The table below illustrates the classification and measurement (including impairment) of financial assets, financial liabilities and finance lease receivables subject to expected credit loss ("ECL") under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | **Original measurement category under HKAS 39** | **New measurement category under HKFRS 9** | **Original carrying amount under HKAS 39/ HKAS 17 as at 1 January 2018** | **Additional loss allowances recognised under HKFRS 9** | **New carrying amount under HKFRS 9 HKAS 17 as at 1 January 2018** |
|---|---|---|---|---|---|
| | | | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables *(Note 18)* | N/A | N/A | 4,352,188 | (2,951) | 4,349,237 |
| Unlisted equity investment *(Note 17)* | Available-for-sale investment | Financial assets at fair value through profit or loss ("FVTPL") | 50,000 | — | 50,000 |
| Other receivables *(Note 19)* | Loans and receivables | Financial assets at amortised cost | 1,576 | (8) | 1,568 |
| Bank balances *(Note 21)* | Loans and receivables | Financial assets at amortised cost | 591,719 | — | 591,719 |
| Deposits from finance lease customers *(Note 18)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 61,555 | — | 61,555 |
| Other payables *(Note 22)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 55,620 | — | 55,620 |
| Borrowings *(Note 24)* | Financial liabilities at amortised cost | Financial liabilities at amortised cost | 3,979,679 | — | 3,979,679 |
| Total additional expected credit loss recognised | | | | (2,959) | |

The additional loss allowances recognised upon the initial application of HKFRS 9 as disclosed above arise entirely from the change in the measurement attribute of the loss allowance relating to other receivables and finance lease receivables.

At the date of initial application of HKFRS 9, the unlisted equity investment of RMB50 million previously classified as available-for-sale ("AFS") and measured at cost less impairment under HKAS 39 was reclassified from AFS investment to FVTPL with fair value of RMB50 million. There was no impact on the amount recognised in relation to the asset from the application of HKFRS 9.

There were no financial liabilities which CNNC Leasing had previously designated as at FVTPL under HKAS 39. There were no financial liabilities which CNNC Leasing has elected to designate as at FVTPL at the date of initial application of HKFRS 9.

- **Impairment**

The following table is the reconciliation of the closing impairment allowances in accordance with HKAS 39 as at 31 December 2017 to the opening impairment allowances determined in accordance with HKFRS 9 as at 1 January 2018. Changes to the impairment allowance under HKFRS 9 are due to remeasurement of impairment using the expected credit loss requirements.

| | Original carrying amount under HKAS 39 as at 1 January 2018 | Changes of carrying amount at the initial application of HKFRS 9 | New carrying amount under HKFRS 9 as at 1 January 2018 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Provision on finance lease receivables | (1,049) | (2,951) | (4,000) |
| Provision on other receivables | — | (8) | (8) |
| Deferred tax assets | 8,517 | 740 | 9,257 |
| Reserves | (55,314) | 2,219 | (53,095) |

CNNC Leasing has not early applied the following new and revised HKFRSs that have been issued but not yet effective.

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) — Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.

Except for the new HKFRSs and amendments to HKFRSs mentioned below, the directors of CNNC Leasing are of the view that the application of all other new HKFRSs and amendments to HKFRSs and Interpretations is unlikely to have a significant impact on CNNC Leasing's financial statements in the foreseeable future.

**HKFRS 16 — Leases**

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, CNNC Leasing currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment property while other operating lease payments are presented as operating cash flows. Upon application of the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contract to the lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 May 2018, CNNC Leasing has non-cancellable operating lease commitments of approximately RMB10.2 million as disclosed in Note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16 upon application of HKFRS 16, CNNC Leasing will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the CNNC Leasing's financial statements.

In addition, CNNC Leasing currently considers rental deposits paid of approximately RMB2.1 million as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are payments relating to the right to use the underlying assets. Accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above and the directors of the CNNC Leasing expected that, such changes would increase the asset and liabilities of the entity, but would not result in a significant impact to the financial performance in CNNC Leasing's future financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance. The Historical Financial Information has been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, CNNC Leasing takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Lease, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

**Revenue recognition**

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, CNNC Leasing uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

CNNC Leasing recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents service (or a bundle services) that is distinct or a series of distinct services that are substantially the same.

***Finance lease income***

CNNC Leasing's accounting policy for the recognition of finance lease income is described in the accounting policy for leasing below.

***Interest income***

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*CNNC Leasing as lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of CNNC Leasing's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on CNNC Leasing's net investment outstanding in respect of the leases.

*CNNC Leasing as lessee*

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**Borrowing costs**

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognised until there is reasonable assurance that CNNC Leasing will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to CNNC Leasing with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Employee benefits**

In the reporting period in which an employee has rendered services, CNNC Leasing recognises the employee benefits expenses for those services in profit or loss.

*Retirement benefit costs*

Payments to defined contribution retirement benefit plan, the government-managed retirement benefit schemes, is recognised as an expense when employees have rendered service entitling them to the contributions.

*Short-term employee benefits*

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before tax' as reported in the statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. CNNC Leasing's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred income tax*

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which CNNC Leasing expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*Current tax and deferred tax for the year/period*

Current and deferred tax are recognised in profit or loss.

**Equipment**

Equipment comprises office equipment and furniture for administrative purpose. Equipment is presented at cost less subsequent accumulated depreciation and accumulated impairment losses (if any) in the statement of financial position.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of equipment held by CNNC Leasing for administrative purpose are as follows:

| Classes | Estimated residual value rates | Useful lives |
|---|---|---|
| Office equipment | 5% | 5 years |
| Furniture | 5% | 5 years |

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Impairment losses on tangible assets and intangible assets other than financial assets**

At the end of each reporting period, CNNC Leasing reviews the carrying amounts of its tangible assets and intangible assets other than financial assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, CNNC Leasing estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash- generating unit) for which the estimates of future cash flows have not been adjusted.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Financial instruments (before the adoption of HKFRS 9 since 1 January 2018)**

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

Financial assets are classified into loans and receivables (including other receivables and bank balances) and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of debt instruments and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest rate.

***AFS financial assets***

AFS financial assets are non-derivative that are either designated as AFS or are not classified as loan and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

***Impairment of financial assets and finance lease receivables***

Financial assets carried at amortised cost and finance lease receivables are assessed for indicators of impairment at the end of each reporting period. Financial assets carried at amortised cost and finance lease receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets carried at amortised cost, including finance lease receivables have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets at amortised cost and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets at amortised cost and finance lease receivables that are individually significant and have objective evidence of impairment, the individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at its original effective interest rate.

For finance lease receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of finance lease receivables could include an increase in the number of delayed payments in the portfolio or changes in national or local economic conditions that would have bearing on the industries that the lessees are operating in. Industry wide parameters such as the historical probability of default and historical loss given default are used to estimate the impairment of a portfolio on a collective basis.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of finance lease receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When finance lease receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortised cost, including finance lease receivables, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of AFS investment revaluation reserve.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Financial liabilities at amortised cost***

Financial liabilities of CNNC Leasing include deposits from finance lease customers, other payables and borrowings, which are subsequently measured at amortised cost using the effective interest method.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by CNNC Leasing are recognised at the proceeds received, net of direct issue costs.

***Derecognition***

CNNC Leasing derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If CNNC Leasing neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, CNNC Leasing recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If CNNC Leasing retains substantially all the risks and rewards of ownership of a transferred financial asset, CNNC Leasing continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

CNNC Leasing derecognises financial liabilities when, and only when, CNNC Leasing's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Financial instruments (under HKFRS 9)**

Financial assets and financial liabilities are recognised in CNNC Leasing's statements of financial position when the entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value including unquoted equity investment measured at cost less impairment under HKAS 39, on the basis of CNNC Leasing's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified date to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

***Debt instruments at amortised cost***

CNNC Leasing assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and its business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. CNNC Leasing determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. CNNC Leasing's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

CNNC Leasing's business models for managing its financial instruments reflect how it manages its financial assets in order to generate cash flows. CNNC Leasing's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

CNNC Leasing considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that CNNC Leasing does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. CNNC Leasing takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

At initial recognition of a financial asset, CNNC Leasing determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. CNNC Leasing reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "investment income" line item.

***Equity investment at FVTPL***

Equity instrument is classified as at FVTPL, unless CNNC Leasing irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor a contingent consideration arising from a business combination in fair value through other comprehensive income ("FVTOCI") at the date of initial application/initial recognition of a financial asset. CNNC Leasing has not designated any equity instruments at FVTOCI.

Equity investment at FVTPL is measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

The directors of CNNC Leasing reviewed and assessed its financial assets as at 1 January 2018 based on the facts and circumstances that existed at the date. Changes in classification and measurement on CNNC Leasing's financial assets and impacts thereof are detailed in Note 3.

***Impairment under expected credit loss ("ECL") model***

CNNC Leasing recognises a loss allowance for ECL on finance lease receivables and financial assets (including other receivables) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the CNNC Leasing's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

CNNC Leasing always recognises lifetime ECL for other receivables. The ECL on these financial assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For finance lease receivables, CNNC Leasing recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on finance lease receivables has not increased significantly since initial recognition, CNNC Leasing measures the loss allowance for that finance lease receivables at an amount equal to 12m ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a finance lease receivables being credit-impaired at the reporting date or an actual default occurring.

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, CNNC Leasing compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, CNNC Leasing considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which CNNC Leasing's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to its core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, CNNC Leasing presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless there is reasonable and supportable information that demonstrates otherwise.

Despite the afore going, CNNC Leasing assumes that the credit risk on a financial instrument and finance lease receivables have not increased significantly since initial recognition if the financial instrument and finance lease receivables are determined to have low credit risk at the reporting date. Financial instrument and finance lease receivables are determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. CNNC Leasing considers financial asset and finance lease receivables to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

CNNC Leasing regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*Definition of default*

CNNC Leasing considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that other receivables and finance lease receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including CNNC Leasing, in full (without taking into account any collaterals held by CNNC Leasing).

Irrespective of the above analysis, CNNC Leasing considers that default has occurred when financial asset and finance lease receivables are more than 90 days past due unless it has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets and finance lease receivables*

Financial asset and finance lease receivables are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset and finance lease receivables have occurred. Evidence that financial asset and finance lease receivables are credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

*Write-off policy*

CNNC Leasing writes off a financial asset and a finance lease receivable where there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets and finance lease receivables, written off may still be subject to enforcement activities under CNNC Leasing's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets and finance lease receivables, these are represented by the assets' gross carrying amount at the reporting date; for finance lease commitments, the exposure includes the amount drawn down as at the reporting date.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to CNNC Leasing in accordance with the contract and all the cash flows that it expects to receive, discounted at the effective interest rate determined at initial recognition. For finance lease receivables, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivables in accordance with HKAS 17 Leases.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the entity's other receivables and finance lease receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors;

- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If CNNC Leasing has measured the loss allowance for a financial instrument and finance lease receivables at the amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, CNNC Leasing should measure the loss allowance at an amount equal to 12m ECL at the current reporting date.

CNNC Leasing recognises an impairment gain or loss in profit or loss for the financial asset and finance lease receivables with a corresponding adjustment to their carrying amount through a loss allowance account.

***Derecognition of financial assets***

CNNC Leasing derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If CNNC Leasing neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If CNNC Leasing retains substantially all the risks and rewards of ownership of a transferred financial asset, CNNC Leasing continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities***

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

***Bank balances***

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are CNNC Leasing's short-term, highly liquid investments that are convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of CNNC Leasing's accounting policies, which are described in Note 4, the directors of CNNC Leasing are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are made based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following critical judgements, estimates and assumptions are made in applying accounting policies by CNNC Leasing and have significant impact on amounts recognised in Historical Financial Information:

**Estimated impairment of finance lease receivables**

Before the adoption of HKFRS 9, CNNC Leasing makes allowances for impairment of finance lease receivables based on an assessment of the recoverability of finance lease receivables. CNNC Leasing reviews its finance lease receivables to assess impairment on a regular basis based on objective evidence. The impairment loss amount of the individual finance lease receivable is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include observable data indicating that there is a measurable decrease in the estimated future cash flows of the individual finance lease receivable. If a finance lease receivable is assessed not to be impaired individually, it is assessed collectively on a portfolio basis. Objective evidence of impairment for a portfolio of finance lease receivables could include an increase in the number of delayed payments in the portfolio or changes in national or local economic conditions that would have bearing on the industries that the lessees are operating in. Industry wide parameters such as the historical probability of default and historical loss given default are used to estimate the impairment of a portfolio on a collective basis.

Management uses estimates based on historical data for assets with credit risk characteristics similar to those in the portfolio. The methodologies and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As at 31 December 2015, 2016 and 2017, the carrying amount of finance lease receivable is nil, approximately RMB2,252.87 million and approximately RMB4,352.19 million (net of allowance for impairment losses of nil, nil and approximately RMB1.05 million) respectively. Details of the carrying amounts and the impairment losses of finance lease receivables are set out in note 18.

After the adoption of HKFRS 9 on 1 January 2018, management estimates the amount of loss allowance for ECL on finance lease receivables based on ECL. The loss allowance amount is measured as the difference between its carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss. The assessment of the credit risk of finance lease receivables and the expected future cash flows involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 1 January 2018 and 31 May 2018, the carrying amount of finance lease receivables amounted to approximately RMB4,349.2 million and approximately RMB5,375.5 million (net of allowance for impairment loss of approximately RMB4.0 million and approximately RMB5.0 million), respectively.

## 6. SEGMENT INFORMATION

The directors of CNNC Leasing, being the chief operating decision makers, considered that there was only one reportable operation segment, the financial leasing business of CNNC Leasing. Since CNNC Leasing provides finance lease services in mainland China, the operating segment has identified assets and liabilities of CNNC Leasing as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

**Geographical information**

(a) The revenues from external customers of CNNC Leasing are generated in mainland China.

(b) The non-current assets are located in mainland China.

**Information about major customers**

Approximately 97%, 92%, 98% (unaudited) and 44% of the revenues for the years ended 31 December 2016, 2017 and five months ended 31 May 2017 and 2018 arose from CNNC Leasing's related parties. There was no revenue generated for the period from 22 December 2015 to 31 December 2015.

## 7. REVENUE

Revenue represents finance lease interest income generated from finance lease arrangement.

## 8. OTHER INCOME

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Government grants *(Note (i))* | — | — | 3,440 | — | — |
| Bank interest income | — | 2,066 | 2,344 | 68 | 1,215 |
| Factoring income *(Note (ii))* | — | 481 | 355 | 355 | — |
| Total | — | 2,547 | 6,139 | 423 | 1,215 |

*Notes:*

(i) Government grants primarily consist of the fiscal support that local governments offer to CNNC Leasing for engaging in the finance lease business in the PRC.

(ii) Factoring income was recognised as other income in each period according to the effective interest method during the terms of the contract.

