



红日资本有限公司

RED SUN CAPITAL LIMITED

8 November 2024

To: *The Independent Board Committee and the Independent Shareholders of  
CNNC International Limited*

Dear Sirs,

**MAJOR TRANSACTION AND CONNECTED TRANSACTION  
DISPOSAL OF THE ENTIRE INTEREST OF  
A WHOLLY-OWNED SUBSIDIARY**

**I. INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (the “**Connected Transaction**”), details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular to the Shareholders dated 8 November 2024 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transaction. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 16 October 2024 (after trading hours), the Company (as vendor) entered into the Sale and Purchase Agreement with CNNCTM (as the Purchaser), pursuant to which, the Company agreed to sell and CNNCTM agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company, at the Completion Consideration (representing the Initial Consideration of HK\$167,352,569.30 subject to the Management Accounts Adjustment), subject to the Audited Accounts Adjustment and the terms and conditions of the Sale and Purchase Agreement.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal, together with the payment of outstanding balance of the Shareholders’ Loan, contemplated under the Sale and Purchase Agreement exceed(s) 25%,

but all of the applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company, which is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Purchaser, CNNCTM, is a subsidiary of CNNC. CNNC is the ultimate controlling shareholder of the Company, holding approximately 66.72% of the Company's issued share capital through its subsidiary, CNOL. Accordingly, CNNCTM, being a subsidiary of CNNC, is a connected person of the Company, hence the Disposal also constitutes a connected transaction of the Company, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Based on the above, the Disposal is subject to (i) the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction contemplated under the Sale and Purchase Agreement is required to abstain from voting on the relevant resolution at the EGM. Given that the Purchaser, CNNCTM, is a subsidiary of CNNC, whereas CNOL is a subsidiary of CNNC, CNOL is regarded as having material interests in the Sale and Purchase Agreement and the transactions contemplated thereunder. Accordingly, CNOL and its associates will be required to abstain from voting on the relevant resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the EGM.

## **II. THE INDEPENDENT BOARD COMMITTEE**

The Board comprises non-executive Director and chairman, namely, Mr. Wang Cheng, executive Director and chief executive officer, namely, Mr. Zhang Yi, non-executive Directors, namely, Mr. Wu Ge and Mr. Sun Ruofan, and independent non-executive Directors, namely, Mr. Cui Liguu, Mr. Zhang Lei, Mr. Chan Yee Hoi and Ms. Liu Yajie, as at the Latest Practicable Date.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cui Liguu, Mr. Zhang Lei, Mr. Chan Yee Hoi and Ms. Liu Yajie has been established to advise the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. Red Sun Capital Limited has been appointed by the Board with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

### III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Purchaser and their respective shareholders, directors or chief executives, or any of their respective associates. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Sale and Purchase Agreement.

Save for this appointment and our appointment as the independent financial adviser for the continuing connected transactions in relation to the framework agreement entered into between the Company and China National Uranium Co., Limited, details of which were set out in the circular dated 21 May 2024, there was no engagement between the Company and Red Sun Capital Limited in the last two years.

Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant from the Group to Rule 13.84 of the Listing Rules.

### IV. BASIS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors.

We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely and wholly responsible, were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be so as at the Latest Practicable Date.

We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. The Company and/or the Management and/or the Directors confirmed that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Company has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Group, the Target Company, CNNC Leasing, the Purchaser and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## **V. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

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

#### ***1.1 Background information of the Group***

As set out in the Letter from the Board, the Company is principally engaged in the trading of natural uranium products. It is the strategic positioning of the Group to become the major platform of its parent group in overseas uranium resources exploration, development and trading. This strategic alignment is expected to facilitate the Group in further strengthening its uranium trading business and expand its reach into the PRC and worldwide market, which in turn would enhance the Group's profitability in the long run.

## 1.2 Overview of the historical financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2023 and the six months period ended 30 June 2023 and 2024 as extracted from the 2023 annual report of the Company (the “2023 Annual Report”) and 2024 interim report of the Company (the “2024 Interim Report”), respectively.

### Summary of the Group’s consolidated statement of financial position

	As at 31 December		As at
	2022	2023	30 June
	HK\$’000	HK\$’000	2024
	(audited)	(audited)	(unaudited)
<b>Non-current assets</b>	<b>438,617</b>	<b>418,914</b>	<b>407,150</b>
— Interests in associates	438,257	412,718	401,342
<b>Current assets</b>	<b>208,309</b>	<b>571,948</b>	<b>423,875</b>
— Inventories	76,233	291,708	290,860
— Cash and cash equivalents	130,732	180,434	128,619
<b>Current liabilities</b>	<b>73,318</b>	<b>345,304</b>	<b>207,057</b>
— Trade and other payables and accruals	27,765	332,829	38,449
— Bank borrowing	—	—	156,256
<b>Non-current liabilities</b>	<b>182,000</b>	<b>185,271</b>	<b>184,540</b>
— Loan from immediate holding company	182,000	182,000	182,000
<b>Equity attributable to owners of the Company</b>	<b>391,608</b>	<b>460,287</b>	<b>439,428</b>

*Note:* for the avoidance of doubt, only selected major asset and liability balances are disclosed in the table above

### Financial position as at 31 December 2023 compared to 31 December 2022

As at 30 June 2024, the Group’s total assets amounted to approximately HK\$831.0 million, representing a decrease of approximately HK\$159.8 million as compared to approximately HK\$990.9 million as at 31 December 2023, which mainly comprised (i) interests in associates of approximately HK\$401.3 million; (ii) inventories of approximately HK\$290.9 million; and (iii) cash and cash equivalents of approximately HK\$128.6 million.

