

24 October 2024

*To the Independent Board Committee and the Independent Shareholders*

China Isotope & Radiation Corporation  
No. 66 Changwa Middle Street  
Haidian District  
Beijing, the PRC

Dear Sir or Madam,

## **REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the revision of the annual caps under each of the Renewed Agreements, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 24 October 2024 (the “**Circular**”), of which this letter forms a part of. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

The Board has resolved and proposed on 30 August 2024 to revise the annual caps under each of the Renewed Agreements for the two years ending 31 December 2024 and 2025.

As at the Latest Practicable Date, CNNC is the controlling Shareholder of the Company, holding approximately 73.83% of the Company’s total issued share capital directly or indirectly through CIAE, NPIC, CNNC Fund, 404 Company and China Baoyuan. Therefore, CNNC and its associates are connected persons of the Company and the transactions under each of the Renewed Agreements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. In accordance with the Listing Rules, CNNC and its associates, being materially interested, will abstain from voting at the EGM on each of the resolutions to consider: (i) the proposed revision of the annual caps under the Renewed Engineering Construction Services Framework Agreement; (ii) the proposed revision of the annual caps under the Renewed Purchase Agreement; and (iii) the proposed revision of the annual caps under the Renewed Supply Agreement.

As one or more of the applicable percentage ratios in respect of the proposed revised annual caps under each of the Renewed Agreements for the two years ending 31 December 2024 and 2025 exceed 5%, the transactions contemplated under each of them are all subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Poon Chiu Kwok, Ms. Chen Jingshan, Mr. Lu Chuang and Mr. An Rui, has been formed to advise the Independent Shareholders on whether the Renewed Agreements are on normal commercial terms which are fair and reasonable, are being entered into in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, or CNNC that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) the major and continuing connected transactions, the revision of annual caps of continuing connected transactions and the amendment to the terms of the fund partnership agreement, details of which are set out in the circular of the Company dated 15 May 2023; and (ii) the renewal of the engineering construction services framework agreement and the disposal of 100% equity interest in the target company, details of which are set out in the circular of the Company dated 6 December 2023. Other than that, there was no engagement or connection between the Group or CNNC and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Transactions. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the Renewed Agreements.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth,

accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

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

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

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

#### *(i) The Group*

The Group is primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radio pharmaceuticals and radioactive source products for medical and industrial applications. The Group also provides irradiation services for sterilisation purpose and engineering, procurement and construction (EPC) services for the design, manufacturing and installation of gamma ray irradiation facilities. In addition, the Group provides independent clinical laboratory services to hospitals and other medical institutions.

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2023 (“FY2022” and “FY2023”, respectively) as extracted from the Company’s annual report for FY2023, and for the six months ended 30 June 2023 and 2024 (“6M2023” and “6M2024”, respectively) as extracted from the Company’s interim report for 6M2024 (the “2024 Interim Report”):

(a) *Financial performance*

|  | <b>FY2022</b><br><i>RMB'000</i><br><i>(audited)</i><br><i>(Restated)</i> | <b>FY2023</b><br><i>RMB'000</i><br><i>(audited)</i> | <b>6M2023</b><br><i>RMB'000</i><br><i>(unaudited)</i><br><i>(Restated)</i> | <b>6M2024</b><br><i>RMB'000</i><br><i>(unaudited)</i> |
|--|--|---|--|---|
| <b>Revenue</b>                                   | <b>6,153,549</b>   | <b>6,634,992</b>                                    | <b>2,739,483</b>   | <b>2,810,279</b>                                      |
| <b>Gross profit</b>                              | <b>3,517,682</b>   | <b>3,482,239</b>                                    | <b>1,485,483</b>   | <b>1,464,150</b>                                      |
| <i>Gross profit margin</i>                       | <i>57.2%</i>   | <i>52.5%</i>  | <i>54.2%</i>   | <i>52.1%</i>  |
| Other income, gains and losses                   | 91,222   | 240,928   | 30,637   | 25,999  |
| Selling and distribution expenses                | (1,788,089)  | (1,768,368)   | (779,630)  | (678,170)   |
| Administrative expenses                          | (575,149)  | (635,914)   | (248,329)  | (277,154)   |
| Research and development costs                   | (300,510)  | (306,051)   | (135,508)  | (111,647)   |
| Impairment losses on trade and other receivables | (31,193)   | (71,236)  | (12,945)   | (13,749)  |
| Finance costs                                    | (35,336)   | (36,142)  | (15,713)   | (24,091)  |
| Share of profits less losses of associates       | 8,618  | (14,303)  | 4,352  | (4,838)   |
| Share of profit of joint ventures                | 33,548   | 31,284  | 20,759   | 11,773  |
| <b>Profit before tax</b>                         | <b>920,793</b>   | <b>922,437</b>                                      | <b>349,106</b>   | <b>392,273</b>  |
| <b>Profit attributable to the Shareholders</b>   | <b>392,275</b>   | <b>370,967</b>                                      | <b>125,413</b>   | <b>154,496</b>  |