## 9. FINANCE COST

| | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Interest expense on borrowings | | | | | |
| — Bank borrowings | — | 19,946 | 68,442 | 23,495 | 44,573 |
| — Entrusted loans from a related party | — | — | 2,307 | — | 24,687 |
| — Other finance institutions borrowings | — | — | — | — | 1,320 |
| Imputed interest on deposits from finance lease customers | — | 756 | 1,671 | 512 | 3,289 |
| Total | — | 20,702 | 72,420 | 24,007 | 73,869 |

## 10. IMPAIRMENT LOSSES

| | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Finance lease receivables *(Note 18)* | — | — | 1,049 | — | 1,018 |
| Other receivables *(Note 19)* | — | — | — | — | 8 |
| Total | — | — | 1,049 | — | 1,026 |

## 11. PROFIT BEFORE INCOME TAX

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit before income tax has been arrived at after charging: | | | | | |
| Directors' remuneration *(Note 15)* | | | | | |
| — Directors' fees | — | — | — | — | — |
| — Salaries and bonus | — | 134 | 648 | 159 | 172 |
| — Social welfare | — | 41 | 118 | 48 | 52 |
| Salaries, bonus, allowances, social welfare and other employee benefits | — | 4,045 | 7,459 | 2,281 | 4,163 |
| Total staff costs | — | 4,220 | 8,225 | 2,488 | 4,387 |
| Auditors' remuneration *(Note)* | — | — | — | — | — |
| Depreciation | — | 19 | 40 | 14 | 13 |
| Amortisation | — | 5 | 56 | 8 | 33 |
| Minimum lease payments under operating leases | — | 516 | 1,187 | 1,117 | 420 |

*Note:* The auditors' remuneration during the Track Record Period was borne by CNNC. The corresponding portion attributable to CNNC Leasing was considered insignificant and has not been charged back to CNNC Leasing.

## 12. INCOME TAX EXPENSE

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Taxation for the period/year | | | | | |
| Current income tax | — | 10,694 | 16,318 | 4,399 | 12,089 |
| Deferred income tax *(Note 20)* | — | (3,412) | (5,105) | 260 | (4,589) |
| | — | 7,282 | 11,213 | 4,659 | 7,500 |

The taxation charge for the Track Record Period can be reconciled to the profit before income tax per the statement of profit or loss and other comprehensive income as follows:

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit before income tax | — | 29,056 | 44,753 | 18,610 | 29,954 |
| Tax at the statutory rate of 25% | — | 7,264 | 11,188 | 4,652 | 7,489 |
| Expenses not deductible for tax purpose | — | 18 | 25 | 7 | 11 |
| Income tax expense for the period/year | — | 7,282 | 11,213 | 4,659 | 7,500 |

## 13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful as CNNC Leasing is not a joint-stock company.

## 14. DIVIDEND

No dividend was paid or declared by CNNC Leasing since its incorporation.

## 15. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors

Details of emoluments paid by CNNC Leasing to the directors during the Track Record Period are as follows:

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Directors' fees | — | — | — | — | — |
| Salaries | — | 134 | 399 | 159 | 172 |
| Bonus | — | — | 249 | — | — |
| Retirement benefits | — | 15 | 42 | 18 | 20 |
| Other social welfare | — | 26 | 76 | 30 | 32 |
| Total | — | 175 | 766 | 207 | 224 |

| | Directors' fees | Salaries | Bonus | Retirement benefits | Other social welfare | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **For the year ended 31 December 2016** | | | | | | |
| *Executive director* | | | | | | |
| Ms. Chai Yanli *(Note (i))* | — | 134 | — | 15 | 26 | 175 |
| *Non-executive directors* | | | | | | |
| Mr. Yang Zhaowen *(Note (ii))* | — | — | — | — | — | — |
| Mr. Zhang Yong *(Note (iii))* | — | — | — | — | — | — |
| Mr. Wen Xinli *(Note (iv))* | — | — | — | — | — | — |
| Mr. Liang Wuquan *(Note (v))* | — | — | — | — | — | — |
| Mr. Zhuo Yuyun *(Note (vi))* | — | — | — | — | — | — |
| Mr. Xie Yonghui *(Note (vii))* | — | — | — | — | — | — |
| Total | — | 134 | — | 15 | 26 | 175 |

| | Directors' fees *RMB'000* | Salaries *RMB'000* | Bonus *RMB'000* | Retirement benefits *RMB'000* | Other social welfare *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | |
| *Executive director* | | | | | | |
| Ms. Chai Yanli | — | 201 | 249 | 21 | 38 | 509 |
| *Non-executive directors* | | | | | | |
| Mr. Yang Zhaowen | — | 198 | — | 21 | 38 | 257 |
| Mr. Zhang Yong | — | — | — | — | — | — |
| Mr. Wen Xinli | — | — | — | — | — | — |
| Mr. Liang Wuquan | — | — | — | — | — | — |
| Mr. Zhuo Yuyun | — | — | — | — | — | — |
| Mr. Xie Yonghui | — | — | — | — | — | — |
| Ms. Tong Jianping *(Note (viii))* | — | — | — | — | — | — |
| Mr. Bai Donghai *(Note (ix))* | — | — | — | — | — | — |
| Total | — | 399 | 249 | 42 | 76 | 766 |

| | Directors' fees *RMB'000* | Salaries *RMB'000* | Bonus *RMB'000* | Retirement benefits *RMB'000* | Other social welfare *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| (unaudited) | | | | | | |
| **For the five months ended 31 May 2017** | | | | | | |
| *Executive director* | | | | | | |
| Ms. Chai Yanli | — | 80 | — | 9 | 15 | 104 |
| *Non-executive directors* | | | | | | |
| Mr. Yang Zhaowen | — | 79 | — | 9 | 15 | 103 |
| Mr. Zhang Yong | — | — | — | — | — | — |
| Mr. Wen Xinli | — | — | — | — | — | — |
| Mr. Liang Wuquan | — | — | — | — | — | — |
| Mr. Zhuo Yuyun | — | — | — | — | — | — |
| Mr. Xie Yonghui | — | — | — | — | — | — |
| Ms. Tong Jianping | — | — | — | — | — | — |
| Mr. Bai Donghai | — | — | — | — | — | — |
| Total | — | 159 | — | 18 | 30 | 207 |

| | Directors' fees RMB'000 | Salaries RMB'000 | Bonus RMB'000 | Retirement benefits RMB'000 | Other social welfare RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the five months ended 31 May 2018** | | | | | | |
| *Executive director* | | | | | | |
| Ms. Chai Yanli | — | 86 | — | 10 | 16 | 112 |
| *Non-executive directors* | | | | | | |
| Mr. Yang Zhaowen | — | 86 | — | 10 | 16 | 112 |
| Mr. Zhang Yong | — | — | — | — | — | — |
| Mr. Wen Xinli | — | — | — | — | — | — |
| Mr. Liang Wuquan | — | — | — | — | — | — |
| Mr. Zhuo Yuyun | — | — | — | — | — | — |
| Mr. Xie Yonghui | — | — | — | — | — | — |
| Ms. Tong Jianping | — | — | — | — | — | — |
| Mr. Bai Donghai | — | — | — | — | — | — |
| Total | — | 172 | — | 20 | 32 | 224 |

*Notes:*

(i) Ms. Chai Yanli was the Chief Executive of CNNC Leasing for the years ended December 31 2016, 2017 and the five months ended 31 May 2018. Her emoluments disclosed above cover her role as the Chief Executive of CNNC Leasing. Ms. Chai Yanli was appointed as executive director in January 2016.

(ii) Mr. Yang Zhaowen was appointed as non-executive director in December 2016.

(iii) Mr. Zhang Yong was appointed as non-executive director in January 2016.

(iv) Mr. Wen Xinli was appointed as non-executive director in January 2016.

(v) Mr. Liang Wuquan was appointed as non-executive director in January 2016.

(vi) Mr. Zhuo Yuyun was appointed as non-executive director in January 2016.

(vii) Mr. Xie Yonghui was appointed as non-executive director in January 2016.

(viii) Ms. Tong Jianping was appointed as non-executive director in March 2017.

(ix) Mr. Bai Donghai was appointed as non-executive director in March 2017.

For the period from 22 December 2015 (the date of incorporation) to 31 December 2015, no director was appointed by CNNC Leasing.

There was no arrangement under which a director of CNNC Leasing or the Chief Executive of CNNC Leasing waived or agreed to waive any remuneration during the Track Record Period.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of CNNC Leasing.

The non-executive directors' emoluments shown above were for their services as directors of CNNC Leasing.

The bonuses are discretionary and are determined by reference to CNNC Leasing's and the individuals' performance.

**(b) Five highest paid individuals**

The five individuals whose remunerations were the highest in the period from 22 December 2015 (date of incorporation) to 31 December 2015, years ended 31 December 2016 and 2017 and five months ended 31 May 2017 and 2018 include zero, zero, one, two and two directors respectively whose emoluments are reflected in the analysis presented above. The remunerations payable to the five highest paid individuals of CNNC Leasing during the Track Record Period are as follows:

| | **Period from 22 December 2015 (date of incorporation) to 31 December** | **Year ended 31 December** | | **Five months ended 31 May** | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Directors | — | — | 509 | 207 | 224 |
| Non-directors | — | 1,533 | 1,727 | 283 | 309 |
| Total | — | 1,533 | 2,236 | 490 | 533 |

The number of the highest paid individuals fell within the following bands are set out below:

| | **Period from 22 December 2015 (date of incorporation) to 31 December** | **Year ended 31 December** | | **Five months ended 31 May** | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *No. of Employees* | *No. of Employees* | *No. of Employees* | *No. of Employees* (unaudited) | *No. of Employees* |
| *Directors:* | | | | | |
| Nil to HK$1,000,000 | — | — | 1 | 2 | 2 |
| *Non-directors:* | | | | | |
| Nil to HK$1,000,000 | — | 5 | 4 | 3 | 3 |

## 16. EQUIPMENT

| | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December 2016 | Year ended 31 December 2017 | Five months ended 31 May 2018 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost | | | | |
| At beginning of the period/year | — | — | 166 | 242 |
| Additions | — | 166 | 76 | 59 |
| At end of the period/year | — | 166 | 242 | 301 |
| Accumulated depreciation | | | | |
| At beginning of the period/year | — | — | (19) | (59) |
| Charge for period/year | — | (19) | (40) | (13) |
| At end of the period/year | — | (19) | (59) | (72) |
| Net book value at end of the period/year | — | 147 | 183 | 229 |

Equipment mainly comprises computers and furniture.

## 17. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENT

| | As at 31 December 2015 | As at 31 December 2016 | As at 31 December 2017 | As at 31 May 2018 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted equity investment | — | — | 50,000 | 50,000 |
| | — | — | 50,000 | 50,000 |

The above unlisted equity investment represents investment in unlisted equity securities issued by a state-owned enterprise which was classified as AFS investment measured at cost less impairment before the adoption of HKFRS 9 because the range of fair value estimates is so significant and the probabilities of the various estimates cannot be reasonably assessed that the directors of CNNC Leasing are of the opinion that their fair values cannot be measured reliably.

At the initial application of HKFRS 9, CNNC Leasing elects not to designate the investment at FVTOCI and reclassifies the equity investment from AFS financial asset to financial asset at FVTPL which is measured at fair value with any changes of fair value recognised through profit or loss.

The investee is engaged in construction and management, project investment and management, assets operation and management and other business scope as approved by the relevant registration authority.

## 18. FINANCE LEASE RECEIVABLES

(1) The minimum lease receivables are set out below:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | — | 568,241 | 1,796,632 | 1,867,147 |
| More than one year and not more than five years | — | 1,689,767 | 2,705,443 | 3,498,851 |
| More than five years | — | 328,325 | 404,060 | 874,365 |
| Gross amount of finance lease receivables | — | 2,586,333 | 4,906,135 | 6,240,363 |
| Less: Unearned finance income | — | 333,467 | 552,898 | 859,879 |
| Present value of finance lease receivables | — | 2,252,866 | 4,353,237 | 5,380,484 |
| Represented by: | | | | |
| Within one year | — | 460,125 | 1,592,366 | 1,661,772 |
| More than one year and not more than five years | — | 1,491,916 | 2,396,457 | 2,965,806 |
| More than five years | — | 300,825 | 364,414 | 752,906 |
| Subtotal | — | 2,252,866 | 4,353,237 | 5,380,484 |
| Less: Allowances for impairment losses | — | — | 1,049 | 5,018 |
| Carrying amount of finance lease receivables | — | 2,252,866 | 4,352,188 | 5,375,466 |
| Analysed for reporting purposes as: | | | | |
| Current assets | — | 460,125 | 1,591,978 | 1,660,216 |
| Non-current assets | — | 1,792,741 | 2,760,210 | 3,715,250 |
| Total | — | 2,252,866 | 4,352,188 | 5,375,466 |

(2) Movements of allowances for impairment losses on finance leases receivable are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the period/year | — | — | — |
| Provided for the period/year | — | — | 1,049 |
| At end of the period/year | — | — | 1,049 |

| | For the five months ended 31 May 2018 | | |
|---|---|---|---|
| | **Collective provisions 12-months ECL** | **Collective provisions under HKAS 39** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the period | — | 1,049 | 1,049 |
| Restated for adoption of new accounting standards *(Note (i))* | 4,000 | (1,049) | 2,951 |
| Restated balance at beginning of the period | 4,000 | — | 4,000 |
| Provided for the period *(Note (ii))* | 1,018 | — | 1,018 |
| Balance at end of the period | 5,018 | — | 5,018 |
| Expected loss rate at end of the period | 0.09% | | 0.09% |

*Notes:*

(i) The opening balance for the collective provision of finance lease receivables measured under HKAS 39 is now presented within 12-month ECLs following the adoption of HKFRS 9, with no restatement to prior period comparatives. Refer to Note 3 for information on the adoption of HKFRS 9.

(ii) There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the finance lease receivables. None of the finance lease receivables was either past due or impaired during the Track Record Period. The increase in allowances for impairment losses on finance leases receivables is caused by finance lease receivables originated during the period.

(3) The following is a credit quality analysis of finance lease receivables. In the event that an installment repayment of a finance lease receivable is past due, the entire outstanding balance of the finance lease receivable is classified as past due.

| | As at 31 December | | |
|---|---|---|---|
| | 2015 | 2016 | 2017 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | — | 2,252,866 | 4,353,237 |
| Subtotal | — | 2,252,866 | 4,353,237 |
| Less: Collectively assessed allowance under HKAS 39 | — | — | 1,049 |
| Net finance lease receivables | — | 2,252,866 | 4,352,188 |

Upon the adoption of HKFRS 9, CNNC Leasing tasked its credit management department to develop and maintain its credit risk grading to categorise exposures according to their degree of risk of default. The credit information is supplied by independent rating agencies where available and, if not available, the credit management department uses other publicly available financial information and the entity's own trading records to rate its major customers and other debtors.

CNNC Leasing's current credit risk grading framework comprises the following categories:

| **Category** | **Description** | **Basis for recognising ECL** |
|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | 12-month ECL |
| Doubtful | Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL — not credit-impaired |
| In default | Amount is >90 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and CNNC Leasing has no realistic prospect of recovery | Amount is written off |

According to the level of credit risk category, the finance lease receivables are all at performing level and have an impairment allowance based on 12-month ECL.

| | Restated balance at 1 January 2018 | | | As at 31 May 2018 | | |
|---|---|---|---|---|---|---|
| | Present value of finance lease receivables | Provision | Net carrying amount of finance lease receivables | Present value of finance lease receivables | Provision | Net carrying amount of finance lease receivables |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 12-month ECL | 4,353,237 | (4,000) | 4,349,237 | 5,380,484 | (5,018) | 5,375,466 |
| Total | 4,353,237 | (4,000) | 4,349,237 | 5,380,484 | (5,018) | 5,375,466 |

(4) CNNC Leasing entered into agreements with certain counterparties to pledge its finance lease receivables for secured borrowings, with the carrying amount of approximately RMB788 million as at 31 May 2018 (none for the period prior to 31 December 2017).