The Group's total liabilities amounted to approximately HK\$391.6 million as at 30 June 2024, representing a decrease of approximately HK\$139.0 million as compared to approximately HK\$530.6 million as at 31 December 2023, which mainly comprised (i) bank borrowing of approximately HK\$156.3 million; and (ii) loan from immediate holding company of approximately HK\$182.0 million.

As at 30 June 2024, the total equity attributable to owners of the Company amounted to approximately HK\$439.4 million, as compared to approximately HK\$460.3 million as at 31 December 2023.

*Financial position as at 31 December 2023 compared to 31 December 2022*

We noted from the 2023 Annual Report that as at 31 December 2023, the Group's total assets amounted to approximately HK\$990.9 million, representing an increase of approximately HK\$344.0 million as compared to approximately HK\$646.9 million as at 31 December 2022, which mainly comprised (i) interests in associates of approximately HK\$412.7 million; (ii) inventories of approximately HK\$291.7 million; and (iii) cash and cash equivalents of approximately HK\$180.4 million.

The Group's total liabilities amounted to approximately HK\$530.6 million as at 31 December 2023, representing an increase of approximately HK\$275.3 million as compared to approximately HK\$255.3 million as at 31 December 2022, which mainly comprised (i) trade and other payables and accruals of approximately HK\$332.8 million; and (ii) loan from immediate holding company of approximately HK\$182.0 million.

As at 31 December 2023, the total equity attributable to owners of the Company amounted to approximately HK\$460.3 million, as compared to approximately HK\$391.6 million as at 31 December 2022.

*Summary of the Group's consolidated statement of profit or loss*

	Year ended 31 December		Six months ended 30 June	
	2022	2023	2023	2024
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>	<b>905,730</b>	<b>580,958</b>	<b>76,144</b>	<b>6,400</b>
Share of result of an associate	25,084	32,170	21,161	15,596
<b>Profit/(loss) for the year/period</b>	<b>80,843</b>	<b>106,315</b>	<b>8,330</b>	<b>(7,731)</b>

*Financial performance for the six months ended 30 June 2023 (“6M2023”) and 31 December 2024 (“6M2024”)*

As set out in the 2024 Interim Report, the Group recorded revenue of approximately HK\$6.4 million for 6M2024, representing a decrease of approximately HK\$69.7 million or approximately 91.6% compared to approximately HK\$76.1 million for 6M2023. The significant decrease in revenue of the Group for 6M2024 was primarily attributable to a substantial drop in trading volume within the Group’s uranium trading business. As means of prudent risk management, the Group had focused on executing the continuing connected transactions with Rössing uranium mine which did not involve assumption of pricing risks by the Group.

The Group recorded share of result of an associate of approximately HK\$15.6 million for 6M2024, representing a decrease of approximately HK\$5.6 million or approximately 26.3% compared to approximately HK\$21.2 million for 6M2023. The Group recorded loss for the period of approximately HK\$7.7 million for 6M2024.

*Financial performance for the years ended 31 December 2022 (“FY2022”) and 31 December 2023 (“FY2023”)*

As set out in the 2023 Annual Report, the Group recorded revenue of approximately HK\$581.0 million for FY2023, representing a decrease of approximately HK\$324.7 million or approximately 35.9% compared to approximately HK\$905.7 million for FY2022. The decrease in revenue was primarily attributable to (i) the decrease in the sales of uranium products through trades to and from independent third parties that has been reduced attributable to the level of activities at the material time; and (ii) the logistics problem that certain originally scheduled sales to the CNNC Group under physical delivery were impacted and postponed.

The Group recorded share of result of an associate of approximately HK\$32.1 million for FY2023. The Group incurred finance costs of approximately HK\$14.0 million for FY2023 which mainly arose from interests incurred on “loan from immediate holding company”, the rising interest rate in the financial market during FY2023 has resulted in a substantial increase of approximately 63.3% on the interest expenses charged to the Group as compared to FY2022.

The Group recorded profit for the year of approximately HK\$106.3 million for FY2023, representing an increase of approximately HK\$25.5 million or 31.6% as compared to approximately HK\$80.8 million for FY2022.

## 2. Information on the Purchaser

The Purchaser, namely, CNNCTM, is a company incorporated in Hong Kong with limited liability and is a subsidiary of CNNC. CNNC is the ultimate controlling shareholder of the Company, holding approximately 66.72% of the Company's issued share capital through its subsidiary, CNOL. Hence, the Purchaser is a connected person to the Company. The Purchaser is principally engaged in treasury management and investment.

## 3. Information on the Target Company

The Target Company is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, (i) the total number of the issued shares of the Target Company is 10,000; and (ii) the Target Company is wholly and beneficially owned by the Company.

As at the Latest Practicable Date, the Target Company holds 7.55% equity interest in CNNC Leasing. CNNC Leasing is a company established under the laws of the PRC and controlled by CNNC (the ultimate parent company of the Group) and its subsidiaries (but excluding the Group) (the "**Parent Group**"). 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.