FY2023 compared to FY2022

Revenue of the Group increased by approximately 7.8% from approximately RMB6,153.5 million for FY2022 to approximately RMB6,635.0 million for FY2023, mainly due to the increase in radiation therapy equipment segment and medical device segment as a result of the Group’s hard work to develop the market during the year.

Despite the increase in revenue during the period, gross profit of the Group decreased by approximately 1.0% from approximately RMB3,517.7 million for FY2022 to approximately RMB3,482.2 million for FY2023 as a result of the decrease in the Group's gross profit margin from approximately 57.2% for FY2022 to approximately 52.5% for FY2023. The decrease in gross profit margin was primarily attributable to a change in the Company's sales structure as a result of an increase in the business volume and revenue share of the radiation therapy equipment which, due to the nature of its business, had a lower gross profit margin than other business segments of the Group.

The Group's profit attributable to the Shareholders amounted to approximately RMB371.0 million for FY2023, representing a decrease of approximately 5.4% from approximately RMB392.3 million for FY2022.

#### 6M2023 vs 6M2024

Revenue of the Group increased by approximately 2.6% from approximately RMB2,739.5 million for 6M2023 to approximately RMB2,810.3 million for 6M2024, which was mainly due to the Company's hard work to expand the market during the period, leading to an increase in revenue generated from radioactive source, irradiation and other business segments.

The Group's gross profit decreased by approximately 1.4% from approximately RMB1,485.5 million for 6M2023 to approximately RMB1,464.2 million for 6M2024 and the Group's gross margin decreased from approximately 54.2% for 6M2023 to approximately 52.1% for 6M2024. The decrease in gross margin was primarily due to the decrease in the gross profit of the radiopharmaceuticals products.

The Group's profit attributable to the Shareholders amounted to approximately RMB154.5 million for 6M2024, representing an increase of approximately 23.2% from approximately RMB125.4 million for 6M2023, which was mainly due to the decrease in selling and distribution expenses as a result of the changes in pharmaceuticals sales policies.

(b) *Financial position*

|  | <b>As at 31 December</b> |                   | <b>As at</b>       |
|--|--------------------------|-------------------|--------------------|
|  | <b>2022</b>              | <b>2023</b>       | <b>30 June</b>     |
|  | <i>RMB'000</i>           | <i>RMB'000</i>    | <i>RMB'000</i>     |
|  | <i>(audited)</i>         | <i>(audited)</i>  | <i>(unaudited)</i> |
|  | <i>(restated)</i>        |                   |                    |
| <b>Non-current assets, including:</b>          | <b>4,245,880</b>         | <b>4,997,241</b>  | <b>5,262,997</b>   |
| Property, plant and equipment                  | 2,939,823                | 3,601,172         | 3,845,215          |
| Interests in joint ventures                    | 512,867                  | 503,514           | 470,133            |
| Deferred tax assets                            | 222,460                  | 220,431           | 237,654            |
| <b>Current assets, including:</b>              | <b>7,543,843</b>         | <b>8,194,469</b>  | <b>8,479,589</b>   |
| Inventories                                    | 678,560                  | 814,165           | 1,089,590          |
| Trade and bill receivables                     | 3,495,093                | 3,876,341         | 3,998,300          |
| Cash at bank and on hand                       | 2,954,032                | 2,891,624         | 2,723,263          |
| <b>Total assets</b>                            | <b>11,789,723</b>        | <b>13,191,710</b> | <b>13,742,586</b>  |
| <b>Current liabilities, including:</b>         | <b>4,031,413</b>         | <b>4,253,921</b>  | <b>4,414,399</b>   |
| Bank loans                                     | 37,196                   | 196,310           | 360,098            |
| Trade payables                                 | 494,102                  | 626,668           | 738,591            |
| Accruals and other payables                    | 3,289,544                | 3,255,920         | 3,165,055          |
| <b>Net current assets</b>                      | <b>3,512,430</b>         | <b>3,940,548</b>  | <b>4,065,190</b>   |
| <b>Non-current liabilities, including:</b>     | <b>1,148,702</b>         | <b>1,798,461</b>  | <b>2,003,183</b>   |
| Bank loans                                     | 786,513                  | 1,447,011         | 1,649,267          |
| <b>Total liabilities</b>                       | <b>5,180,115</b>         | <b>6,052,382</b>  | <b>6,417,582</b>   |
| <b>Equity attributable to the Shareholders</b> | <b>4,468,659</b>         | <b>4,693,320</b>  | <b>4,745,005</b>   |