The above-mentioned finance leases receivables have been pledged in the credit reference center of the People's Bank of China ("PBOC") for registration.

(5) Deposits from customers are used as collateral. Deposits from customers are calculated and collected based on certain percentage of remaining value of the lease contract, and are fully refundable to customers based on percentages prescribed in lease contract period or when the lease is over. Balance of deposits from customers can also be used to settle outstanding lease payments.

The amounts of deposits from customers represented by maturity date are as follows :

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | — | — | 1,798 | 4,206 |
| More than one year and not more than five years | — | 4,395 | 34,250 | 35,479 |
| More than five years | — | 11,091 | 25,507 | 33,801 |
| The amounts of deposits from customers | — | 15,486 | 61,555 | 73,486 |
| Analysed for reporting purposes as: | | | | |
| Current liabilities | — | — | 1,798 | 4,206 |
| Non-current liabilities | — | 15,486 | 59,757 | 69,280 |
| Total | — | 15,486 | 61,555 | 73,486 |

Effective interest rates of above deposits from customers range from 6.7% to 10.0%, 4.7% to 11.7% and 4.8% to 12.4% per annum as at 31 December 2016 and 2017 and 31 May 2018, respectively.

(6) For the Track Record Period, the effective annual interest rate and average yield of finance lease receivables are as follows:

| | Period from 22 December 2015 (date of incorporation) to 31 December 2015 | Year ended 31 December 2016 | 2017 | Five months ended 31 May 2018 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Effective annual interest rate | N/A | 3.98%–10.07% | 3.98%–10.07% | 3.98%–10.07% |
| Average effective annual interest rate | N/A | 4.60% | 3.61% | 5.40% |

(7) For the Track Record Period, the finance lease receivables are all charged at floating interest rates with reference to the benchmark lending interest rate of PBOC ("PBOCR") which are adjusted periodically.

## 19. OTHER RECEIVABLES

| | As at 31 December 2015 | 2016 | 2017 | As at 31 May 2018 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deductible value-added tax | — | 114 | 54,906 | 133,313 |
| Factoring receivables *(Note)* | — | 34,000 | — | — |
| Others | — | 345 | 1,576 | 3,023 |
| Subtotal | — | 34,459 | 56,482 | 136,336 |
| Less: Allowance for doubtful debts | — | — | — | 16 |
| Total | — | 34,459 | 56,482 | 136,320 |
| Analysed for reporting purposes as: | | | | |
| Non-current assets | — | — | — | — |
| Current assets | — | 34,459 | 56,482 | 136,320 |
| Total | — | 34,459 | 56,482 | 136,320 |

*Note:* CNNC Leasing acquired the beneficial rights to cash flows on certain trade receivables from an external customer in an arrangement with recourse with respect to the credit risk in 2016. As a result, CNNC Leasing recognised factoring receivables. Such factoring receivables were fully repaid in 2017 after the settlement of the trade receivables.

Movements of allowances for doubtful debts are as follows:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the period/year | — | — | — | — |
| Restated for adoption of new accounting standards *(Note)* | — | — | — | 8 |
| Restated balance at beginning of the period | — | — | — | 8 |
| Provided for the period/year | — | — | — | 8 |
| At end of the period/year | — | — | — | 16 |

*Note:* CNNC Leasing assess the loss allowance for other receivables (excluding deductible value-added tax) and applies the provision matrix approach with appropriate groupings to provide for the ECLs prescribed by HKFRS 9.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for other receivables (excluding deductible value-added tax).

## 20. DEFERRED TAX ASSETS

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets | — | 3,412 | 8,517 | 13,846 |
| | — | 3,412 | 8,517 | 13,846 |

**Movements in balances of deferred tax assets/liabilities**

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at beginning of the period/year | — | — | 3,412 | 8,517 |
| Restated for adoption of new accounting standards *(Note 3)* | — | — | — | 740 |
| Credit to profit or loss | — | 3,412 | 5,105 | 4,589 |
| Balance at end of the period/year | — | 3,412 | 8,517 | 13,846 |

| | Deductible/(Taxable) temporary difference | | | | Deferred tax assets/(liabilities) | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 May | As at 31 December | | | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Allowance for impairment | — | — | 1,049 | 5,034 | — | — | 262 | 1,258 |
| Unearned finance lease income | — | 14,009 | 34,204 | 52,578 | — | 3,502 | 8,551 | 13,145 |
| Deferred income from finance lease | — | (427) | (1,336) | (2,420) | — | (107) | (334) | (605) |
| Others | — | 67 | 150 | 192 | — | 17 | 38 | 48 |
| Total | — | 13,649 | 34,067 | 55,384 | — | 3,412 | 8,517 | 13,846 |

## 21. BANK BALANCES

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank balances | — | 133,621 | 591,719 | 451,930 |

All bank balances of CNNC Leasing are on demand deposits that carry interest at prevailing market rates ranging from 0.3% to 1.15%, 0.3% to 1.15% and 0.3% to 1.15% per annum as at 31 December 2016 and 2017 and 31 May 2018 respectively.

## 22. OTHER PAYABLES

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Payable for purchase of leasing equipment | — | — | 51,986 | 52,443 |
| Other tax payables | — | 1,058 | 3,325 | 9,245 |
| Accrued payroll | — | 127 | 306 | 837 |
| Others | — | 24 | 3 | 69 |
| Total | — | 1,209 | 55,620 | 62,594 |

All liabilities above are current.

**23. DEFERRED INCOME**

Deferred income from finance lease is amortised over the lease period so as to reflect a constant periodic rate of return of CNNC Leasing.

**24. BORROWINGS**

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Secured borrowings *(Note)* | — | — | — | 599,845 |
| Unsecured borrowings | — | 1,494,325 | 3,979,679 | 4,300,382 |
| Total | — | 1,494,325 | 3,979,679 | 4,900,227 |
| Represented by: | | | | |
| Borrowing from financial institutions | | | | |
| — Bank | — | 1,494,325 | 2,477,974 | 3,189,712 |
| — Other financial institutions | — | — | — | 197,481 |
| Borrowing from other institutions | | | | |
| — Entrusted loans | — | — | 1,501,705 | 1,513,034 |
| Total | — | 1,494,325 | 3,979,679 | 4,900,227 |
| Represented by: | | | | |
| Carrying amount repayable: | | | | |
| Within one year | — | 181,325 | 2,106,334 | 2,639,489 |
| More than one year, but not exceeding two years | — | 273,000 | 1,218,890 | 1,601,870 |
| More than two years, but not exceeding five years | — | 1,040,000 | 654,455 | 572,868 |
| More than five years | — | — | — | 86,000 |
| | — | 1,494,325 | 3,979,679 | 4,900,227 |
| Less: amounts under current liabilities | — | 181,325 | 2,106,334 | 2,639,489 |
| Non-current liabilities | — | 1,313,000 | 1,873,345 | 2,260,738 |

*Note:* As at 31 May 2018, CNNC Leasing's secured borrowings was at the amount of approximately RMB600 million, represented the borrowings with agreement to pledge its finance lease receivables as detailed in Note 18.

The interest rates of borrowings were mainly floating interest rates with reference to the benchmark lending PBOCR, which were adjusted periodically.

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | — | 1-year PBOCR times 0.9 | 1-year PBOCR times 0.9 to 0.95 | 1-year PBOCR times 0.9 to 0.95 |
| Floating-rate | — | 3-year PBOCR times 0.8 to 0.9 | 1-year PBOCR times 0.9 to 1.05 | 1-year PBOCR times 0.9 to 1.05 |
| borrowings | — | — | 3-year PBOCR times 0.8 to 0.9 | 3-year PBOCR times 0.8 to 0.9 |
| | — | — | 3-year PBOCR times 0.9 to 1.05 | 3-year PBOCR times 0.9 to 1.05 |
| Fixed-rate borrowings | — | — | — | 3-year PBOCR times 0.95 to 1.05 |

### 25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in CNNC Leasing's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in CNNC Leasing's statement of cash flows as cash flows from financing activities.

| | **Borrowings** |
|---|---|
| | *RMB'000* |
| At 22 December 2015 (date of incorporation) and 31 December 2015 | — |
| Financing cash flows *(Note)* | 1,474,379 |
| Non-cash changes: finance cost recognised | 19,946 |
| At 31 December 2016 | 1,494,325 |
| Financing cash flows *(Note)* | 2,414,605 |
| Non-cash changes: finance cost recognised | 70,749 |
| At 31 December 2017 | 3,979,679 |
| At 1 January 2017 | 1,494,325 |
| Financing cash flows *(Note)* (unaudited) | 221,480 |
| Non-cash changes: finance cost recognised (unaudited) | 23,495 |
| At 31 May 2017 (unaudited) | 1,739,300 |
| At 1 January 2018 | 3,979,679 |
| Financing cash flows *(Note)* | 849,968 |
| Non-cash changes: finance cost recognised | 70,580 |
| At 31 May 2018 | 4,900,227 |

*Note:* The cash flows represent the proceeds from borrowings, the repayment of borrowings and interest paid included in statements of cash flow.

## 26. SHARE CAPITAL

On 22 December 2015 (the date of incorporation), the registered capital of CNNC Leasing was RMB 1,000,000,000. The share capital paid for was at the amount of nil as at 31 December 2015 and RMB 879,810,000 at the end of each reporting period from then on. The share capital authorised and paid pursuant to the articles of incorporation were as follows:

**Name of shareholders**

| | As at December 31 2015 | | | |
|---|---|---|---|---|
| | **Authorised share capital** | **Proportion** | **Share capital paid** | **Proportion** |
| | *RMB'000* | *%* | *RMB'000* | *%* |
| CNNC | 310,000 | 31 | — | — |
| Xie He Kong Company Limited | 250,000 | 25 | — | — |
| China National Nuclear Power Co., Ltd | 100,000 | 10 | — | — |
| China Nuclear Power Engineering Co., Ltd | 75,000 | 7.5 | — | — |
| CNNC China Zhongyuan Engineering Corp. | 75,000 | 7.5 | — | — |
| Shanghai Nuclear Puyuan Corporation | 50,000 | 5 | — | — |
| China Nuclear Fuel Corporation | 45,000 | 4.5 | — | — |
| CNNC Jinyuan Uranium LLC | 45,000 | 4.5 | — | — |
| China Isotope & Radiation Corporation | 40,000 | 4 | — | — |
| CNNC Rich Energy Corporation Limited | 10,000 | 1 | — | — |
| | 1,000,000 | 100 | — | — |

| | As at December 31 2016 & 2017 and 31 May 2018 | | | |
|---|---|---|---|---|
| | **Authorised share capital** | **Proportion** | **Share capital paid** | **Proportion** |
| | *RMB'000* | *%* | *RMB'000* | *%* |
| CNNC | 310,000 | 31 | 310,000 | 35 |
| Xie He Kong Company Limited | 250,000 | 25 | 129,810 | 15 |
| China National Nuclear Power Co., Ltd | 100,000 | 10 | 100,000 | 11 |
| China Nuclear Power Engineering Co., Ltd | 75,000 | 7.5 | 75,000 | 8.5 |
| CNNC China Zhongyuan Engineering Corp. | 75,000 | 7.5 | 75,000 | 8.5 |
| Shanghai Nuclear Puyuan Corporation | 50,000 | 5 | 50,000 | 6 |
| China Nuclear Fuel Corporation | 45,000 | 4.5 | 45,000 | 5 |
| CNNC Jinyuan Uranium LLC | 45,000 | 4.5 | 45,000 | 5 |
| China Isotope & Radiation Corporation | 40,000 | 4 | 40,000 | 5 |
| CNNC Rich Energy Corporation Limited | 10,000 | 1 | 10,000 | 1 |
| | 1,000,000 | 100 | 879,810 | 100 |

The share capital injected was verified by Pan-China Certified Public Accountants Beijing Branch, with the verification report [Tian Jian Jing Yan [2017] No. 4] issued.

## 27. RESERVES

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Surplus reserve *(Note)* | — | 2,177 | 5,531 | 5,309 |
| Retained profits | — | 19,597 | 49,783 | 70,240 |
| Total | — | 21,774 | 55,314 | 75,549 |

*Note:* Under the PRC Law, CNNC Leasing is required to transfer 10% of its net profit determined under the generally accepted accounting principles in the PRC to a non-distributable statutory reserve. Statutory surplus reserve can be used to make up for previous year's losses or converted into additional capital. When the balance of such reserve reaches 50% of the capital, any further appropriation is optional.

## 28. OPERATING LEASE COMMITMENTS

**CNNC Leasing as Lessee**

Operating leases relate to leases of buildings with lease terms between 1 to 3 years. CNNC Leasing does not have an option to purchase the leased buildings at the expiry of the lease periods.

At the end of respective reporting period, CNNC Leasing had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | — | 778 | 2,815 | 3,892 |
| In the second to third years, inclusive | — | 1,700 | 5,394 | 6,287 |
| Total | — | 2,478 | 8,209 | 10,179 |

## 29. FINANCE LEASE COMMITMENTS

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease commitments | — | 180,000 | 959,368 | 467,212 |

Finance lease commitments related to irrevocable finance leases contracts signed by CNNC Leasing as lessor that are not yet effective at the end of each reporting period.

### 30. CAPITAL MANAGEMENT

CNNC Leasing manages its capital to ensure that the entity will be able to operate as a going concern by optimising the structure of the debt and shareholders' equity while maximising the return to stakeholders. CNNC Leasing's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of CNNC Leasing consists of bank borrowings and entrusted loans from related party as set out in note 24, and equity attributable to owners of CNNC Leasing, comprising paid-in capital and reserves.

The management of CNNC Leasing reviews the capital structure from time to time. As part of this review, the management of CNNC Leasing considers the cost of capital and the risks associated with the paid-in capital and bank and other borrowings. Based on recommendation of the management of CNNC Leasing, CNNC Leasing will balance its overall capital structure through the issue of new shares or raising of new debts.

### 31. FINANCIAL RISK MANAGEMENT

**Categories of financial instruments**

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets: | | | | |
| Available-for-sale investment | — | — | 50,000 | — |
| Financial assets at FVTPL | — | — | — | 50,000 |
| Loans and receivables (including bank balances) | — | 167,966 | 593,295 | — |
| Financial assets at amortised cost | — | — | — | 454,937 |
| Finance lease receivables | — | 2,252,866 | 4,352,188 | 5,375,466 |
| Total | — | 2,420,832 | 4,995,483 | 5,880,403 |
| Financial liabilities at amortised cost: | | | | |
| Deposits from finance lease customers | — | 15,486 | 61,555 | 73,486 |
| Other payables | — | 24 | 51,989 | 52,512 |
| Borrowings | — | 1,494,325 | 3,979,679 | 4,900,227 |
| Total | — | 1,509,835 | 4,093,223 | 5,026,225 |

**Financial risk management objectives and policies**

The risks associated with CNNC Leasing's financial instruments include market risk (mainly interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Interest rate risk**

CNNC Leasing is exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rates on finance lease receivables, bank balances and bank borrowings which carried prevailing market variable interest rates based on the PBOCR.