Set out below is the summary of the audited financial information of the Target Company for the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024 as extracted from the audited report of the Target Company for the year ended 31 March 2023 and the six months ended 30 June 2024:

### *Summary of the Target Company's statement of profit or loss*

	Year ended 31 December 2022 <i>HK\$'million</i> (audited)	Year ended 31 December 2023 <i>HK\$'million</i> (audited)	Six months ended 30 June 2024 <i>HK\$'million</i> (audited)
Revenue	—	—	—
Profit/(loss) before income tax	28.1	12.8	116.3
Profit/(loss) for the year	25.7	10.5	114.7

Given the nature of the Target Company is investment holding, no revenue was recorded for each of (i) the two years ended 31 December 2022 and 2023; and (ii) the six months ended 30 June 2024.



We noted from the Management that the profit before income tax of the Target Company for the six months ended 30 June 2024 of approximately HK\$116.3 million was primarily related to a reversal of impairment loss on amount due from a fellow subsidiary of approximately HK\$108.9 million, which is non-recurring in nature.

***Summary of the Target Company's statement of financial position***

As advised by the Management, the carrying amount of the net assets of the Target Company was approximately HK\$125.2 million as at 30 June 2024. The table below sets out a summary of the Target Group's consolidated statement of financial position as at the respective dates.

	<b>As at 31 December</b>		<b>As at</b>
	<b>2022</b>	<b>2023</b>	<b>30 June</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
	(audited)	(audited)	(audited)
<b>Non-current assets</b>	<b>430.6</b>	<b>430.6</b>	<b>430.6</b>
— Interests in associates	430.6	430.6	430.6
<b>Current assets</b>	<b>295.1</b>	<b>325.1</b>	<b>36.9</b>
— Cash and cash equivalents	27.5	24.3	36.9
<b>Current liabilities</b>	<b>672.5</b>	<b>692.1</b>	<b>160.3</b>
— Amount due to immediate holding company	379.9	393.6	151.2
<b>Non-current liabilities</b>	<b>182.0</b>	<b>182.0</b>	<b>182.0</b>
— Loan from intermediate holding company	182.0	182.0	182.0
<b>Net assets/(liabilities)</b>	<b>(128.8)</b>	<b>(118.4)</b>	<b>125.2</b>

*Note:* for the avoidance of doubt, only selected major asset and liability balances are disclosed in the table above

**4. Reasons for and benefits of the Sale and Purchase Agreement**

As set out in the Letter from the Board, the Directors believe that disposal of the Target Company, which holds a minority interest in CNNC Leasing and is unrelated to the Group's principal business, presents a prudent and timely opportunity to monetise the investment in CNNC Leasing at a fair and reasonable price. Although CNNC Leasing has generated dividend income in previous years, it is considered a non-core asset and does not align with the Group's primary focus on uranium resources. The

Directors are of the view that this Disposal will enable the Group to reallocate resources more effectively towards advancing its core business and executing its long-term strategy in uranium resource trading and other related activities.

The Disposal is expected to enhance the Group's liquidity, enabling a more efficient allocation of internal resources. The net proceeds from the Disposal, estimated to be around HK\$164.4 million, based on the Initial Consideration and after deducting the estimated professional fees and other related expenses, and taxes directly attributable to the Disposal, will be applied to bolster the Group's working capital and enhance its financial capacity for further development of the Group's uranium-related business. By divesting from this non-core assets, the Group will be better positioned to reduce financial exposure and capital commitment to non-strategic sectors and channel resources into expanding its uranium business. In addition, the Disposal would support the Group's strategic goal of reinforcing its position in the global uranium trading market and beneficial to the long-term development and overall profitability of the Group in the long run.

In view of the above, the Directors, considered the Sale and Purchase Agreement and the transactions contemplated thereunder to be on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Having considered, among others, (i) the subject matter of the Disposal is considered to be a non-core asset by the Company, the disposal of which shall enable the Group to reallocate its internal resources and reduce its financial exposure and capital commitment to non-strategic sectors; (ii) the Group is expected to record a gain from the Disposal, the details of which is further analysed under the section headed "7. Possible financial effects of the Disposal" in this letter; and (iii) the net proceeds are expected to enhance the Group's liquidity and working capital as a whole, we concur with the view of the Directors that the Disposal is in the interests of the Company and the Independent Shareholders as a whole.

## **5. Principle terms of the Sale and Purchase Agreement**

Set out below is a summary of the principal terms of the Sale and Purchase Agreement.

**Date:** 16 October 2024 (after trading hours)

**Parties:** (i) the Company, as vendor; and  
(ii) CNNCTM, as the Purchaser.

### *Assets to be disposed of*

The Sale Shares to be disposed of by the Company represent the entire issued share capital of the Target Company. As at the Latest Practicable Date, the Target Company is a wholly-owned subsidiary of the Company.

### *Consideration*

Pursuant to the Sale and Purchase Agreement, the consideration payable by the Purchaser for the Disposal shall be the Completion Consideration (representing the Initial Consideration subject to the Management Accounts Adjustment), subject further to the Audited Accounts Adjustment.

### *Initial Consideration*

The Initial Consideration amounting to HK\$167,352,569.30 was determined through arm's length negotiation between the Parties, based on the asset-based valuation of entire equity interest in the Target Company as at the Valuation Benchmark Date, as set out in the Valuation Report prepared by the Independent Valuer.

### *Management Accounts Adjustment*

The Company shall deliver to the Purchaser the Completion Management Accounts no later than two (2) Business Days after the day on which all of the Conditions Precedent have been satisfied or waived. The Initial Consideration shall be adjusted by reference to the Completion net assets value ("NAV") as shown in the Completion Management Accounts in accordance with the following formula:

$$\text{Completion Consideration} = (P) + (Q) - (R)$$

whereby:

(P) = the Initial Consideration;

(Q) = the Completion NAV; and

(R) = the Base NAV, amounting to HK\$125,151,242.72.