As at 30 June 2024, total assets of the Group amounted to approximately RMB13,742.6 million, which mainly included (1) property, plant and equipment of approximately RMB3,845.2 million, mainly representing the Group's buildings, machinery and equipment and construction in progress; (2) inventories of approximately RMB1,089.6 million; (3) trade and bill receivables of approximately RMB3,998.3 million; and (4) cash at bank and on hand of approximately RMB2,723.3 million.

As at 30 June 2024, total liabilities of the Group amounted to approximately RMB6,417.6 million, which mainly included (1) accruals and other payables of approximately RMB3,165.1 million which mainly consisted of deposits from distributors, payables to distributors, payables for staff-related costs and dividends payables; and (2) bank loans of approximately RMB2,009.3 million.

As at 30 June 2024, the Group had net current assets of approximately RMB4,065.2 million and equity attributable to the Shareholders of approximately RMB4,745.0 million.

*(c) Overall comment*

The financial performance of the Group improved and recorded increase in revenue and net profit for 6M2024, as the Group continued to increase its market development efforts and proactively seized market opportunities.

The Group also maintained a healthy financial position with net current assets and equity attributable to the Shareholders amounting to approximately RMB4,065.2 million and RMB4,745.0 million, respectively, as at 30 June 2024.

*(ii) CNNC*

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

**2. Reasons for and benefits of the revision of the annual caps under each of the Renewed Agreements**

*(i) Renewed Engineering Construction Services Framework Agreement*

The Group has invested in many construction projects throughout its rapid development. In particular, as the preliminary work of several base projects has been further promoted recently and such projects will enter the construction stage, the Group will conclude a large number of specific engineering construction service contracts in succession. The Group's construction projects require relatively complex radiation protection, and shall be completed by professional service providers with relevant qualifications and experience. There is a limited number of such service providers having relevant qualifications and experience in China, the majority of which are CNNC and/or its associates. Therefore, it is very likely that the Group's engineering construction services will be eventually provided by CNNC and/or its associates by whatever means the Group selects engineering construction service providers.

For the eight months ended 31 August 2024, the transaction amount of engineering construction services under the Renewed Engineering Construction Services Framework Agreement was approximately RMB250 million (unaudited), accounting for 45.20% of the original annual cap for the year ending 31 December 2024.

CNNC Qinshan Isotope was incorporated into the Group's consolidated financial statements starting from December 2023. Therefore, the engineering construction services between CNNC Qinshan Isotope and CNNC and/or its associates need to be accounted for under the Renewed Engineering Construction Services Framework Agreement. The transaction amount generated from these transactions in 2024 is expected to be approximately RMB170 million.

The Company is planning to invest in new irradiation projects such as China Silver Dragon's Sterilization Center Project in Tianjin and Guangxi Yulin Irradiation Project as well as accelerate the construction of the Company's radiation source base project and North China base project.

Based on the historical transaction amounts that have occurred, the payment schedule for funds under the signed contracts under the above projects, the construction progress plan, and the recent proposed investment projects, the Board proposed to revise the annual caps for the engineering construction services provided by CNNC for the two years ending 31 December 2024 and 2025.

***(ii) Renewed Purchase Agreement***

Historically, CNNC and/or its associates have been the suppliers of raw and ancillary materials, production equipment, technology testing, and irradiation services to the Group in its ordinary course of business. CNNC has a leading position in the fields of nuclear materials processing, production of nuclear production equipment, nuclear technology testing and irradiation research and development. As a result of the long-term cooperation between the Group and CNNC and/or its associates in this regard, CNNC and/or its associates have accumulated knowledge and understanding in the Company's business needs for the products and services. Therefore, the Directors of the Company are of the view that it is efficient for the Company to continue such transactions with CNNC and/or its associates and it is in the best interests of the Company and the Shareholders as a whole.