CNNC Leasing currently does not have any interest rate hedging policy in relation to cash flow interest rate risk. The directors of CNNC Leasing monitor the exposures on an ongoing basis and will consider hedging the interest rate risk should the need arise.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to cash flow interest rate risk for variable-rate finance lease receivables, financial assets and liabilities at the end of each reporting period. The analysis is prepared assuming the amounts of variable-rate finance lease receivables, financial assets and liabilities that were outstanding at the end of each reporting period were outstanding for the respective whole year/period. A 50 basis points increase or decrease represents management's assessment of the reasonably possible change in interest rates.

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Impact on profit before tax | | | | |
| +50 basis points | — | 4,392 | 4,539 | 4,658 |
| –50 basis points | — | (4,392) | (4,539) | (4,658) |

**Credit risk**

CNNC Leasing's credit risk is primarily the risk of the lessee unable to meet its contractual obligations.

CNNC Leasing implemented standardised management procedures over the processes of project target customers' selection, project due diligence and application, project credit review and approval, finance lease disbursement, post-lending monitoring, management of non-performing finance lease receivables and other aspects. Through implementation of relevant credit risk management policies and procedures, the effective use of finance lease information system and optimisation of the portfolio of finance leases, CNNC Leasing is able to timely and effectively identify, monitor and manage its potential credit risks.

***Overview of the CNNC Leasing's exposure to credit risk before adoption of HKFRS 9 on 1 January 2018***

Changes in the economic environment will also have an impact on the quality of CNNC Leasing's finance lease receivables, and the adverse effects will increase the possibility of losses incurred by CNNC Leasing. CNNC Leasing's current business operations are in mainland China, but the differences of economic development in different regions require CNNC Leasing to closely manage the relevant credit risks. The operating department, credit approval department, capital management department and risk management department in charge of different industries and regions are responsible for the management of the credit risks, and periodically report on the quality of assets to the board of directors of CNNC Leasing.

***Overview of the CNNC Leasing's exposure to credit risk after adoption of HKFRS 9 since 1 January 2018***

From 1 January 2018 onwards, CNNC Leasing applied ECL model upon adoption of HKFRS 9. For finance lease receivables, CNNC Leasing measures the loss allowance on the basis of the lifetime ECL when there has been a significant increase in the likelihood or risk of a default occurring since initial recognition. If the credit risk on finance lease receivables has not increased significantly since initial recognition, CNNC Leasing then measures the loss allowance for that finance lease receivables at the amount equal to 12-months ECL. CNNC Leasing considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis.

To assess whether there is a significant increase in credit risk, CNNC Leasing compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, it considers available reasonable and supportive forwarding looking information, including the following indicators:

- internal credit rating based on historical information
- actual or expected significant changes in the operating results of the debtors
- significant changes in the expected performance and behaviour of the debtors, include changes in the payment status of debtors

For finance lease receivables, CNNC Leasing applies ECL model to measure the ECL prescribed by HKFRS 9. The expected credit loss rates applied in the ECL model are derived according to the debtors characteristics, including their trading history with CNNC Leasing and existence of default history, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

CNNC Leasing does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with finance lease receivables is mitigated because they are secured over the leased equipment. CNNC Leasing is not permitted to sell or repledge the collateral in the absence of default by the lessee. There has not been any significant changes in the quality of the collaterals held for finance lease receivables.

For other receivables, CNNC Leasing has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. CNNC Leasing determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Relevant information with regard to the exposure of credit risk and ECL for finance lease receivables as at 31 May 2018 is set out in Notes 18.

CNNC Leasing's finance lease receivables are exposed to concentrated risks by industry and they are analysed by industry sectors that customers are in as follows:

| | As at 31 December | | | | | | As at 31 May | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2018 | |
| | Amount | Proportion | Amount | Proportion | Amount | Proportion | Amount | Proportion |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Electricity and heating | — | — | 381,020 | 17 | 1,212,282 | 28 | 2,207,808 | 41 |
| Power engineering | — | — | 481,023 | 21 | 340,983 | 8 | 288,910 | 5 |
| Energy | — | — | 1,325,091 | 59 | 2,554,260 | 58 | 2,624,193 | 49 |
| Others | — | — | 65,732 | 3 | 244,663 | 6 | 254,555 | 5 |
| Total | — | — | 2,252,866 | 100 | 4,352,188 | 100 | 5,375,466 | 100 |

CNNC Leasing operates in three principal geographical areas — Western Region, Yangtze River Delta, Bohai Rim Region as well as other areas:

| | As at 31 December | | | | | | As at 31 May | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2018 | |
| | Amount | Proportion | Amount | Proportion | Amount | Proportion | Amount | Proportion |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Western Region *(Note (i))* | — | — | 37,604 | 2 | 1,609,474 | 37 | 2,340,853 | 44 |
| Yangtze River Delta *(Note (ii))* | — | — | 1,096,378 | 48 | 1,128,842 | 26 | 1,130,313 | 21 |
| Bohai Rim Region *(Note (iii))* | — | — | 520,216 | 23 | 1,092,723 | 25 | 1,109,115 | 20 |
| Others *(Note (iv))* | — | — | 598,668 | 27 | 521,149 | 12 | 795,185 | 15 |
| Total | — | — | 2,252,866 | 100 | 4,352,188 | 100 | 5,375,466 | 100 |

*Note:* The regions stated above that CNNC Leasing operates include the following locations:

(i) The "Western Region" refers to the following areas: Sichuan Province, Yunnan Province, Shaanxi Province, Guangxi Zhuang Autonomous Region, Ningxia Hui Autonomous Region and Xinjiang Autonomous Region; and

(ii) "Yangtze River Delta" refers to the following areas: Shanghai Municipality, Jiangsu Province and Zhejiang Province; and

(iii) "Bohai Rim Region" refers to the following areas: Shandong Province, Hebei Province and Liaoning Province; and

(iv) "Others" refers to the following areas: Anhui Province, Hainan Province, Hubei Province, Heilongjiang Province, Guangdong Province and Fujian Province.

CNNC Leasing has closely monitored its development trends and performance in mainland China markets to ensure recovery or sufficient allowance being provided in a timely manner.

Maximum credit risk exposure of CNNC Leasing is as follows:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets: | | | | |
| *Financial assets at amortised cost:* | | | | |
| Bank balances | — | 133,621 | 591,719 | 451,930 |
| Other receivables | — | 34,345 | 1,576 | 3,007 |
| Finance lease receivables | — | 2,252,866 | 4,352,188 | 5,375,466 |
| Total | — | 2,420,832 | 4,945,483 | 5,830,403 |

The amount of the credit risk exposures set out above are the corresponding carrying amounts as at the end of each reporting period.

**Liquidity risk**

In the management of the liquidity risk, CNNC Leasing monitors and maintains a level of bank balances deemed adequate by the management to finance CNNC Leasing's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The following tables detail CNNC Leasing's remaining contractual maturity for its non-derivative financial liabilities. The tables have been prepared using the undiscounted cash flows of financial liabilities based on the contractual date on which CNNC Leasing is required to repay. The tables include both interest and principal cash flows.

| | As at 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | On demand | Less than 1 month | 1 to 3 months | 4 to 12 months | 1 to 5 years | More than 5 years | Total undiscounted cash flows | Carrying amount |
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Liabilities** | | | | | | | | | |
| Deposit from finance lease customers | 6.82 | — | — | — | — | 5,100 | 19,315 | 24,415 | 15,486 |
| Other payables | — | 24 | — | — | — | — | — | 24 | 24 |
| Borrowings | 2.67 | — | — | 61,612 | 173,120 | 1,385,345 | — | 1,620,077 | 1,494,325 |
| Total liabilities | | 24 | — | 61,612 | 173,120 | 1,390,445 | 19,315 | 1,644,516 | 1,509,835 |

| | As at 31 December 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | On demand | Less than 1 month | 1 to 3 months | 4 to 12 months | 1 to 5 years | More than 5 years | Total undiscounted cash flows | Carrying amount |
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Liabilities** | | | | | | | | | |
| Deposit from finance lease customers | 5.69 | — | — | — | 1,900 | 39,809 | 43,112 | 84,821 | 61,555 |
| Other payables | — | 51,989 | — | — | — | — | — | 51,989 | 51,989 |
| Borrowings | 2.59 | — | — | 53,930 | 2,177,105 | 1,951,024 | — | 4,182,059 | 3,979,679 |
| Total liabilities | | 51,989 | — | 53,930 | 2,179,005 | 1,990,833 | 43,112 | 4,318,869 | 4,093,223 |

| | As at 31 May 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | On demand | Less than 1 month | 1 to 3 months | 4 to 12 months | 1 to 5 years | More than 5 years | Total undiscounted cash flows | Carrying amount |
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Liabilities** | | | | | | | | | |
| Deposit from finance lease customers | 6.79 | — | — | — | 4,400 | 40,869 | 63,534 | 108,803 | 73,486 |
| Other payables | — | 52,512 | — | — | — | — | — | 52,512 | 52,512 |
| Borrowings | 3.99 | — | 1,666,871 | 20,781 | 1,050,863 | 2,265,388 | 113,325 | 5,117,228 | 4,900,227 |
| Total liabilities | | 52,512 | 1,666,871 | 20,781 | 1,055,263 | 2,306,257 | 176,859 | 5,278,543 | 5,026,225 |

The above table details CNNC Leasing's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which CNNC Leasing can be required to pay. The maturity for these financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate both for the deposit from finance lease customers and borrowings, the undiscounted amount is derived from spot interest rated at the end of reporting period.

The amounts stated above arose from variable interest rate instruments for financial liabilities and are subject to change if the variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

**Fair value of financial instruments**

***Financial instruments including finance lease receivables that are not measured at fair value***

The fair values of the financial assets, finance lease receivables and financial liabilities that are not measured at fair value in CNNC Leasing are included in the Level 3 category which has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The table below summaries the carrying amounts and expected fair values with obvious variances of those financial instruments not presented at their fair values:

| | As at 31 December 2015 | | As at 31 December 2016 | | As at 31 December 2017 | | As at 31 May 2018 | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair Value | Carrying amount | Fair Value | Carrying amount | Fair Value | Carrying amount | Fair Value |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables | — | — | 2,252,866 | 2,412,281 | 4,352,188 | 4,489,357 | 5,375,466 | 5,635,588 |
| Deposits from finance lease customers | — | — | 15,486 | 17,470 | 61,555 | 67,893 | 73,486 | 83,678 |
| Borrowings | — | — | 1,494,325 | 1,467,868 | 3,979,679 | 3,964,057 | 4,900,227 | 4,895,989 |

Except for the above, the directors of CNNC Leasing consider that the carrying amounts of financial assets and financial liabilities not measured at fair value in CNNC Leasing's statements of financial position approximate their fair values because majority of these financial assets and financial liabilities are matured within one year, at floating interest rates, or the fixed interest rates approximate their market rates.

***Financial instruments that are measured at fair value***

There was no financial instruments that are measured at fair value in CNNC Leasing during the period from 22 December 2015 (date of incorporation) to 31 December 2015 and years ended 2016 and 2017.

CNNC Leasing elected to measure its unquoted equity investment at FVTPL at the date of initial application of HKFRS 9, which was previously classified as AFS investment measured at cost less impairment under HKAS 39. This investment is not held for trading and not expected to be sold in the foreseeable future.

CNNC Leasing owns 2% equity interest in Shanghai Development Company Ltd. engaged in real estate industry that is classified as a financial asset at FVTPL and is measured at fair value as at 31 May 2018. The fair value of the investment is measured using a valuation technique based on the use of internal valuation models.

The following table gives information about the fair value of this unlisted equity investment:

| | Fair value | | | |
|---|---|---|---|---|
| | As at 31 December | | | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets | | | | |
| — Financial assets at FVTPL | N/A | N/A | N/A | 50,000 |

No sensitivity analysis for Level 3 unlisted equity investment is presented as the fair value of the unlisted equity investment was not significantly sensitive to reasonable possible changes in unobservable inputs used in the sensitivity analysis.

## 32. RELATED PARTY TRANSACTIONS

The name and the relationship of the related parties are set out as below:

| Name of the related party | Relationship of the related party |
|---|---|
| CNNC | Ultimate Holding Company |
| Others | Fellow Subsidiaries of CNNC |

Details of transactions between CNNC Leasing and other related parties are disclosed below.

**Transactions with related parties**

During the Track Record Period, CNNC Leasing entered into the following trading transactions with related parties, CNNC and its subsidiaries:

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Finance lease income *(Note (i))* | — | 52,906 | 114,859 | 45,679 | 48,046 |
| Expense *(Note (ii))* | — | — | 2,307 | — | 24,687 |

*Notes:*

(i) The finance lease income was charged at rates ranging from 3.98% to 7.65% per annum.

(ii) The interest expenses was charged at the rate of 4.35% per annum.

**Balances with related parties**

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables | — | 2,224,739 | 2,459,323 | 2,446,542 |
| Other receivables | — | — | 22 | 21 |
| Deposits from finance lease customers | — | 14,932 | 35,740 | 36,802 |
| Deferred income | — | 8,381 | 9,384 | 8,239 |
| Borrowings | — | — | 1,501,705 | 1,513,034 |

**Compensation of key management personnel**

The remunerations of key management personnel of CNNC Leasing during the Track Record Period were as follows:

| | Period from 22 December 2015 (date of incorporation) to 31 December | Year ended 31 December | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Basic salary and allowances | — | 364 | 755 | 301 | 324 |
| Bonuses | — | 325 | 574 | — | — |
| Employer's contribution to pension schemes | — | 41 | 83 | 33 | 36 |
| Other social welfare | — | 73 | 130 | 58 | 63 |
| Total | — | 803 | 1,542 | 392 | 423 |

Key management includes zero, one, two, two and two of the directors of CNNC Leasing in the period from 22 December 2015 (date of incorporation) to 31 December 2015, years ended 31 December 2016 and 2017 and five months ended 31 May 2017 (unaudited) and 2018, respectively, as disclosed in Note 15. The remuneration of key management is determined with reference to the performance of CNNC Leasing and the individuals.

**33. RETIREMENT BENEFITS SCHEMES**

CNNC Leasing participates in the national pension schemes as defined by the laws of the PRC in which it has operations. The employees are members of the state-managed retirement benefits schemes operated by the PRC government. CNNC Leasing is required to contribute 8% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of CNNC Leasing with respect to the retirement benefit scheme is to make the specified contributions.

The total amount of expense recognised in profit or loss of approximately RMB0.6 million, RMB1.0 million, RMB0.3 million (unaudited) and RMB0.6 million for the years ended 31 December 2016, 2017 and the five months ended 31 May 2017 and 2018, respectively, represents contributions payable to these plans by CNNC Leasing at rates specified in the rules of the plans. All contributions due in respect of the years ended have been paid to the plans.

**34. DIRECTORS' REMUNERATION**

Under the arrangement currently in force, the aggregate amount of remuneration excluding discretionary bonus of the directors of CNNC Leasing payable for the year ending 31 December 2018 is estimated to be approximately RMB0.32 million.

**35. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of CNNC Leasing have been prepared in respect of any period subsequent to the end of the Track Record Period.

## 2. MANAGEMENT DISCUSSION AND ANALYSIS OF CNNC LEASING

Set out below is the management discussion and analysis of CNNC Leasing for each of the three financial years ended 31st December, 2015, 2016 and 2017 and the five months ended 31st May, 2018.