In any event, the Management Accounts Adjustment shall not exceed 10% of the Initial Consideration.

### *Payment of the Completion Consideration and outstanding balance of Shareholders' Loan*

The Completion Consideration shall be payable by the Purchaser to the Company upon Completion. Payment of the Completion Consideration shall be made in HK\$, or the equivalence in RMB as determined by the average day-end HK\$ to offshore RMB exchange rate quoted by the Industrial and Commercial Bank of China (Asia) Limited over the five settlement days prior to the Completion Date (excluding the Completion Date).

The Purchaser undertakes to procure the payment of the outstanding balance of the Shareholders' Loan pursuant to such amount as shown in the Completion Management Accounts by the Target Company to the Company at Completion. As at the date of the Sale and Purchase Agreement, the outstanding balance of the Shareholders' Loan amounts to approximately HK\$115.2 million.

#### *Audited Accounts Adjustment*

The Parties agree that an audit of the Completion Management Accounts (including the profit and loss account and balance sheet) shall be completed by an audit firm jointly appointed by the Parties within twenty (20) Business Days after the Completion Date (or such other date as may be agreed by the Parties in writing). The base date of the audit shall be the day immediately prior to the Completion Date. The relevant completion audit report (the "**Completion Audit Report**") issued by the appointed audit firm shall constitute the basis for any Audited Accounts Adjustment as illustrated below.

In the event that the audited net asset value of the Target Company as shown in the Completion Audit Report is less than the Completion NAV, the shortfall shall be payable by the Company to the Purchaser in cash within thirty (30) Business Days after the date of issue of the Completion Audit Report.

In the event that the audited net asset value of the Target Company as shown in the Completion Audit Report is higher than the Completion NAV, the excess shall be payable by the Purchaser to the Company in cash within thirty (30) Business Days after the date of issue of the Completion Audit Report.

In any event, the Management Accounts Adjustment and the Audited Accounts Adjustment in aggregate shall not exceed 10% of the Initial Consideration.

#### *Completion*

Completion shall be subject to and is conditional upon the fulfilment or waiver (as the case may be) of the Conditions Precedent, details of which are set out in the section headed "The Sale and Purchase Agreement — Conditions Precedent" in the Letter from the Board.

For further details on the terms of the Sale and Purchase Agreement, please refer to the Letter from the Board.

## 6. Our analysis on the principal terms of the Sale and Purchase Agreement

### *6.1 Our analysis on the Initial Consideration, the Completion Consideration and the Management Accounts Adjustment*

We understand from the Management that, in connection with the Disposal, the Group has circulated an invitation for tender to all existing shareholders of CNNC Leasing as the major investment of the Target Company is its 7.55% equity interest in CNNC Leasing. However, these parties did not express an interest in acquiring CNNC Leasing and/or the Target Company. Nonetheless, the Company advised that the Purchaser approached the Company expressing an interest on the Disposal and become the only interested party which expressed interest on the Target Company. On this basis, the Company commenced negotiation with the Purchaser on the terms of the Disposal.

In addition, we noted from the Letter from the Board that the Initial Consideration was determined through arm's length negotiation between the Parties, based on the asset-based valuation of entire equity interest in the Target Company as at the Valuation Benchmark Date, as set out in the Valuation Report prepared by the Independent Valuer and that the Completion Consideration (as adjusted from the Initial Consideration after the Audited Accounts Adjustment and Management Accounts Adjustments) is intended to capture the movement in the Base NAV and Completion NAV. In this connection, our analysis has been set out under the sub-section headed "6.2 Our analysis on the Appraised Value of the Target Company" in this letter below.

Having considered that (i) the Management Accounts Adjustment and Audited Accounts Adjustments (together, the "Adjustments") will reflect the net asset value change of the Target Company between 30 June 2024 (i.e. Valuation Benchmark Date) and the Completion Management Accounts Date; and (ii) the upward or downward adjustment to the Completion Consideration shall not exceed 10% of the Initial Consideration; (iii) the Adjustments would enable the Group to capture the upward or downward fluctuation in relation to the NAV of the Target Company contributable to its dairy operation for the period between the Valuation Benchmark Date and Completion, we are of the view that the basis of determining the Adjustments are fair and reasonable.

Further analysis on the Initial Consideration is set out below.

### *6.2 Our analysis on the Appraised Value of the Target Company*

The Company engaged China Enterprise Appraisals Co., Ltd.\* (北京中企華資產評估有限責任公司), the Independent Valuer (the "Independent Valuer"), to conduct the valuation (the "Valuation Report") of the Target Company (including the 7.55% equity interest in CNNC Leasing held by the Target Company) for the purpose of the Disposal.

According to the Valuation Report, the appraised value of the entire equity interest in the Target Company as at 30 June 2024 (i.e. Valuation Benchmark Date) was approximately HK\$167,352,569 (the “**Appraised Value**”) adopting the asset-based approach. The full text of the Valuation Report is set out in Appendix II to the Circular, and the Independent Shareholders are recommended to read in full. In this connection to the Valuation Report, we have carried out the following work and analysis.