For the eight months ended 31 August 2024, the transaction amount for the purchase of products and services under the Renewed Purchase Agreement was approximately RMB60 million (unaudited), accounting for 41.26% of the original annual cap for the year ending 31 December 2024.



The transaction amounts for processing fees for transactions between the Group and CNNC Qinshan Isotope (a connected subsidiary of the Company) are expected to be approximately RMB50 million and RMB100 million for 2024 and 2025, respectively.

The transaction amounts for irradiation service fees incurred by the Group with CNNC Nuclear Power Operation Management Company Limited and Qinshan Third Nuclear Power Company Limited (both associates of CNNC) are expected to be approximately RMB30 million and RMB100 million in 2024 and 2025, respectively.

The transaction amount for the enterprise resource planning system construction costs between the Group and CNNC and its associates is expected to be approximately RMB50 million in 2025.

Based on the historical transaction amounts that have occurred and the comprehensive consideration of the aforementioned proposed projects, the Board proposed to revise the annual caps for the procurement of products and services from CNNC for the two years ending 31 December 2024 and 2025.

***(iii) Renewed Supply Agreement***

The Group sells radioactive source products, radioactive instruments and pharmaceuticals to CNNC and/or its associates in its ordinary and usual course of business. For example, the Group sells isotope products to CNNC and/or its associates which are used in their engineering projects and radioactive products sold to their hospitals. The Group plays a critical role in the nuclear technology application business of CNNC and the scientific research services provided by the Group to CNNC are expected to increase gradually in the next two years. As a result, resources could be gathered to facilitate the success of key research and development projects of CNNC, creating synergy effect of enhancing the competitiveness of both CNNC and the Group along the whole industrial chain.

For the eight months ended 31 August 2024, the transaction amount for the supply of products and services under the Renewed Supply Agreement was approximately RMB60 million (unaudited), accounting for 41.14% of the original annual cap for the year ending 31 December 2024.

In 2024, the subsidiaries of the Company are applying to participate in the centralized research and development projects of CNNC and its associates. The transaction amounts incurred in 2024 and 2025 are expected to be approximately RMB60 million and RMB180 million, respectively.

The Company plans to conduct acquisitions in the future, and certain potential acquired subsidiary has daily transactions with CNNC and its associates. The transaction amounts generated from these transactions in 2024 and 2025 are expected to be approximately RMB70 million and RMB300 million, respectively.

Based on the historical transaction amounts that have occurred and the comprehensive consideration of the aforementioned proposed projects, the Board proposed to revise the annual caps for the supply of products and services to CNNC for the two years ending 31 December 2024 and 2025.

Based on the above, we concur with the Directors that the transactions under each of the Renewed Agreements are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Renewed Agreements**

#### ***(i) Renewed Engineering Construction Services Framework Agreement***

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

|                 |   |  |
|-----------------|---|--|
| Parties         | : | CNNC (the supplier); and<br>the Company (the purchaser)  |
| Principal terms | : | CNNC and its associates (excluding the Group) shall provide the following services to members of the Group: (i) the Construction Services; (ii) the Equipment Services; and (iii) the Consultation Services. |
| Term            | : | The agreement shall come into force on 1 January 2024 and expire on 31 December 2025, subject to renewal as may be agreed and negotiated upon by both parties.   |

Pricing policy : The following factors shall be considered in determining the specific price under the Renewed Engineering Construction Services Framework Agreement: (i) the costs for relevant products and services (including labour costs and material costs); (ii) the market conditions learnt by the Group from suppliers (including CNNC and its associates and independent suppliers); and (iii) with respect to purchase and sales contracts with significant amounts, public tendering shall be conducted in accordance with the internal tendering process of the Group, and the final price shall be determined based on the results of such process. The public tendering procedure includes issuing tender announcement, reviewing qualification of bidders, establishing tendering review committee, bid opening, bid reviewing, public disclosure of the bid winner, bid determination and issuing the tender results announcement. The bid reviewing experts of the tendering review committee are selected from the expert database of the bidding professional agency, and the expert database is composed of professionals from relevant fields. The Group will consider the qualifications, experience, and quotations of the suppliers to determine the successful bidder. The detailed pricing policy is as follows:

- (a) Construction Services: contract price of Construction Services: (1) in the case of selecting construction services providers through tendering process, the Company shall determine whether the services shall be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the award price; (2) in the case of selecting construction services providers other than through tendering process, the Company shall determine that the services shall be provided by CNNC and/or its associates after evaluation and review, and the contract price shall be determined through negotiations (such price shall not violate laws, regulations and relevant national requirements).
- (b) Equipment Services: contract price of Equipment Services: (1) in the case of selecting equipment services providers through tendering process, the Company shall determine whether the services shall be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the award price; (2) in the case of selecting equipment services providers other than through tendering process, the Company shall determine that the services shall be provided by CNNC and/or its associates after evaluation and review, and the contract price shall be determined through negotiations (such price shall not violate laws, regulations and relevant national requirements).

- (c) Consultation Services: contract price of Consultation Services: (1) in the case of selecting consultation services providers through tendering process, the Company shall determine whether the services shall be provided by CNNC and/or its associates based on the results of such process, and the contract price shall be the award price; (2) in the case of selecting consultation services providers other than through tendering process, the Company shall determine that the services shall be provided by CNNC and/or its associates after evaluation and review, and the contract price shall be determined through negotiations (such price shall not violate laws, regulations and relevant national requirements).

As stated above, it is stipulated under the pricing policy of the Renewed Engineering Construction Services Framework Agreement that, (i) where contract prices with respect to purchase and sales contracts are considered significant under each head of services that they are classed hereunder, service providers shall be selected through tendering process. In this case, the Company will determine whether it will opt for services provided by CNNC and/or its associates based on the results of such process, and once tender is awarded thereto, the award price shall be the price stipulated in the contract submitted to tender; and (ii) when selection of service providers is not made through tender, the Company shall base its decision on whether to opt for services provided by CNNC and/or its associates on the outcome of evaluation and review of the contractual terms, and the contract price will be determined through arm's length negotiations amongst the parties (provided that the price so determined shall not be in violation of any applicable laws, regulations and relevant national requirements).

According to the internal control policy of the Group, the Group shall organise public tendering process in accordance with the Company's internal tendering rules, including issuing tendering announcement, reviewing qualification of bidders, establishing tendering review committee, bid opening, bid reviewing, public disclosure of the bid winner, bid determination and issuing the tender results announcement. The bid reviewing experts of the tendering review committee are selected from the expert database of the bidding professional agency, and the expert database is composed of professionals from relevant fields. The Group shall consider the qualifications, experience and quotations of suppliers to determine the successful bidder, and shall determine the final price based on the results of such public tendering process.

In order to assess whether the above internal control procedures are sufficiently and effectively implemented, we have selected on a random basis, obtained and reviewed (i) seven, the only one and three sets of tender documents for the Construction Services, the Equipment Services and the Consultation Services of the Group during 2021 to 2023, respectively, with the winning bidder being CNNC and/or its associates; and (ii) four, four and three sets of tender documents for the Construction Services, the Equipment Services and the Consultation Services of the Group during 2021 to 2023, respectively, with the winning bidder being

independent third parties. Based on our review of the tender documents, including but not limited to tendering announcement, tendering documents of CNNC and its associates and other independent qualified tenders, bid-winning notice and duly signed contracts, we noted that the Group had adhered to the internal procedures on tender process on each of the Construction Services, the Equipment Services and the Consultation Services, and the winning tenders were generally selected based on, among others, the price of the tender being more favourable than the other tenders.

In respect of services that are not selected through tender process, the Group will arrange for separate negotiation with CNNC and/or its associates and independent suppliers, upon which, prices shall be determined by taking into account, in each case, the aggregated total actual costs for services provided, whilst allowing for reasonable profits and factoring in taxes so payable. The management will consider, and before payment is approved in each case, the quotations of at least two comparable transactions with independent suppliers for the same period, where possible, so as to assess the reasonableness of the profits so gained by the Company's supplier for services so rendered under the Renewed Engineering Construction Services Framework Agreement. In this relation, we have also obtained and reviewed the only one, five and eight sets of agreements entered between the Group and CNNC and/or its associates and their corresponding comparable quotations with independent suppliers for the Construction Services, the Equipment Services and the Consultation Services during 2021 to 2023, respectively. Based on our review, we noted that the Group had also followed the internal procedures on quotations and the price and/or quality of services offered by CNNC and/or its associates were no less favourable than those provided by independent third parties.