**For the year ended 31st December, 2015**

*Financial results*

CNNC Leasing was established in the China (Shanghai) Pilot Free Trade Zone of the PRC on 22nd December, 2015 and it did not record any turnover during the year ended 31st December, 2015, until its commencement of business in 2016.

*Liquidity and financial resources*

As at 31st December 2015, CNNC Leasing did not have any assets, liabilities or equity.

*Charge of assets*

As at 31st December, 2015, CNNC Leasing did not have any charge on its assets.

*Contingent liabilities*

As at 31st December, 2015, CNNC Leasing had no material contingent liabilities.

*Employees*

CNNC Leasing did not have any employees as at 31st December, 2015.

*Foreign currency exposure*

During the year ended 31st December, 2015, there were no transactions and CNNC Leasing did not have any foreign currency hedging policy.

*Significant investments*

During the year ended 31st December, 2015, CNNC Leasing did not have any significant investments.

*Material acquisitions and disposals*

During the year ended 31st December, 2015, CNNC Leasing did not have any material acquisitions and disposals.

**For the year ended 31st December, 2016**

*Financial results*

CNNC Leasing recorded revenue and other income, gains or losses in an aggregate amount of approximately RMB56.65 million and incurred finance costs and other operating costs in an aggregate amount of approximately RMB27.59 million during the year ended 31st December, 2016. Revenue was solely generated from the sale-and-leaseback business which amounted to approximately RMB54.10 million. The net profit after tax for the year ended 31st December, 2016 amounted to approximately RMB21.78 million.

*Liquidity and financial resources*

As at 31st December, 2016, CNNC Leasing's net assets amounted to approximately RMB901.58 million. The current ratio, representing current assets divided by current liabilities, was 3.34.

Total borrowings of CNNC Leasing, which were interest bearing and repayable on demand, were approximately RMB1,494.33 million as at 31st December 2016, representing amounts solely due to several independent third parties. The floating-rate borrowings, where the interest rates were with reference to the benchmark interest rate of the People's Bank of China ("PBOCR"), were denominated in RMB to finance its daily operations and general working capital requirements. The interest rates of short-term borrowings was 1-year PBOCR times 0.9 and long-term borrowings ranged between 3-year PBOCR times 0.8 to 3-year PBOCR times 0.9. The interest rates of borrowings were adjusted periodically with reference to the PBOCR. Cash and bank balances of CNNC Leasing amounted to approximately RMB133.62 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.62.

*Charge of assets*

As at 31st December, 2016, CNNC Leasing did not have any charge on its assets.

*Contingent liabilities*

As at 31st December, 2016, CNNC Leasing had no material contingent liabilities.

*Employees*

CNNC Leasing had 15 employees as at 31st December, 2016. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. CNNC Leasing also provided mandatory social insurance and other benefits to its relevant employees.

*Foreign currency exposure*

During the year ended 31st December, 2016, there were no transactions dominated in any currency other than RMB and CNNC Leasing did not have any foreign currency hedging policy.

*Significant investments*

During the year ended 31st December, 2016, CNNC Leasing did not have any significant investments.

*Material acquisitions and disposals*

During the year ended 31st December, 2016, CNNC Leasing did not have any material acquisitions and disposals.

**For the year ended 31st December, 2017**

*Financial results*

CNNC Leasing recorded revenue and other income, gains or losses in an aggregate amount of approximately RMB130.38 million and incurred finance costs and other operating costs in an aggregate amount of approximately RMB85.62 million during the year ended 31st December, 2017. The contribution from the sale-and-leaseback business category amounted to approximately RMB122.95 million, representing approximately 98.96% of total revenue, while the contribution from the direct lease business amounted to approximately RMB1.29 million, representing approximately 1.04% of total revenue. The net profit after tax for the year ended 31st December, 2017 amounted to approximately RMB33.54 million.

The increases in revenue and net profit after tax were primarily due to the growth and expansion of CNNC Leasing's business. However, net profit margin declined from approximately 40.25% for the year ended 31st December, 2016 to approximately 27.00% for the corresponding period in 2017 due to the higher cost of borrowing.

*Liquidity and financial resources*

As at 31st December, 2017, CNNC Leasing's net assets amounted to approximately RMB935.12 million. The current ratio, representing current assets divided by current liabilities, was 1.03.

Total borrowings of CNNC Leasing, which were interest bearing and repayable on demand, were approximately RMB3,979.68 million as at 31st December, 2017. Such borrowings comprised amounts due to several independent third parties and amounts due to a related party. The floating-rate borrowings, where the interest rates were with reference to the benchmark interest rate of PBOCR, were denominated in RMB to finance its daily operations and general working capital requirements. The interest rates of short-term borrowing ranged between 1-year PBOCR times 0.9 to 1-year PBOCR times 1.05 and long-term borrowings ranged between 3-year PBOCR times 0.8 to 3-year PBOCR times 1.05. The interest rates of borrowings were adjusted periodically with reference to the PBOCR. Cash and bank balances of CNNC Leasing amounted to approximately RMB591.72 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.79.

*Charge of assets*

As at 31st December, 2017, CNNC Leasing did not have any charge on its assets.

*Contingent liabilities*

As at 31st December, 2017, CNNC Leasing had no material contingent liabilities.

*Employees*

CNNC Leasing had 26 employees as at 31st December, 2017. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. CNNC Leasing also provided mandatory social insurance and other benefits to its relevant employees.

*Foreign currency exposure*

During the year ended 31st December, 2017, there were no transactions dominated in any currency other than RMB and CNNC Leasing did not have any foreign currency hedging policy.

*Significant investments*

During the year ended 31st December, 2017, CNNC Leasing acquired the ordinary shares in a private company at a consideration of RMB50 million. CNNC Leasing was of the view that such investment was a long-term investment in the real estate industry. CNNC Leasing did not have any other business relationship with the investee during the year.

*Material acquisitions and disposals*

During the year ended 31st December, 2017, CNNC Leasing did not have any material acquisitions and disposals.

**For the five months ended 31st May, 2018**

*Financial results*

CNNC Leasing recorded revenue and other income, gains or losses in an aggregate amount of approximately RMB110.81 million and incurred finance cost and other operating costs in an aggregate amount of approximately RMB80.85 million during the five months ended 31st May, 2018. The contribution from the sale-and-leaseback business amounted to approximately RMB90.23 million, representing approximately 82.33% of total revenue, while the contribution from the direct lease business amounted to approximately RMB19.36 million, representing approximately 17.67% of total revenue. The net profit after tax for the five months ended 31st May, 2018 amounted to approximately RMB22.45 million.

The increases in revenue and net profit after tax were primarily due to the growth and expansion of CNNC Leasing's business. However, net profit margin declined from approximately 29.85% for the five months ended 31st May, 2017 (unaudited) to approximately 20.49% for the corresponding period in 2018 due to the higher cost of borrowing.

*Liquidity and financial resources*

As at 31st May, 2018, CNNC Leasing's net assets amounted to approximately RMB955.36 million. The current ratio, representing current assets divided by current liabilities, was 0.83.

Total borrowings of CNNC Leasing, which were interest bearing and repayable on demand, were approximately RMB4,900.23 million as at 31st May, 2018. Such borrowings comprised amounts due to several independent third parties and amounts due to a related party. The fixed-rate borrowings and the floating-rate borrowings, where the interest rates were with reference to the benchmark interest rate of PBOCR, were denominated in RMB to finance its daily operations and general working capital requirements. The interest rate of long-term fixed-rate borrowings ranged from 3-year PBOCR times 0.95 to 3-year PBOCR times 1.05. The interest rate of short-term floating-rate borrowings ranged between 1-year PBOCR times 0.9 to 1-year PBOCR times 1.05 and long-term floating-rate borrowings ranged between 3-year PBOCR times 0.8 to 3-year PBOCR times 1.05.

Cash and bank balances of CNNC Leasing amounted to approximately RMB451.93 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.81.

*Charge of assets*

As at 31st May, 2018, CNNC Leasing entered into agreements with certain counterparties to pledge its finance lease receivables with the carrying amount of approximately RMB200 million, for secured borrowings at the amount of approximately RMB197 million.

*Contingent liabilities*

As at 31st May, 2018, CNNC Leasing had no material contingent liabilities.

*Employees*

CNNC Leasing had 23 employees as at 31st May, 2018. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. CNNC Leasing also provided mandatory social insurance and other benefits to its relevant employees.

*Foreign currency exposure*

During the five months ended 31st May, 2018, there were no transactions dominated in any currency other than RMB and CNNC Leasing did not have any foreign currency hedging policy.

*Significant investments*

As at 31st May, 2018, CNNC Leasing held unlisted equity securities issued by a state-owned enterprise which amounted to a fair value of RMB50 million. CNNC Leasing was of the view that such investment was a long-term investment in the real estate industry. CNNC Leasing did not have any other business relationship with the investee during the period.

*Material acquisitions and disposals*

During the five months ended 31st May, 2018, CNNC Leasing did not have any material acquisitions and disposals.

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

**To the Directors of CNNC International Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of CNNC International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30th June, 2018 and related notes as set out on page III-4 to III-6 of Appendix III to the circular issued by the Company dated 12th November, 2018 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-4 to III-6 of Appendix III to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed investments in CNNC Financial Leasing Company Limited on the Group's assets and liabilities as at 30th June, 2018 as if the transaction had taken place at 30th June, 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for six months ended 30th June, 2018, on which no auditor's report or review report has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

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

**Our Independence and Quality Control**

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

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

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

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

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30th June, 2018 would have been as presented.

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

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

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

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

**Opinion**

In our opinion:

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

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

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong, 12th November, 2018

## THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

### Basis of Preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The following unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), being the Group; together with CNNC Leasing, is prepared by the Directors to illustrate the impact of the proposed investments in CNNC Leasing (the "Transaction") on the Group's assets and liabilities as at 30th June, 2018, as if the Transaction had taken place at 30th June, 2018. Details of the Transaction are set out in the section headed "Letter from the Board" contained in this Circular.

The unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the impact of the Transaction pursuant to the terms of the Transfer Framework Agreement dated 12th March, 2018 entered into among the Group, the transferor and CNNC Leasing and the Investment Framework Agreement dated 12th March, 2018 entered into between the Group and CNNC Leasing.

The unaudited pro forma condensed consolidated statement of assets and liabilities is prepared based on (i) the information on the unaudited condensed consolidated statement of financial position of the Group as at 30th June, 2018, which has been extracted from the published interim report of the Group for the six months ended 30th June, 2018; (ii) after making pro forma adjustments relating to the Transaction that are (a) directly attributable to the Transaction and (b) factually supportable, as if the Transaction had taken place at 30th June, 2018. The Unaudited Pro Forma Financial Information as shown in the following table is prepared without considering how the Group will finance the Transaction and details of the proposed financing arrangement is set out in Note 2. The unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its hypothetical nature, it may not give a true picture of the consolidated assets and liabilities of the Enlarged Group upon completion of the investment as at 30th June, 2018 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction of the historical financial information of the Group, as set out in the published interim report of the Group for the six months ended 30th June, 2018 and other financial information included elsewhere in the Circular.

## Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

| | The Group as at 30th June, 2018 | Pro forma adjustments | | | Pro forma Enlarged Group as at 30th June, 2018 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 3)* | *(Note 4)* | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15,394 | | | | 15,394 |
| Exploration and evaluation assets | 211,502 | | | | 211,502 |
| Financial assets designated as at fair value through other comprehensive income | — | 145,078 | 296,294 | | 441,372 |
| | 226,896 | | | | 668,268 |
| **Current assets** | | | | | |
| Inventories | 332,107 | | | | 332,107 |
| Trade and other receivables and prepayments | 17,138 | | | | 17,138 |
| Bank balances and cash | 84,451 | (84,451) | | | — |
| | 433,696 | | | | 349,245 |
| **Current liabilities** | | | | | |
| Trade and other payables and accruals | 16,038 | 60,627 | 296,294 | 2,600 | 375,559 |
| Contract liabilities | 74,417 | | | | 74,417 |
| Amount due to an intermediate holding company | 1,914 | | | | 1,914 |
| Amount due to ultimate holding company | 2,124 | | | | 2,124 |
| Amounts due to fellow subsidiaries | 117 | | | | 117 |
| Income tax payable | 14,382 | | | | 14,382 |
| | 108,992 | | | | 468,513 |
| **Net current assets (liabilities)** | **324,704** | | | | **(119,268)** |
| **Net assets** | **551,600** | | | | **549,000** |

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

1. The financial information of the Group as at 30th June, 2018 are extracted from the published interim report of the Group for six months ended 30th June, 2018.

2. The Directors of the Company consider that the proposed investments in CNNC Leasing is equity investment not held for trading and qualified for designation as measured at fair value through other comprehensive income under Hong Kong Financial Reporting Standard 9 "Financial Instruments". The amount of approximately HK$145,078,000 represents the contribution rights of RMB2.22 million (equivalent to approximately HK$2,631,000) paid to the transferor and an amount of RMB120.19 million (equivalent to approximately HK$142,447,000) injected into CNNC Leasing as capital in accordance with the Transfer Framework Agreement.

   Since the consideration of the contribution rights is determined after arm's length negotiations among the parties to the Transfer Framework Agreement and with reference to the valuation report of CNNC Leasing prepared by China United, the Directors of the Company consider the fair value of the equity interests in CNNC Leasing approximates the total consideration paid by the Group.

   In September 2018, the Group has arranged a bank facility of RMB247.9 million (equivalent to approximately HK$293,805,000) specifically for the Second Tranche Investment and RMB245.4 million (equivalent to HK$290,842,000) of which will be repayable after June 2019. Therefore, the net current liabilities position as at 30th June, 2018 as stated in the unaudited pro forma financial information as shown in the above table would have significantly improved had the Transaction been taken place together with the drawndown of such bank loan.

3. The amount of RMB250.0 million (equivalent to approximately HK$296,294,000) represents the amount payable by the Investor to subscribe registered capital in CNNC Leasing of approximately RMB248.8 million (i.e. Second Tranche Investment Capital) in accordance with the Investment Framework Agreement.

4. The adjustment represents estimated acquisition-related costs (including professional fees to legal advisers, financial advisers, reporting accountants, assets valuer and other expenses) of approximately HK$2,600,000 which are directly attributable costs for the Transaction and recognised in other comprehensive income.

5. No adjustments have been made to adjust any trading results or other transactions of the Group or CNNC Leasing subsequent to 30th June, 2018.

*The following is the summary of the valuation report prepared for the purpose of incorporation in this circular received from China United, an independent valuer, in connection with its valuation as at 31st May, 2018 of CNNC Leasing. Terms defined in this appendix applies to this appendix only.*

*The English version of this document is for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

Value Enquiry Project of
Shareholders' Entire Interest in
CNNC Financial Leasing Company Limited

# Value Enquiry Report

**ZhongLianPingZiZi 2018 No. 1627**

(Volume 1 of 1)

**China United Assets Appraisal Group Company Limited**
**12th November, 2018**

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**To CNNC International Limited,**

China United Assets Appraisal Group Company Limited has accepted your company's engagement in relation to the valuation of shareholders'entire interest in CNNC Financial Leasing Company Limited as at 31st May, 2018, being the value enquiry base date, and reports the results as follows:

## I. PRINCIPAL, ENQUIRED UNIT AND OTHER USERS OF THE VALUE ENQUIRY REPORT

### (I) Profile of Principal

The principal of this value enquiry is CNNC International Limited.

| | |
|---|---|
| Company name: | CNNC International Limited (hereinafter "CNNC International") |
| Company address: | Unit 3009, 30th Floor, No. 118 Connaught Road West, Hong Kong |
| Registered capital: | HK$10 million |
| Registered address: | P.O. Box 309GT, Ugland House, South Church Street, Grand Cayman, Cayman Islands |
| Date of establishment: | 19th September, 2002 |
| Company type: | Registered non-Hong Kong company |
| Registration no.: | F0012159 |
| Principal activities: | Investment holding, investment in uranium resources and trading in uranium products and other products |

**(II) Profile of Enquired Unit**

The enquired unit of this value enquiry is CNNC Financial Leasing Company Limited.