With a view to assess the fairness and reasonableness of the Initial Consideration, we have performed the following procedures, including but not limited to, (i) reviewed the Valuation Report prepared by the Independent Valuer in respect of the appraised value of Target Company; and (ii) discussed with the Independent Valuer in relation to (a) their methodology and assumptions used in appraising the value of Target Company as set out in the Valuation Report; (b) their scope of work in connection with the Valuation Report; and (c) their relevant professional qualifications and experience.

*(a) Background of the Independent Valuer*

We have reviewed the information and background of the Independent Valuer and noted from its website that the Independent Valuer is a qualified independent valuer in the PRC engaged in the provision of enterprise valuation services, intangible asset valuation services, mining rights valuation services and other asset valuation services. The Independent Valuer has a track record in the provision of valuation services. We have also discussed the information as set out in the Valuation Report, including the basis and assumptions thereunder, with the engagement team of the Independent Valuer, namely Ms. Yu Ning\* (郁寧), Ms. Liu Yu\* (劉雨) and Mr. Li Xueqi\* (李學奇), all of whom have obtained Professional Qualification Certificate for Asset Appraisers\* (資產評估師職業資格證書) issued by the China Appraisal Society (中國資產評估協會) (with certificate numbers of 11001118, 11230150 and 11180114, respectively) with 24 years, 11 years and 10 years of experience in valuation and financial analysis, respectively.

In addition, we have enquired and the Independent Valuer has confirmed that they do not have any current or prior relationships with and are independent from each of the Group and the Purchaser.

We also noted that as part of their work performed, the Independent Valuer has obtained and reviewed the relevant financial information and other relevant data in relation to Target Company necessary to perform their work, and the Independent Valuer has also confirmed that they have conducted the valuation in accordance with the applicable asset appraisal standards.

Furthermore, we have reviewed the terms of engagement in relation to the Valuation Report, including the scope of work and responsibilities of the Independent Valuer, and as confirmed by the Independent Valuer, there were no limitations on the scope of work which might adversely impact work and/or valuation by the Independent Valuer in the Valuation Report. Based on the above, we are satisfied that the Independent Valuer is qualified to give their opinion as set out in the Valuation Report considering their relevant experience and expertise, their independence, their scope of work and valuation procedures performed.

*(b) Valuation assumptions*

We have reviewed the assumptions in the Valuation Report as set out in Appendix II to this Circular and noted that the valuation is made on the assumption that the Target Company will continue to operate and maintain the same business scope and methods based on the current management methods and management levels. As the assumptions are generally in line with market practices, we are of the view that the assumptions adopted in the Valuation are reasonable. Based on our discussion with the Independent Valuer, we have not identified any major factors which would lead us to question the reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the Appraised Value.

*(c) Valuation methodologies*

For the purpose of our assessment of the Valuation Report and the Appraised Value, we have reviewed and made enquiries about the valuation methodology used and the principal bases and assumptions adopted in the Valuation Report. We noted that the Valuation Report was prepared in accordance with various laws and standards, including but not limited to, Asset Appraisal Law of the PRC\* (《中華人民共和國資產評估法》) adopted at the 21st Session of the Standing Committee of the 12th National People's Congress of the PRC on 2 July 2016 and Basic Rules for Asset Appraisal\* (《資產評估基本準則》) (Cai Zi [2017] No. 43) (財資[2017]43號). For further details, please refer to Appendix II to the Circular.

Based on our review of the Valuation Report and our discussion with the Independent Valuer on, among others, the valuation methodologies, basis and assumptions adopted by the Independent Valuer, we understood that the Independent Valuer has considered three generally accepted approaches, namely the income approach, the market approach, and the asset-based approach in the Valuation Report.

The income approach in the appraisal of enterprise value refers to the appraisal method that determines the value of the valuation subject by capitalising or discounting the expected income of the appraised entity. The specific methods commonly used in the income approach include the dividend discount method and the discounted cash flow method.

The market approach in the appraisal of enterprise value refers to the appraisal method that determines the value of the valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases.

The asset-based approach in the appraisal of enterprise value refers to the appraisal method that reasonably determines the value of the valuation subject by appraising the value of various assets and liabilities on and off the balance sheets, based on the balance sheet of the appraised entity as of the valuation benchmark date.

As per our discussion with the Independent Valuer, based on their research, there were difficulties in identifying market precedent transactions that are identical or similar to Target Company, being an investment holding company with a minority shareholding investment in an unlisted company (i.e. CNNC Leasing), for similar reasons as identified above, the Independent Valuer was not able to identify comparable listed companies with limited differences from the Target Company in terms of the investment portfolio, business scale as well as principal business for the purpose of market comparable analysis. Having considered the absence of relevant reference objects and limited transaction cases that are directly comparable to the valuation subject (i.e. the Target Company) in the Hong Kong capital market, the market approach is not considered to be the most appropriate for the valuation.

The Independent Valuer also considered the income approach to be inappropriate as it requires detailed financial forecast of the Target Company, which involves adoption of much more subjective assumptions than the other two approaches, not all of which can be easily quantified or ascertained, and as the valuation subject is an investment holding company without business operation, its future income could not be accurately predicted or measured in monetary terms. As such, the income approach is not adopted for the valuation.

Based on our discussion with the Management, the Target Company is principally engaged in investment holding and the major investment of the Target Company is an investment of equity interest in CNNC Leasing. While the asset-approach was adopted as the primary valuation method for the Target Company, market approach was adopted as the primary valuation method for the valuation of the 7.55% equity interest in CNNC Leasing held by the Target Company.