Based on the review of the above documents, we consider the pricing policy of the transactions under the Renewed Engineering Construction Services Framework Agreement has been adherence in accordance with the Group's internal control procedures.

Taking into account that the Group has adopted sufficient and effective internal control measures to ensure the transactions under the Renewed Engineering Construction Services Framework Agreement follow the pricing mechanism, we consider the terms of the Renewed Engineering Construction Services Framework Agreement are on normal commercial terms which are fair and reasonable.

**(ii) Renewed Purchase Agreement**

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

- Parties : CNNC (the supplier); and  
the Company (the purchaser)
- Principal terms : The Group shall purchase from CNNC and its associates (excluding the Group), and CNNC and its associates (excluding the Group) shall provide the Group: (i) various types of raw and ancillary materials, production equipment and other products; (ii) transportation containers (including the designing and manufacturing services for transportation containers); (iii) technology testing services; (iv) encapsulation and processing services of cobalt-60 radioactive sources; (v) scientific research services related to high-end irradiation research and development; and (vi) other services (the “**Purchased Products and Services**”).
- Term : The agreement shall come into force on 1 January 2024 and expire on 31 December 2025, subject to renewal as may be agreed and negotiated upon by both parties.
- Pricing policy : The Company shall determine the purchase prices by taking into account the following factors comprehensively:
- (i) The costs for relevant products and services (including labour costs and material costs).
  - (ii) The market conditions learnt by the Group from suppliers (including CNNC and its associates (excluding the Group) and independent suppliers).
  - (iii) With respect to purchase and sales contracts with significant amounts, public tendering shall be conducted in accordance with the internal tendering procedures of the Group, and the final price shall be determined based on the results of such process.

As advised by the management of the Group, during 2021 to 2023, the Group did not purchase the Purchased Products and Services from any independent suppliers and the Group did not organise public tendering process for the Purchased Products and Services since the amount of each contract was not significant and CNNC has a leading position in the fields of nuclear materials processing, production of nuclear production equipment, nuclear technology testing and irradiation research and development. We have obtained the only one set of tender documents for the Purchased Products and Services in 2024, and noted that three service providers submitted the tendering documents and the Group had adhered to the internal procedures on tender process and awarded the project to CNNC's associate as it offered a more favourable service plan and fee quote.

In assessing the fairness and reasonableness of the principal terms of the Renewed Purchase Agreement, we have selected on a random basis, obtained and reviewed eight, nine and nine purchase contracts entered into between the Group and CNNC and its associates during 2021 to 2023, respectively. We noted the purchase price was determined by reference to the cost of the Purchased Products and Services (including labour costs and material costs) and the latest market conditions. We have independently searched the market price of certain products purchased by the Group from CNNC's associates, and noted the purchase price offered by CNNC's associates was not less favourable to the Group than the market price.

Based on the review of the above contracts, we consider the terms of the Renewed Purchase Agreement are on normal commercial terms which are fair and reasonable.

***(iii) Renewed Supply Agreement***

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

|                 |   |   |
|-----------------|---|---|
| Parties         | : | CNNC (the purchaser); and<br><br>the Company (the supplier)   |
| Principal terms | : | CNNC and its associates (excluding the Group) shall purchase from the Group, and the Group shall supply to CNNC and its associates (excluding the Group) various types of products, i.e. radioactive source products, radioactive instruments and pharmaceuticals and other products, and the Group shall provide detection, recycling, transportation and reloading services related to the sales of such products, scientific research services related to research and development projects, and other services. |

- Term : The agreement shall come into force on 1 January 2024 and expire on 31 December 2025, subject to renewal as may be agreed and negotiated upon by both parties.
- Pricing policy : The specific product prices to be received by the Group from CNNC and its associates (excluding the Group) shall be determined by relevant parties through fair negotiation, and the terms shall not be more favourable than those entered into between the Company and Independent Third Parties in the latest three months. The Company shall make reference to the historical prices of the products and collect information on market price and profit margin of relevant products from industry associations, industry peers and other channels, and determine the prices based on the average market profit margin or on cost-plus basis in order to ensure the fairness and reasonableness of the prices of products and services provided. The relevant cost consists of raw materials, ancillary materials, depreciation, labor cost, energy, administrative expenses and finance costs. With respect to transportation and other supplementary services, the service cost shall be reflected in the cost of sales of products accordingly. The price of scientific research services provided by the Group to CNNC and its associates (excluding the Group) shall be mainly determined by both parties through negotiation, having taken into account the relevant scientific research cost.