***1. Basic Information***

| | |
|---|---|
| Company name: | CNNC Financial Leasing Company Limited (hereinafter "CNNC Leasing") |
| Company address: | Unit 1020, Level 1, Block 1, 251 Yaohua Road, China (Shanghai) Pilot Free Trade Zone |
| Registered capital: | RMB1.00 billion |
| Economic nature: | Limited liability company (Taiwan, Hong Kong, Macau and PRC joint venture) |
| Unified social credit code: | 91310000MA1FL14R61 |
| Business scope: | Financial leasing business; leasing business; purchase of leased properties from domestic and overseas vendors; residual value handling and maintenance of leased properties; consultation and guarantee of leasing transactions; factoring business related to its principal business. (Commencement of operation subject to the approval of relevant authorities for items requiring approval pursuant to the law) |

***2. History***

CNNC Leasing is a foreign leasing company jointly invested and established by companies including China National Nuclear Corporation (中國核工業集團有限公司) and Xie He Kong Company Limited (協和港有限公司) (Hong Kong). It was officially registered in Shanghai Free Trade Zone on 22nd December, 2015 with a registered capital of US$160 million (RMB1 billion). It is the first project launched after the strategic cooperation agreement entered into by CNNC Group and Shanghai government, and is an important platform for the industry-finance integration of CNNC Group which aims to facilitate the industry-finance integration of the group companies and the development of the finance industry by providing member units of the group companies with innovative financial services while offering related financial services to the society. CNNC Leasing officially commenced operation in March 2016.

As at 31st May, 2018, being the value enquiry base date, the registered capital of CNNC Leasing was RMB1 billion, with shareholding structure as follows:

**Table 1 Shareholding Structure of CNNC Leasing**

*Unit: RMB10,000*

| No. | Shareholder | Percentage of shareholding | Subscribed contribution | Actual contribution |
|---|---|---|---|---|
| 1 | China National Nuclear Corporation | 31.00% | 31,000.00 | 31,000.00 |
| 2 | Xie He Kong Company Limited | 25.00% | 25,000.00 | 12,981.00 |
| 3 | China National Nuclear Power Company Limited | 10.0% | 10,000.00 | 10,000.00 |
| 4 | China Nuclear Power Engineering Company Limited | 7.500% | 7,500.00 | 7,500.00 |
| 5 | China Zhongyuan Engineering Company Limited | 7.500% | 7,500.00 | 7,500.00 |
| 6 | Shanghai Nuclear Puyuan Corporation | 5.00% | 5,000.00 | 5,000.00 |
| 7 | China Nuclear Fuel Corporation | 4.500% | 4,500.00 | 4,500.00 |
| 8 | China Nuclear Uranium Corporation | 4.500% | 4,500.00 | 4,500.00 |
| 9 | China Isotope & Radiation Corporation | 4.00% | 4,000.00 | 4,000.00 |
| 10 | CNNC Rich Energy Corporation Limited | 1.00% | 1,000.00 | 1,000.00 |
| **Total** | | **100.00%** | **100,000.00** | **87,981.00** |

### *3. Assets, Financial and Operation Conditions*

As at 31st May, 2018, being the value enquiry base date, according to the unaudited management accounts provided by CNNC Leasing prepared based on the PRC GAAP, the company had total assets of RMB5,968,275,200, total liabilities of RMB4,974,453,600 and owners' equity of RMB993,821,600. From January to May 2018, CNNC Leasing generated operating income of RMB123,316,100, total profit of RMB41,831,400 and net profit of RMB38,583,000.

The assets, liabilities and financial position of CNNC Leasing in the last two years ended 31st December, 2017 and five months ended 31st May, 2018 were as follows:

**Table 2 Assets, Liabilities and Financial Position of the Company**

*Unit: RMB10,000*

| No. | Item | 31st December, 2016 | 31st December, 2017 | 31st May, 2018 |
|---|---|---|---|---|
| 1 | Assets | 243,504.32 | 508,719.39 | 596,827.52 |
| 2 | Liabilities | 152,325.47 | 412,667.57 | 497,445.36 |
| 3 | Owners' equity | 91,178.85 | 96,051.81 | 99,382.16 |
| | **Item** | **2016** | **2017** | **From January to May 2018** |
| 4 | Operating income | 6,740.54 | 14,220.73 | 12,331.61 |
| 5 | Total profit | 4,263.80 | 6,508.77 | 4,183.14 |
| 6 | Net profit | 3,197.85 | 4,872.96 | 3,858.30 |
| | **Auditing institution** | **Pan-China Certified Public Accountants LLP, Beijing Branch** | | **Nil** |

### *4. Principal Accounting Policies Adopted by the Company*

The *Enterprise Accounting Standards — Basic Standards* (MoF Order No. 33, July 2014 revised version) issued by the Ministry of Finance on 15th February, 2006 and 41 specific standards such as the *Enterprise Accounting Standards No. 1 — Inventory*.

## (III) Relation of Principal and Enquired Unit

As at the value enquiry base date, China National Nuclear Corporation held 31% equity interest in CNNC Leasing and 66.72% equity interest in CNNC International through CNNC Overseas Uranium Holding Limited. The principal and the enquired unit are affiliated companies under common control.

## (IV) Principal and Other Users of the Enquiry Report as Agreed in the Value Enquiry Engagement Contract

This value enquiry report shall only be disclosed as requested by CNNC International and its regulatory authorities; other than that, any other institutions and individuals may not become the users of the value enquiry report.

## II. PURPOSE OF THIS VALUE ENQUIRY

The purpose of this value enquiry is for CNNC International to understand the value of the shareholders' entire interest in CNNC Leasing. We thus assess the value of the shareholders' entire interest in CNNC Leasing as at 31st May, 2018, being the value enquiry base date.

## III. SUBJECT AND SCOPE OF VALUE ENQUIRY

The subject of the value enquiry is the shareholders' entire interest in CNNC Leasing as at the value enquiry base date. The scope of the value enquiry includes all assets and liabilities of CNNC Leasing. As at 31st May, 2018, being the value enquiry base date, as shown on the management accounts prepared based on the PRC GAAP, CNNC Leasing had total assets, total liabilities, net assets and retained earnings amounting to RMB5,968,275,200, RMB4,974,453,600, RMB993,821,600 and RMB105,940,800, respectively.

The subject and scope of the value enquiry engaged is consistent with those in relation to the purpose of the value enquiry.

### (I) Major Assets

As at the value enquiry base date, CNNC Leasing had total assets of RMB5,968,275,200. Of which, long-term receivables of RMB5,318,095,700, representing financial leasing receivables arising from the financial leasing business carried out by CNNC Leasing, accounted for 89.11% of total assets; monetary funds of RMB456,124,300 accounted for 7.64% of total assets; other assets of RMB194,055,200, including prepayments, other receivables, available-for-sale financial assets, fixed assets and intangible assets, accounted for 3.25% of total assets. The asset composition is shown in the following figure:

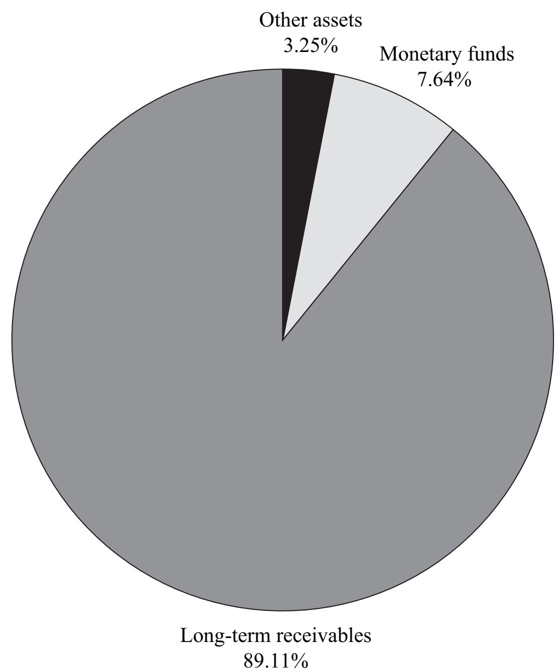


**Figure 1 Asset Composition of CNNC Leasing**

**(II) Location and Properties of Physical Assets**

The carrying amount of physical assets of RMB161,100 within the scope of the value enquiry accounted for 0.003% of the total assets of CNNC Leasing. The physical assets, consisting of electronic equipment such as computers, binding machines, network printers and office furniture, were located in the workplace of CNNC Leasing and functioned properly as at the value enquiry base date.

**(III) Intangible Assets Recorded or Unrecorded in Accounts Reported by CNNC Leasing**

Intangible assets in relation to the value enquiry as reported by CNNC Leasing were comprised mainly of external software. Other than that, there were no unreported intangible assets.

**(IV) Type and Amount of Off-balance Sheet Assets Reported by CNNC Leasing**

Nil.

**(V) Reference to Reports Issued by Other Institutions**

Nil.

## IV. VALUE ENQUIRY BASE DATE

The base date of this value enquiry is 31st May, 2018.

## V. PROCEDURES OF VALUE ENQUIRY

The entire value enquiry work was conducted in four phases:

### (I) Preparation Phase

1. Communicated with CNNC International and CNNC Leasing to formulate the work plan for this value enquiry.

2. Cooperated with CNNC Leasing to conduct asset inspection and filled in declaration forms. The project team members gained an in-depth understanding of the enquired unit, arranged the valuation work, assisted the company in the asset declaration work, and collected the documents required for the value enquiry.

### (II) On-site Valuation Phase

The primary tasks of the project team during the on-site valuation phase were as follows:

1. Briefed by staff of CNNC International and CNNC Leasing about the general situation of the company and the history and current status of the assets to be valued, and understood the financial system, operation and technical status of fixed assets.

2. Audited and verified the asset declaration forms provided by CNNC Leasing, and reconciled them with its relevant financial records.

3. Inspected and collected the title documents of the assets to be valued.

4. Verified the ownership information provided by CNNC Leasing.

### (III) Value Enquiry Consolidation Phase

CNNC Leasing was valued based on the verified assets.

### (IV) Report Submission Phase

Based on the above work, a value enquiry report was drafted and opinions were exchanged with CNNC international on the results of CNNC Leasing. After considering all relevant opinions, the report was revised and corrected according to the three-time internal auditing system and procedures of the assessing institution before the final value enquiry report was issued.

## VI. METHODOLOGY OF VALUE ENQUIRY

Business valuation can be conducted by the income approach, market approach and asset-based approach. After communication with CNNC International and CNNC Leasing with reference to the characteristics of CNNC Leasing, pursuant to the purpose of this value enquiry, from the perspective of a third party, in order to exclude the impact on the valuation brought in the influence of the existing shareholders on the performance of the project and asset value, the selection of comparable companies for the equity transfer from the market can better satisfy CNNC International's need to understand the value of shareholders' entire interest in CNNC Leasing, which can reflect the current market value of the current assets in the supply and demand relationship of the market. Taking into account of the above, the market approach was adopted to estimate the value of shareholders' entire interest in CNNC Leasing in this value enquiry.

### (I) About Market Approach

The market approach under business valuation refers to the valuation method that compares the valuation subject with comparable listed companies or comparable transactions to determine the value of the valuation subject. Two specific methods commonly used in the market approach are listed company comparison and transaction comparison.

The transaction comparison approach refers to the specific method of obtaining and analysing the information of the sale and purchase as well as merger and acquisition of comparable companies, and calculating the appropriate value ratios to determine the value of the enquired subject based on comparison with and analysis of the enquired unit.

### (II) Valuation Technique of Market Approach

When adopting the market approach, reference companies that can be compared and analysed with the enquired unit should be selected to ensure the comparability of the selected reference companies and the enquired unit. The reference companies should normally be in the same industry as the enquired unit or subject to the same economic factors. Specifically, the following conditions are generally required:

A. there must be a sufficiently developed and active market;

B. there are three or more identical or similar references;

C. the determining factors of the value of the references and the enquired subject are clear and quantifiable, and relevant data can be collected.

Since there is no listed company in the financial leasing industry, the listed company comparison approach has not been used for this valuation. In the past two years, relatively frequent equity and capital increase transactions were recorded in the financial leasing industry in the domestic market, which is a prerequisite for the adoption of the transaction comparison approach. Therefore, the transaction comparison approach was adopted in this value enquiry.

Valuation was conducted by using the transaction comparison approach through the following steps:

A. collected the information about comparable cases in the transactions, selected and determined samples;

B. analysed the samples and enquired unit, selected comparative parameters and indicators, and determined the comparison system;

C. compared the indicators of each sample with the enquired unit and provided a scoring;

D. compared the enquired unit with the score of each sample to obtain the value ratio of each indicator;

E. multiplied the value ratio of each indicator obtained by each parameter to acquire the correcting coefficient of each sample of the enquired unit;

F. multiplied the correcting coefficient of the samples by the original PB of the corresponding samples to obtain the corrected PB, calculated the median of the corrected PB to obtain the PB of the enquired unit, multiplied it by the carrying amount of owners'equity attributable to the parent to obtain the value of the enquired unit.

***1. Selection Criteria for Comparable Cases***

Companies or cases that are comparable to the enquired unit should be selected when conducting valuation under the market approach. The principles of comparable case selection determined in this value enquiry were as follows:

A. being a financial leasing company as CNNC Leasing;

B. with sound data disclosure;

C. not fewer than three cases.

Under this value enquiry, 18 equity transfer transactions in the financial leasing industry over the past two years prior to the value enquiry base date were found in the public domain. Focusing on companies operating in the same industry with matching principal activities and taking into account the integrity of financial data, the valuation staff eliminated 15 transactions from the 18 cases above and retained 3 transactions that were more comparable in relation to this transaction and the company to be valued as comparable cases.

*2. Determination of Value Ratios*

With reference to the purpose of this value enquiry, the enquired subject, the characteristics of financial leasing companies and their financial indicators and considering the disclosure of financial data by the comparable companies, 7 indicators were selected as part of the value correction system under this value enquiry, including return on net assets, return on total assets, gearing ratio, net sales margin, asset scale, time factor (using the closing price of the Shanghai Stock Exchange Financial Index as a reference), and the impact of the premium of controlling interest.