Based on our discussion with the Independent Valuer and that the Target Company is principally engaged in investment holding and the major asset of the Target Company is an investment of equity interest in CNNC Leasing. The Independent Valuer has primarily adopted the asset-based approach given (i) the assets of the Target Company are on the basis of or



assumed to be in continuing operation; and (ii) the business nature of the Target Company and its investment in CNNC Leasing. Hence, the Independent Valuer considered the asset-based approach to be the most appropriate valuation methodology in appraising the value of the Target Company.

As the Target Company does not operate any business itself currently, and the only major business consolidated to the accounts of the Target Company is the long-term investment of 7.55% equity interests in CNNC Leasing, we concur with the Independent Valuer's view that it is not appropriate to adopt the income approach or the market approach for the valuation of the Target Company.

*(d) Our review of the Valuation Report*

The scope of Valuation included all of assets and liabilities of the Target Company, which included current assets, fixed assets, intangible assets, long-term investment, current liabilities and non-current liabilities. The book value of assets and liabilities of the Target Company adopted by the Independent Valuer was based on the audited financial statements of the Target Company for the six months ended 30 June 2024 issued by PKF Hong Kong Limited (大信梁學濂(香港)會計師事務所有限公司) (the “**Independent Auditor**”).

It is noted from the Valuation Report that under the premise of going concern, the audited book value of total assets of the Target Company as of the Valuation Benchmark Date was approximately HK\$467,496,000 compared to the appraised value of approximately HK\$509,697,000, representing an appreciation in the amount of approximately HK\$42,201,000. The increase in the appraised value of total assets as compared to its book value was primarily due to the increase in appraised value of the long-term investment in CNNC Leasing, its appraised value of which is based on market approach. We have reviewed the work performed by the Independent Valuer, a summary of which is set out below.

Current assets

In relation to the current assets, which mainly comprised of cash, we noted from the Valuation Report that the Independent Valuer has checked and verified the current assets by checking the relevant books and records, bank statements and statements of bank reconciliation. There was no difference between the book value and the appraised value of the current assets of the Target Company.

#### Fixed assets

In relation to the fixed assets, which mainly comprised of equipment, we noted from the Valuation Report that the Independent Valuer has checked and verified the fixed assets by, among others, performing physical observation for the details and conditions of the equipment, verifying the relevant books and records, checking the fixed assets against with the books and records, and original purchase invoices and agreements and performing interviews with the representatives with the Target Company to understand the relevant accounting treatments for the fixed assets.

It is noted from the Valuation Report that the net book value of the equipment of the Target Company as of the Valuation Benchmark Date was approximately HK\$9,057 compared to the appraised value of approximately HK\$10,552, representing an appreciation in the amount of approximately HK\$1,495. The aforesaid adjustment in value by the Independent Valuer was on the basis that the depreciation period adopted by the Target Company for certain equipment is shorter than the economic life period of the appraised assets as estimated by the Independent Valuer.

#### Long term investment

In relation to the Target Company's long-term investment (i.e. the 7.55% equity interest in CNNC Leasing held by the Target Company), we understand from the Valuation Report that the Independent Valuer adopted the market approach in appraising the fair value of investment CNNC Leasing, for the reasons stated below.

The Independent Valuer is of the view that income approach is not considered as the most appropriate approach since the CNNC Leasing is held as to 7.55% by the Target Company as at the Valuation Benchmark Date (i.e. 30 June 2024) and therefore the management of the Target Company is not in the position to obtain the information in relation to CNNC Leasing's business and details of its main assets, thereby making it unable to provide supportable and reliable operating profit and cash flow forecast as required under such valuation methodology.

As confirmed by the Independent Valuer, the market approach is considered as the most appropriate approach for valuation of the long-term investment in CNNC Leasing by making reference to the recent public transactions of equity transfer of companies which are primarily engage in provision of similar business of CNNC Leasing.

The commonly used valuation ratios in the market approach include price-to-earnings (“P/E”) multiples, price-to-book (“P/B”) multiples, price-to-sales multiples, and enterprise value to EBITDA (EV/EBITDA). Having considered that (i) CNNC Leasing is in the leasing industry, where its business is closely related to the macroeconomic environment and is heavily influenced by national monetary policies and financial industry regulations; (ii) leasing companies are capital-driven, where the size of their net capital and the quality of their total assets are critical to realising their value; and (iii) leasing companies’ profitability is a key indicator of their value, the P/B ratio and P/E ratio were selected by the Independent Valuer for the valuation of the Target Company’s long-term investments.

Given that P/E ratio and P/B ratio are commonly used in the valuation of profit-making companies, we consider the adoption of P/E ratio and P/B ratio as the valuation multiples to be appropriate.

In the Valuation Report, the Independent Valuer adopted the market approach by using market transactions involving companies engaging in the business of provision of finance leases in PRC. Comparable transactions were identified and selected from a valuation database based on the following criteria (the “**Comparable Transactions Criteria**”), namely, (i) the subject company involved in the market transaction is principally engaged in the business of provision of finance leases in PRC; (ii) the market transaction involved a transfer of minority interest of the subject company (similar to the minority interest of CNNC Leasing hold by the Target Company); and (iii) the date of agreement of the subject transaction was within two years, being 24 months immediately preceding the Valuation Date; and (iv) transaction consideration and key financial indicators of the market transactions are publicly available.

We have assessed the appropriateness of the Comparable Transactions Criteria adopted by the Independent Valuer. Having considered that (i) it is reasonable to select market transactions conducted by companies which are principally engaged in the business of provision of finance leases in PRC, given the similarity to that of the principal business of CNNC Leasing and the principal geographical location of its businesses (i.e. the PRC); (ii) it is appropriate to select market transactions that involved a transfer of minority interest of the subject company given that the shareholding interest of CNNC Leasing being held by the Target Company also represents a minority interest (i.e. 7.55% and that the Target Company has no control stake in CNNC Leasing); and (iii) it is appropriate to select market transactions with the relevant date of agreement within two years, being 24 months immediately preceding the Valuation Date, given the market comparable transactions should be within a recent timeframe for them

to be relevant, we concur with the Independent Valuer that they are appropriate selection criteria and are a meaningful analysis of the market value of the CNNC Leasing.

#### Comparable Transactions

The market capitalisation and earnings and equity attributable to shareholders of companies involved in the comparable market transaction are extracted from a database. Based on the Comparable Transactions Criteria, a total of six transactions were initially identified. Of these, two transaction cases were excluded from the final list of comparable transactions for the following reasons: (i) one transaction involved a target company with a net asset value of approximately RMB1 billion which is significantly smaller than the remaining five transaction cases (each having a net asset value exceeding RMB2 billion); and (ii) another transaction involved a target company with a P/E ratio of approximately 38 times, such valuation multiples of which significantly deviated from the P/E ratios of approximately 11 to 18 times observed in other potential comparable transaction cases. On this basis, a list of four comparable transactions (individually the “**Comparable Transaction**” or collectively the “**Comparable Transactions**”) which satisfied the above selection criteria were identified by the Independent Valuer and selected for the use of the valuation.

We have reviewed the principal activities, locations of operations of the subject companies of Comparable Transactions identified by the Independent Valuer as set out in the Valuation Report, and the descriptions of the relevant equity transfer agreement as set out in the announcement issued by the subject company in connection with the Comparable Transactions. The Independent Valuer also considers the list of Comparable Companies to be exhaustive based on their research and selection criteria on a best-effort basis. As such, we concur with the view of the Independent Valuer that the Comparable Transactions are fair and representative.

Set out below are the P/E Ratio and P/B Ratio of the Comparable Transactions, details of which please refer to section headed “III. Valuation — Valuation approach and methodology” in the Letter from the Board of the Circular:

No.	Name of the subject company in the comparable transactions	Principal business	Shareholding involved in the comparable transactions	Adjusted P/B ratio	Adjusted P/E ratio
1	Datang Financial Leasing Co., Ltd.* (大唐融資租賃有限公司)	Provision of finance lease services	13.75%	1.1071	13.34
2	Ganzhou Development Financial Leasing Co., Ltd.* (贛州發展融資 租賃有限責任公司)	Provision of finance lease services	19.44%	0.9314	13.84
3	Huabao Duding (Shanghai) Financial Leasing Co., Ltd.* (華寶都鼎(上海) 融資租賃有限公司)	Provision of finance lease services	3.11%	0.9909	12.90
4	Zhejiang Zheshang Financial Leasing Co., Ltd.* (浙江浙商融資租賃 有限公司)	Provision of finance lease services	20.08%	0.9150	14.70
Average				<u>0.9861</u>	<u>13.70</u>

The adjusted P/E ratio of the Comparable Transactions was calculated as the implied valuation of the subject company under the Comparable Transactions based on the consideration of the relevant equity transfer agreement divided by the annualised profit for the year based on the last available half-year or quarterly financial statements, or the latest profit for the year of the subject company adjusted for the differences in business performance between the subject company and CNNC Leasing. The adjusted P/B ratio of the Comparable Transactions were calculated as the implied valuation based on the consideration of the relevant equity transfer agreement divided by their relevant net asset value adjusted for the differences in size. The adjustments are to account for the differences in performance between the subject companies of Comparable Transactions and CNNC Leasing, including, among others, profitability, asset sizes, historical revenue growth and risk profile (the “Adjustments”).

We have discussed and reviewed the Adjustments adopted by the Independent Valuer, including, among others, (i) the Adjustments were adopted on a consistent basis for all Comparable Transactions; (ii) the Adjustments were supported by calculations performed by the Independent Valuer; and (iii) the Adjustments were considered to be appropriate as it takes into account the differences in financial performance and sizes between CNNC Leasing and the subject company of the Comparable Transactions, and we are of the view that the appraised value of the minority interest in CNNC Leasing is an appropriate benchmark for the purpose of our analysis.

Based on the selection criteria and review procedures, the Independent Valuer selected four comparable transactions. The results of the market approach considered the average of both the P/B ratio and P/E ratio. The average P/B ratio derived from the comparable transactions was approximately 0.9861, and the average P/E ratio derived therefrom was approximately 13.70.

Based on the net assets of the CNNC Leasing as at 30 June 2024 of approximately HK\$5.5 billion and the average P/B ratio derived from the Comparable Transactions of approximately 0.9861, the fair value of the entire of equity interest in CNNC Leasing held by the Target Company was approximately HK\$5.4 billion.

Based on the profit for the six months period ended 30 June 2024 of CNNC Leasing of approximately HK\$219.4 million and the annualised profit for the year ending 31 December 2024 of approximately HK\$438.9 million and the average P/E ratio derived from the Comparable Transactions of approximately 13.70 times, the fair value of the entire of equity interest in CNNC Leasing held by the Target Company was approximately HK\$6.0 billion.