**(III) Selection of Comparable Cases**

Based on the information publicly available, transactions in the domestic financial leasing industry during June, 2016–2018 were selected as comparable cases. According to the degree of information disclosure, the selection criteria were:

A. operating in the same industry segment as CNNC Leasing with the same business model;

B. with sound data disclosure;

C. not fewer than three cases.

Under this evaluation, 18 equity transfer transactions in the financial leasing industry over the past two years prior to the evaluation base date were found in the public domain as follows:

| No. | First date of disclosure | Subject matter | Purchaser | Stock code of purchaser | Stock exchange where purchaser is listed | PB at base date | Principal business of subject enterprise | Place of incorporation of subject enterprise | Total transaction value ('0,000) | Currency | Progress |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2017-07-20 | 70% interest in Promising International; a portion of creditor's right in Promising International | Shenzhen Wongtee International Enterprise Co., Ltd. | 000056.SZ | Shenzhen Stock Exchange ("Shenzhen SE") | 1.03 | Financial leasing business | Tianjin | 30,060.43 | RMB | Completed |
| 2 | 2017-07-01 | 75% interest in SSDL Financial Leasing | Sun Car Insurance Agency Co., Ltd. | 831566.OC | National Equities Exchange and Quotations | 1.39 | Financial leasing business | Shanghai | 8,900.00 | RMB | Completed |
| 3 | 2016-10-29 | 43% interest in Yichuang Henjian Financial Leasing | First Capital Securities Co., Ltd. | 002797.SZ | Shenzhen SE | 1.01 | Financial leasing business | Guangzhou | 8,600.00 | RMB | Completed |
| 4 | 2016-08-19 | 0.33% interest in Morn Financial Leasing | Shanghai Morn Electric Equipment Co, Ltd. | 002451.SZ | Shenzhen SE | Nil | Financial leasing business | Shanghai | 10,000.00 | RMB | Completed |
| 5 | 2016-04-26 | 100% interest in Zhong Cheng Leasing | Shanghai Greattown Holdings Limited | 600094.SH | Shenzhen SE | 3.09 | Financial leasing business | Tianjin | 250,000.00 | RMB | Completed |
| 6 | 2016-03-24 | 40% interest in Ganfa Leasing | Jiangsu Akcome Science & Technology Co.,Ltd. | 002610.SZ | Shanghai Stock Exchange ("Shanghai SE") | 1.75 | Financial leasing business | Ganzhou | 24,560.00 | RMB | Completed |
| 7 | 2016-05-24 | 100% interest in LINEAR; current leased plants and warehouses of LINEAR | Zhejiang Chimin Pharmaceutical Co., Ltd. | 603222.SH | Shanghai SE | Not disclosed | Principal business not disclosed, and engages in the industry of life science tools and services | Barcelona | 498.75 | EUR | Completed |
| 8 | 2017-10-13 | 20% interest in Shanghai Financial Leasing | Datong Coal Industry Co., Ltd. | 601001.SH | Shanghai SE | 1.80 | Financial leasing business | Shanghai | 51,302.00 | RMB | Passed at shareholders' meeting |
| 9 | 2017-07-03 | 3.1562% interest in Sino IC Leasing | Jiangsu Changjiang Electronics Technology Co.,Ltd. | 600584.SH | Shanghai SE | Not disclosed | Financial leasing business | Shanghai | 35,000.00 | RMB | Passed at shareholders' meeting |
| 10 | 2017-04-26 | 51% interest in Sanshi Leasing | Ningxia Xinri Hengli Steel Wire Co. Ltd, | 600165.SH | Shanghai SE | 1.01 | Financial leasing business | Yinchuan | 9,103.50 | RMB | Transfer agreement was signed |
| 11 | 2017-04-06 | 35% interest in CCRE Leasing | Xiamen CCRE Investment Co., Ltd. | Not listed | Not applicable | 1.26 | Financial leasing business | Xiamen | 24,735.05 | RMB | In progress |
| 12 | 2017-03-11 | 80% interest in Hong Kong Financial Leasing | Shanxi Zhangeze Electric Power Co., Ltd. | 000767.SZ | Shenzhen SE | Not disclosed | Not disclosed | Hong Kong | 89,355.90 | RMB | Passed at shareholders' meeting |
| 13 | 2017-03-11 | 20% interest in Shanghai Financial Leasing | Duplicated with the 8th transaction case | | | | | | | | |
| 14 | 2017-02-20 | 7% interest in Hengqin Leasing | Bohai Capital Holding Co., Ltd. | 000415.SZ | Shenzhen SE | 2.18 | Financial leasing business | Zhuhai | 4,284.80 | US$ | Transfer agreement was signed |
| 15 | 2017-01-26 | 40% interest in China National Foreign Trade Financial & Leasing | Kingray New Materials Science & Technology Co., Ltd. | 600390.SH | Shanghai SE | 1.20 | Financial leasing business | Beijing | 249,920.00 | RMB | In progress |
| 16 | 2016-09-19 | 40% interest in Runxing Financial Leasing | Tatwah Smartech Co., Ltd. | 002512.SZ | Shenzhen SE | 2.67 | Financial leasing business | Zhenjiang | 100,000.00 | RMB | Passed at shareholders' meeting |
| 17 | 2016-06-14 | 52% interest in Jiutai Energy; a portion of interest in Zhongyin Financial Leasing | Yanzhou Coal Mining Company Limited | 600188.SH | Shanghai SE | Not disclosed | Financial leasing business | Shanghai | 684,024.00 | RMB | In progress |
| 18 | 2016-04-16 | A portion of interest in Chenming Finance Leasing | Shandong Cheming Paper Holdings Limited | 200488.SZ | Shenzhen SE | Not disclosed | Financial leasing business | Jinan | 330,000.00 | RMB | Approved by SFC |

Under this evaluation, the aforesaid 7th case was eliminated based on an emphasis on companies operating in the same industry with matching principal activities. Since the 8th to 18th cases were not completed and considerations for these cases were not finalised as at the value enquiry base date, the valuation of the above transaction cases is considered to be not fair and thus not adopted in this value enquiry. This value enquiry has eliminated the 4th to 6th cases. The 4th case represents the increase in investment in Morn Leasing by Morn Electric, where no owners' equity attributable to the parent for Morn Leasing as at the base date is disclosed. Hence, PB could not be estimated and such case is not adopted in this value enquiry. The 5th case represents the acquisition of 100.00% equity interests in Zhong Cheng Leasing by Great Town. PB is 3.1, while such transaction includes consideration adjustment mechanism in respect of Zhong Cheng Leasing's performance. For this value enquiry, it is considered that PB of this transaction case is not fair and thus not adopted. The 6th case represents the acquisition of 40% equity interests in Ganfa Leasing by Akcome Science & Technology. Such transaction case only discloses the financial data as at the base date and data for previous years is not disclosed, and thus no indicators, such as return on net assets and return on total assets, could be calculated. Hence, such case is not adopted in this value enquiry. Details of the selected comparable transaction cases are set out in the table below:

**Table 3 Summary of Comparable Transaction Cases**

| No. | Subject matter | Purchaser | Progress | Base date | PB |
|---|---|---|---|---|---|
| 1 | 70% interest in Promising International | Wongtee International | Completed | 2017/3/31 | 1.03 |
| 2 | 75% interest in SSDL Financial Leasing | Everfit Car Insurance | Completed | 2016/12/31 | 1.39 |
| 3 | 43% interest in Yichuang Henjian Financial Leasing | First Capital (002797.SZ) | Completed | 2016/9/30 | 1.01 |

### *(1) Promising International Financial Leasing Co., Ltd*

**Table 4 Basic Information about Promising International Financial Leasing Co., Ltd**

| | | | |
|---|---|---|---|
| Chinese abbreviation | 瑞澤國際融資租賃 | Date of establishment | 2012-11-12 |
| English name | — | Legal representative | Xing Fujun (邢福俊) |
| English abbreviation | — | Industry | Special consumer services |
| Nature of transaction | M&A | Registered address | Unit 101–3, Door 1, Haowei Mansion, No. 8 Third Street, Tianjin Economic and Technological Development Zone |
| Listing status | Unlisted company | Registered capital | US$80,000,000 |
| Business registration ID | 91120116055280644W | No. of staff | — |
| Business description | Business scope: financial leasing business; leasing business; purchase of leased properties from domestic and overseas vendors; residual value handling and maintenance of leased properties; consultation and guarantee of leasing transactions (excluding financing guarantee); commercial factoring business related to its principal business. (Commencement of operation subject to the approval of relevant authorities for items requiring approval pursuant to the law) | | |

This economic activity was related to the agreed acquisition of interest in Promising International Financial Leasing by Shenzhen Wongtee International Enterprise Company Limited, leading to the acquisition of 70% interest in Promising International Financial Leasing at RMB300,604,300. The transaction base date of the case was 31st March, 2017. As at the base date, the company had total assets of RMB1,528,134,600, total liabilities of RMB1,112,154,600, owners'equity of RMB415,980,000, operating income of RMB23,945,100 from January to March 2017, and net profit of RMB4,506,200.

*(2) SSDL Financial Leasing (Shanghai) Co., Ltd*

**Table 5 Basic Information about SSDL Financial Leasing (Shanghai) Co., Ltd**

| | | | |
|---|---|---|---|
| Chinese abbreviation | 盛世大聯融資租賃 | Date of establishment | 2015-12-01 |
| English name | — | Legal representative | Lei Zhunfu (雷准富) |
| English abbreviation | — | Industry | Other diversified financial services |
| Nature of transaction | M&A | Registered address | Unit 401–16, Lane 14, 1502 Luoshan Road, China (Shanghai) Pilot Free Trade Zone |
| Listing status | Unlisted company | Registered capital | RMB170,000,000 |
| Business registration ID | 91310000MA1FL0RX9E | No. of staff | — |
| Business description | Business scope: financial leasing business; leasing business; purchase of leased properties from domestic and overseas vendors; residual value handling and maintenance of leased property; consultation and guarantee of leasing transactions; commercial factoring business related to its principal business. (Commencement of operation subject to the approval of relevant authorities for items requiring approval pursuant to the law) | | |

This economic activity was related to the agreed acquisition of 75% interest in SSDL Financial Leasing by Shengda Automobile Service Chain Company Limited at RMB89,000,000. The base date of the economic activity was 31st December, 2016. As at the base date, SSDL Financial Leasing had total assets of RMB414,118,300, total liabilities of RMB328,575,500, owners' equity of RMB85,542,800, operating income of RMB41,068,400, and net profit of RMB446,700.

*(3) Guangdong Yichuang Hengjian Financial Leasing Co., Ltd*

**Table 6 Basic Information about Guangdong Yichuang Hengjian Financial Leasing Co., Ltd**

| | | | |
|---|---|---|---|
| Chinese abbreviation | 一創恒建融資租賃 | Date of establishment | 2014–12–18 |
| English name | — | Legal representative | Liu Ming (劉明) |
| English abbreviation | — | Industry | Comprehensive supporting services |
| Nature of transaction | M&A | Registered address | J35 of 1101, 11/F, Nansha Financial Mansion, 171 Haibin Road, Nansha District, Guangzhou |
| Listing status | Unlisted company | Registered capital | RMB1,000,000,000 |
| Business registration ID | 914401013210741158 | No. of staff | 5 |
| Business description | Business scope: financial leasing services; machinery and equipment leasing; construction machinery and equipment leasing; computer and communications equipment leasing; railway transport equipment leasing services; water transport equipment leasing services; air transport equipment leasing services; trade consulting services; investment consulting services; corporate management consulting services; precious metals leasing; car rental; medical equipment leasing services; lighting equipment leasing; audio and video equipment leasing; commercial factoring business; corporate financial consulting services. (Commencement of operation subject to the approval of relevant authorities for items requiring approval pursuant to the law) | | |

This economic activity was related to the acquisition of 43% interest in Guangdong Yichuang Hengjian Financial Leasing Co., Ltd (previously known as Guangdong Henghe Leasing Co., Ltd) by First Capital Securities Company Limited at RMB86,000,000. The base date of the economic activity was 30th September, 2016. As at the base date, Yichuang Hengjian Financial Leasing had total assets of RMB197,603,600, total liabilities of RMB42,400, owners'equity of RMB197,561,300, operating income of RMB0 from January to September 2016, and net profit of -RMB1,621,100.

**(IV) Determination of Comparable Parameters and Indicators**

Based on the operation characteristics of the leasing companies and the disclosed data of each transaction case with reference to DuPont analysis, 7 indicators were selected, including return on net assets (net profit/average net assets), return on total assets (net profit/average total assets), gearing ratio (total liabilities/total assets), net sales margin (net profit/total sales), asset scale correction, time factor (using the closing price of the Shanghai Stock Exchange Financial Index as the correction benchmark), and the impact of the premium of controlling interest. The specific data of the companies comprising the transaction cases is shown in the table below.

**Table 7 Indicators of Companies of Transaction Cases**

| No. | Subject company | Return on net assets (%) | Return on total assets (%) | Gearing ratio (%) | Net sales margin (%) | Asset scale correction | Shanghai Stock Exchange Financial Index | Shareholding interest involved | PB | Base date |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Promising International Financial Leasing | 7.61 | 1.88 | 72.78 | 19.63 | 11.94 | 4,344.75 | 70% | 1.03 | 2017/3/31 |
| 2 | SSDL Financial Leasing | 0.61 | 0.19 | 79.33 | 1.09 | 10.63 | 4,273.17 | 75% | 1.39 | 2016/12/31 |
| 3 | Yichuang Hengjian Financial Leasing | –0.41 | –0.41 | 0.02 | 0.00 | 9.89 | 4,246.73 | 43% | 1.01 | 2016/9/30 |
| 4 | CNNC Leasing | 5.21 | 1.30 | 81.12 | 34.27 | 13.14 | 4,816.83 | | | 2018/5/31 |

## (V) Calculation of Value Ratios and Initial Valuation

In respect of financial companies, value ratios generally refer to PE, PB, EV/EBITA and EV/NOIAT. Among the four indicators above, EV/EBITA and EV/NOIAT focus on the determination of the overall enterprise value while PE and PB focus on the determination of the value of shareholders' interest. China has capital supervision in place for leasing companies. According to the *Measures for the Management of Financial Leasing Companies*, the ratio of risk assets to net assets of financial leasing companies shall not exceed a leverage of 10x. As such, capital is crucial for financial leasing companies. For the purpose of reasonable determination of the value of the enquired subject, PB was selected as the value ratio in this valuation by market approach.

The market approach is conducted based on CNNC Leasing (i.e. 100 points) via making comparison between the indicators of each transaction case with those of CNNC Leasing. When the indicators are better than those of CNNC Leasing, the points would exceed 100 points and vice versa, where the points for each indicator for every transaction case would be determined. Taking the adjustment of return on net assets indicators as an example, the enquired unit has 100 points. Given 1 unit is referred as 1% of the return on net assets, for every 1 unit where the transaction case is lower than that of the enquired unit, its point would be deducted by 1 correspondingly, otherwise 1 point would be added. Based on such net asset return indicators for each transaction case, the return on net assets of CNNC Leasing and Promising International are 5.21% and 7.61%, respectively, representing a difference of 2 units. As such, the return on net assets indicator of Promising International is better than that of CNNC Leasing, and the return on net assets point of Promising International is finally determined as 102 (the calculation of the above case is made based on keeping a whole number). Through comparison among different points, the correcting coefficient for each indicator would be derived. For profitability indicators such as return on net assets, return on total assets and net sales margin, the correcting coefficient for each transaction case is derived by multiplying the average correcting coefficients with other indicators' correcting coefficients.

PB calculation: initial PB of each transaction case = market price as at the base date of the transaction case/net assets attributable to the parent as at the base date.