According to the Valuation Report, the Independent Valuer applied the average of (i) the fair value of the entire of equity interest in CNNC Leasing held by the Target Company under P/B ratio; and (ii) the fair value of the entire of equity interest in CNNC Leasing held by the Target Company under P/E ratio, to arrive at the fair value of the entire of equity interest in CNNC Leasing. The fair value of the entire of equity interest of CNNC Leasing was approximately HK\$6.3 billion and the fair value of the 7.55% equity interest in CNNC Leasing held by the Target Company was therefore approximately HK\$472.8 million, representing an appreciation of approximately HK\$42.2 million, which was mainly attributable to the 7.55% equity interest in CNNC Leasing held by the Target Company, which was measured at cost in the financial statements of the Target Company.

#### Intangible assets

For other intangible assets, which mainly comprised of software, the purchase invoice and actual usage were verified by the Independent Valuer. It is noted from the Valuation Report that the net book value of the other intangible assets of the Target Company as of the Valuation Benchmark Date was approximately HK\$5,271 compared to the appraised value of approximately HK\$5,750, representing an appreciation in the amount of approximately HK\$479. The aforesaid adjustment in value by the Independent Valuer was on the basis that the price of the relevant software selling in the market on the Valuation

Benchmark Date is higher than the net book value of the other intangible assets, which was measured at cost less relevant accumulated amortisation expenses.

#### Liabilities

For the liabilities, the Independent Valuer checked the loan balances against the corresponding relevant books and accounting records and obtained the agreements of loans, interests settlement records, original invoices and discussed the loan utilised status with the representative of the Target Company. There was no difference between the book value and the appraised value of liabilities of the Target Company as of the Valuation Benchmark Date.

The assets and liabilities and other items involved in the Valuation Report were checked and verified by the Independent Valuer in accordance with normal procedures, and no matters affecting the asset verification work were found by the Independent Valuer.

Based on the work performed by the Independent Valuer and the methodology adopted in determining the appraised value of the assets and liabilities, we considered that the Appraisal Value to be an appropriate benchmark for our assessment of the fairness and reasonableness of the Initial Consideration.

#### *(e) Our view*

Based on the above and having considered that (i) the Independent Valuer is qualified with sufficient experience to conduct the valuation; (ii) the adoption of the asset-based approach for the valuation of the Target Company is appropriate given the nature of its principal business, being investment holding, and that it did not record any revenue during the two years ended 31 December 2022 and 2023, and the six months ended 30 June 2024. Given the above, the income approach and the market approach are therefore less appropriate than asset-based approach; and (iii) valuation methodology so applied on assessing the equity value of CNNC Leasing is appropriate as analysed in this letter above, we concur with the view of the Directors that the Valuation Report is an appropriate reference in determining the Initial Consideration of the Disposal of approximately HK\$167.4 million, which made reference to the fair value of the entire equity interest of Target Company of HK\$167.4 million as at the Valuation Date.

### **6.3 Summary of our analysis**

Having considered, among others, (i) the Target Company is considered to be non-core asset of the Group; (ii) the Disposal is expected to give rise to a gain for the Group; (iii) the net proceeds and the amount from the repayment of the Shareholders' Loan will enhance the working capital of the Group; (iv) the principal terms of the Sale and Purchase Agreement as analysed by us and detailed under the sub-section headed "6.1 Our analysis on the Initial Consideration, the Completion Consideration and the Management Accounts Adjustment"; and (v) our work performed on the Valuation Report, in particular, the Initial Consideration is at the same level as the Appraisal Value, we are of the view that the terms of Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

## **7. Possible financial effects of the Disposal**

Upon Completion, 100% equity interest of the Target Company will be held by CNNCTM and the Company will cease to be interested in any equity interest in the Target Company. Accordingly, the Target Company will cease to be a subsidiary of the Company and the financial results and assets and liabilities of the Target Group will no longer be consolidated into the consolidated financial statements of the Group.

Based on the Letter from the Board, with reference to the Initial Consideration and the Base NAV, the Management currently estimates that it will record a gain of approximately HK\$39.2 million (after deducting the estimated professional fees and other related expenses and taxes of approximately HK\$3.0 million) on the Disposal. The actual gain or loss on the Disposal to be recorded by the Company will depend on the Completion Consideration (as adjusted from the Initial Consideration after the Management Accounts Adjustment) and as further adjusted by Audited Accounts Adjustment, and the actual consolidated net asset value of the Target Company as at the Completion Date. It is also noted that the Purchaser undertakes to procure the payment of the outstanding balance of the Shareholder's Loan by the Target Company to the Company at Completion.

The above possible financial effects are for illustrative purposes only. The actual financial effects in connection with the Disposal may be different from the above and will be determined based on the financial position of the Target Company as at the Completion Date.

The Company intends to utilise the net proceeds from the Disposal of approximately HK\$164.4 million to bolster the Group's working capital and enhance its financial capacity for further development of the Group's uranium-related business.

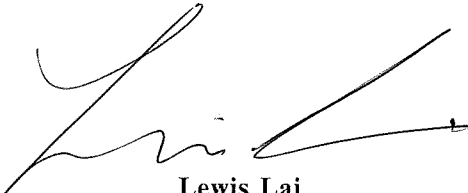


## VI. RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that although the Sale and Purchase Agreement and the transactions contemplated thereunder are not entered into under the ordinary and usual course of the business of the Group, the Sale and Purchase Agreement is on normal commercial terms, and the transactions contemplated under the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**



**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in the corporate finance industry.*

\* *For identification purpose only*