Corrected PB calculation: corrected PB of each transaction case = initial PB* correcting coefficients.

Calculation of initial value ratios of the samples in the transaction cases is shown in the table below.

**Table 8 Weight of Indicators**

| No. | Subject company | Return on net assets (%) | Return on total assets (%) | Gearing ratio (%) | Net sales margin (%) | Asset scale correction | Time factor | Controlling interest premium |
|---|---|---|---|---|---|---|---|---|
| 1 | Promising International Financial Leasing | 102.00 | 102.00 | 101.00 | 99.00 | 99.00 | 98.00 | 120.00 |
| 2 | SSDL Financial Leasing | 95.00 | 98.00 | 101.00 | 97.00 | 97.00 | 98.00 | 120.00 |
| 3 | Yichuang Hengjian Financial Leasing | 94.00 | 96.00 | 112.00 | 97.00 | 97.00 | 97.00 | 100.00 |

**Table 9 Correcting coefficients**

| No. | Subject company | Return on net assets (%) | Return on total assets (%) | Gearing ratio (%) | Net sales margin (%) | Asset scale correction | Time factor | Controlling interest premium |
|---|---|---|---|---|---|---|---|---|
| 1 | Promising International Financial Leasing | 0.98 | 0.98 | 0.99 | 1.01 | 1.01 | 1.02 | 0.83 |
| 2 | SSDL Financial Leasing | 1.05 | 1.02 | 1.00 | 1.03 | 1.03 | 1.02 | 0.83 |
| 3 | Yichuang Hengjian Financial Leasing | 1.06 | 1.04 | 0.89 | 1.03 | 1.03 | 1.03 | 1.00 |

**Table 10 PB Correction**

| No. | Subject company | Correcting coefficient | Initial PB | Corrected PB |
|---|---|---|---|---|
| 1 | Promising International Financial Leasing | 0.84 | 1.03 | 0.87 |
| 2 | SSDL Financial Leasing | 0.91 | 1.39 | 1.26 |
| 3 | Yichuang Hengjian Financial Leasing | 0.99 | 1.01 | 1.00 |
| | Mean | | 1.14 | 1.04 |
| | Median | | 1.03 | 1.00 |

By multiplying the corrected PB by owners' interest, owners' interest of CNNC Leasing amounts to RMB993,821,600. The mean and median of corrected PB are 1.04 and 1.00 respectively. The valuation of owners' interest of CNNC Leasing falls in the range of RMB998,133,600 – RMB1,037,545,400 as determined by the mean and median of corrected PB.

## VII. CONCLUSION OF VALUE ENQUIRY

By using market approach, the enquired value of CNNC Leasing as at 31st May, 2018, being the value enquiry base date, was RMB998,133,600 – RMB1,037,545,400.

## VIII. NOTES ON SPECIAL ITEMS

### (I) Reminders on Special Items

Pursuant to the articles of association of CNNC Leasing, dividend shall be distributed based on the proportion of paid-in capital. Xie He Kong Company Limited, one of the shareholders of CNNC Leasing, agreed to make contribution of RMB250 million, representing 25% of its registered capital. As at the value enquiry base date, Xie He Kong Company Limited has made contribution of RMB129.81 million, representing 12.981% of its registered capital, and RMB120.19 million is outstanding, representing 12.019% of its registered capital.

### (II) Disclosure of Subsequent Events

Nil.

### (III) Uncertainties such as Outstanding Matters and Legal Disputes

This value enquiry does not have any uncertainties such as outstanding matters and legal disputes.

### (IV) Other Matters to be Noted

1. The legal obligations of valuation staff and the assessing institution lie on making professional judgment on the assets value subject to the value enquiry purposes as described in this report, and do not involve any judgement by valuation staff and the assessing institution on economic acts corresponding to such value enquiry purposes. Value enquiry relies, to a considerable extent, on the relevant information provided by the principal and the enquired unit. As such, value enquiry is made on the premises that the related legal documents provided by the principal and the enquired unit, namely the related assets ownership documents, certificates and accounting credentials, are authentic and legitimate.

2. For the scope of this value enquiry and those data, statements and relevant information provided by the enquired unit so adopted, the principal and the enquired unit are liable for the authenticity and integrity of the respective information provided.

3. Documentary proof on ownership and relevant information involved in the value enquiry report are provided by the enquired unit, and the principal and the enquired unit assume the legal responsibilities towards their authenticity and legality.

4. Within the valid period subsequent to the value enquiry base date, in case there exists changes on the quantity of assets and the pricing standard, it shall be handled in accordance with the principles below:

   (1) In case there exists changes on the quantity of assets, corresponding adjustments shall be made to the quantity of assets in accordance with the original value enquiry method;

   (2) In case there exists changes on the assets pricing standard which have significant impact on the value enquiry results, the principal shall engage qualified assets assessing institution(s) on a timely basis to re-determine the valuation;

   (3) In case there exists changes on the quantity of assets and the pricing standard subsequent to the value enquiry base date, the principal shall take such changes into full consideration in the course of actual pricing for assets and make corresponding adjustments.

5. Valuation staff conducts value enquiry business for the purpose of making appraisal on the value of the value enquiry subject and expressing professional opinions, and is not liable to decision making by relevant parties concerned. Value enquiry conclusion shall not be deemed to be a guarantee on the realisable price of the value enquiry subject.

## IX. CONSTRAINTS ON THE USE OF VALUE ENQUIRY REPORT

(I) This valuation enquiry report is only applicable for the value enquiry purposes and uses as stated in this report. At the same time, this value enquiry conclusion reflects the prevailing fair market price of the value enquiry subject determined in accordance with open market principle under the purpose of this value enquiry, without taking into account of the security or guarantee that may be undertaken in the future as well as factors which may affect the value enquiry results, such as special additional price that may be paid by the parties to transaction. At the same time, this report has also made no consideration of any changes on national macro-economic policies as well as impact on asset price brought by natural forces and other force majeure. When there is any change on the aforesaid conditions and other conditions such as the going concern principle as complied by the value enquiry, the value enquiry conclusion will generally become lapsed. The assessing institution is not liable to legal responsibilities related to the lapse of value enquiry results resulted from the changes of such conditions.

(II) In case the principal or other value enquiry report makes value enquiry valuation report users not using in accordance with the scope of use as stated in the requirements of laws and administrative regulations and the value enquiry report, the asset assessing institution and its valuation staff shall not be held liable.

(III) This value enquiry report is only for use by value enquiry report users as stated in the value enquiry report. The use right of value enquiry report vests in the principal, and without the permission of the principal, the assessing institution shall not arbitrarily make disclosure to others.

(IV) Unless consent by the assessing institution, contents of the value enquiry report, in whole or in part, shall not be extracted, quoted or disclosed to public media, unless otherwise required by laws and regulations and agreed by relevant parties concerned.

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**China United Assets Appraisal Group Company Limited**

**Valuation Personnel: Chen Zhihong**

**Valuation Personnel: Hu Chao**

12th November, 2018

## ATTACHMENTS

1. Corporate business license of China United Assets Appraisal Group Company Limited (copy);

2. Filing announcement (copy).

## 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

### (i) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

### (ii) Interests of substantial Shareholders

| Name | Capacity/Nature of Interest | Number of Shares | Approximate percentage of the issued share capital of the Company *(Note 3)* |
|---|---|---|---|
| CNNC Overseas Uranium Holding Limited *(Note 1)* | Corporate interest | 326,372,273 | 66.72% |
| China Uranium Corporation Limited *(Note 2)* | Corporate interest | 326,372,273 | 66.72% |
| CNNC | Corporate interest | 326,372,273 | 66.72% |

*Notes:*

1. CNNC Overseas Uranium Holding Limited is wholly owned by China Uranium Corporation Limited.

2. China Uranium Corporation Limited is wholly owned by CNNC.

3. Based on 489,168,308 Shares in issue as at the Latest Practicable Date.

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, no other persons (other than the Directors, the chief executive and substantial Shareholders disclosed above) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of the Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

## 3. DIRECTORS' INTERESTS IN ASSETS / CONTRACTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31st December, 2017, being the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, save for the leasing arrangement between the CNNC Group (excluding the Group) and the Group in respect of its office in the PRC, which constitutes fully exempt continuing connected transactions for the Company. Mr. Yang Chaodong, Mr. Bai Donghai and Mr. Li Zhihuang, all being Directors, also held positions in the CNNC Group or its associates (excluding the Group). Between 1st January, 2018 and the Latest Practicable Date, the Group paid rental and related expenses of approximately HK$257,000.

As at the Latest Practicable Date, save as disclosed herein, none of the Directors was materially interested in any contract or arrangement, which was significant in relation to the business of the Group.

## 4. DIRECTORS' SERVICE CONTRACTS

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

## 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined under the Listing Rules) had any interests in any business which competed or might compete with the business of the Group, save as disclosed herein, and for the other positions held by Mr. Yang Chaodong, Mr. Bai Donghai and Mr. Li Zhihuang, all being Directors, in the CNNC Group or its associates (excluding the Group). The CNNC Group (excluding the Group) is principally engaged in, among other things, nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, application of nuclear technologies, non-nuclear civilian products, new energy sources in the PRC, etc. (including investing in uranium resources and trading in electronic products).

## 6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 7. LITIGATION

As at the Latest Practicable Date, there were no litigation or claims of material importance, known to the Directors, pending or threatened against any member of the Group.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding and including the Latest Practicable Date and were or might be material:

(i) the Transfer Framework Agreement, the TA Extension Confirmation and the Transfer Agreement Confirmation; and

(ii) the Investment Framework Agreement, the IA Extension Confirmation and the Investment Agreement Confirmation.

## 9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinion or advice which are contained in this circular:

| Name | Qualifications |
|---|---|
| China United | independent professional valuer |
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Gram Capital | a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice or report, as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to any member of the Group since 31st December, 2017 (the date to which the latest published audited financial statements of the Group were made up).

## 10. MISCELLANEOUS

(i) The secretary of the Company is Mr. Li Philip Sau Yan. Mr. Li is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is situated at P.O. Box 309GT, Ugland House, South Church Street, Grand Cayman, Cayman Islands.

(iii) The head office and principal place of business of the Company is situated at Unit 3009, 30th Floor, No. 118 Connaught Road West, Hong Kong.

(iv) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(v) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at Unit 3009, 30th Floor, No. 118 Connaught Road West, Hong Kong from the date of this circular up to and including the date of the EGM:

(i) the memorandum of association and the articles of association of the Company;

(ii) the annual reports of the Company for the two financial years ended 31st December, 2016 and 31st December, 2017;

(iii) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;

(iv) the letter of advice from Gram Capital, the text of which is set out on pages 23 to 38 of this circular;

(v) the accountants' report of CNNC Leasing issued by Deloitte Touche Tohmatsu as set out in Appendix II to this circular;

(vi) the accountants' report on the unaudited pro forma financial information of the Enlarged Group assuming completion of the Investments has taken place issued by Deloitte Touche Tohmatsu as set out in Appendix III to this circular;

(vii) the summary valuation report issued by China United as set out in Appendix IV to this circular;

(viii) the material contracts disclosed in the section headed "Material Contracts" in this appendix;

(ix) the written consents of the experts referred to in the section headed "Experts and Consents" in this appendix; and

(x) this circular.

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# CNNC INTERNATIONAL LIMITED
# 中核國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2302)**

## NOTICE OF EGM

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting ("**EGM**") of CNNC International Limited (the "**Company**") will be held at Pacific Room, 2/F, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on 30th November, 2018 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments or modifications, the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

1 (a) "**THAT** the Transfer Framework Agreement (as defined in a circular of the Company dated 12th November, 2018 (the "**Circular**")) dated 12th March, 2018 (as supplemented by the TA Extension Confirmation and the Transfer Agreement Confirmation (as defined in the Circular) dated 30th July and 6th September 2018 respectively) entered into among CNNC International (HK) Limited (中核國際(香港)有限公司) (a direct wholly-owned subsidiary of the Company) (the "**Investor**"), Xie He Kong Company Limited (協和港有限公司) ("**XHK**") and CNNC Financial Leasing Company Limited (中核融資租賃有限公司) ("**CNNC Leasing**"), copies of which are tabled at the meeting and marked "A1", "A2" and "A3" and initialed by the chairman of the meeting for identification purpose, in relation to the transfer of the Contribution Rights (as defined in the Circular) and the First Tranche Investment (as defined in the Circular), and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified; and

(b) **THAT** any one director of the Company be and is hereby authorised, for and on behalf of the Company, to execute all such documents, deeds, instruments and agreements (including the affixing of the seal of the Company thereon, where required), and to do all such acts, or things which he deems necessary, desirable or expedient for the implementation of and giving effect to the Transfer Framework Agreement, the TA Extension Confirmation and the Transfer Agreement Confirmation (as defined in the Circular) and the transactions contemplated thereunder."; and

2 (a) "**THAT** the Investment Framework Agreement (as defined in the Circular) dated 12th March, 2018 (as supplemented by the IA Extension Confirmation and the Investment Agreement Confirmation (as defined in the Circular) dated 30th July and 6th September 2018 respectively) entered into between the Investor and CNNC Leasing, copies of which are tabled at the meeting and marked "B1", "B2" and "B3" and initialed by the chairman of the meeting for identification purpose, in relation to the Second Tranche Investment (as defined in the Circular), and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified; and

(b) **THAT** any one director of the Company be and is hereby authorised, for and on behalf of the Company, to execute all such documents, deeds, instruments and agreements (including the affixing of the seal of the Company thereon, where required), and to do all such acts, or things which he deems necessary, desirable or expedient for the implementation of and giving effect to the Investment Framework Agreement, the IA Extension Confirmation and the Investment Agreement Confirmation (as defined in the Circular) and the transactions contemplated thereunder.".

By order of the Board
**CNNC International Limited**
**Li Philip Sau Yan**
*Company Secretary*

Hong Kong, 12th November, 2018

As at the date of this notice, the Board comprises non-executive director and chairman, namely Mr. Yang Chaodong, executive director and chief executive officer, namely Mr. Bai Donghai, non-executive director, namely, Mr. Li Zhihuang and independent non-executive directors, namely, Mr. Cheong Ying Chew Henry, Mr. Cui Liguo and Mr. Zhang Lei.

**Notes:**

1. The register of members of the Company will be closed from 27th November, 2018 to 30th November, 2018 (both dates inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the EGM. No transfer of shares of the Company will be registered during this period. Shareholders whose name appear on the register of members of the Company on 30th November, 2018 shall be entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 26th November, 2018.

2. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, vote in on his/her behalf. A member may appoint a proxy in respect of part only of his holding of Shares. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

3. The form of proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of a form of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such form of proxy on behalf of the corporation without further evidence of the facts.

4. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the offices of the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of form of proxy will not preclude a shareholder of the Company from attending in person and voting at the EGM or any adjournment thereof, should he/she so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.

5. Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. A form of proxy in respect of the EGM is enclosed. Whether or not you intend to attend the EGM in person, all members are urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting if they so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.

7. Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions set out in this notice will be decided by poll at the EGM.

8. If Typhoon Signal No.8 or above, or a "black" rainstorm warning is in effect any time after 12:00 noon on the date of the EGM, the EGM will be postponed. Members may visit the website of the Company for details of the postponement and alternative meeting arrangement.

9. The Chinese translation of this notice is for reference only, and in case of any inconsistency, the English Version shall prevail.