In assessing the fairness and reasonableness of the principal terms of the Renewed Supply Agreement, we have selected on a random basis, obtained and reviewed three, three and three sales contracts entered into between the Group and CNNC and its associates during 2021 to 2023, respectively. For comparison purpose, we have also obtained and reviewed three, three and three sales contracted between the Group and the independent customers during 2021 to 2023, respectively. We noted the sales price offered by the Group to CNNC and its associates was not less favourable to the Group than the sales price offered by the Group to the independent customers.

Based on our review of the above contracts, we consider the terms of the Renewed Supply Agreement are on normal commercial terms which are fair and reasonable.



#### 4. Assessment of the proposed revised annual caps

##### (i) Renewed Engineering Construction Services Framework Agreement

Set out below are the existing annual cap and actual transaction amount of the Renewed Engineering Construction Services Framework Agreement for the period indicated:

|                                   | <b>Existing annual cap<br/>for the year ending<br/>31 December 2024<br/>(A)<br/>(RMB'000)</b> | <b>Actual amount<br/>incurred for the<br/>eight months ended<br/>31 August 2024<br/>(B)<br/>(RMB'000)</b> | <b>Utilisation<br/>rate<br/>(B/A)</b> |
|-----------------------------------|---|---|---------------------------------------|
| Engineering construction services | 550,000   | 248,609   | 45.2%                                 |

As shown in the table above, the actual transaction amount for the engineering construction services provided by CNNC and/or its associates to the Group under the Renewed Engineering Construction Services Framework Agreement amounted to approximately RMB248.6 million for the eight months ended 31 August 2024, representing approximately 45.2% of the existing annual cap for the year ending 31 December 2024.

As advised by the management of the Group, such low utilisation rate for the eight months ended 31 August 2024 was primarily attributable to that the Group's projects were still under construction as at 31 August 2024 and the management of the Group expected that the principal portion of the payments will be made until the end of 2024.

The proposed revised annual caps for the engineering construction services for the two years ending 31 December 2025 are set out below:

|                                   | <b>For the year ending<br/>31 December 2024<br/>(RMB'000)</b> | <b>For the year ending<br/>31 December 2025<br/>(RMB'000)</b> |
|-----------------------------------|---|---|
| Engineering construction services | 790,000   | 1,150,000   |

In assessing the reasonableness of the proposed revised annual caps under the Renewed Engineering Construction Services Framework Agreement, we have obtained and reviewed (a) the existing engineering construction contracts for 11 projects, pursuant to which the service fees of approximately RMB566 million and approximately RMB253 million are expected to be paid by the Group for the two years ending 31 December 2025, respectively; and (b) the project proposals for 7 new projects, pursuant to which the service fees of approximately RMB224 million and approximately RMB897 million are expected to be paid by the Group for the two years ending 31 December 2025, respectively.

As stated in the 2024 Interim Report, as at 30 June 2024, the Group's cumulative number of pharmaceutical centers in operation reached 26, six pharmaceutical centers have entered the construction/certification stage, and five were in the pre-project phase, gradually improving the network layout of national pharmaceutical centers. In order to further enhance the R&D and production capacity of the Group in the fields of radiopharmaceuticals and radioactive sources, the Group has been vigorously promoting the construction of R&D and production bases of isotopes and their products in recent years. In addition, aiming to build a leading irradiation application enterprise in China, the Group is exploring new areas for application of irradiation, accelerates the construction of irradiation bases and improves the layout of irradiation processing service network.

Taking into account that the proposed revised annual caps were calculated based on the service fee to be incurred for the Group's ongoing construction of 11 existing projects and its plan to invest in and construct 7 new projects to accelerate its pace of building technological innovation ability and production capacity, we are of the view that the proposed revised annual caps under the Renewed Engineering Construction Services Framework Agreement are fair and reasonable.

***(ii) Renewed Purchase Agreement***

Set out below are the existing annual cap and actual transaction amount of the Renewed Purchase Agreement for the period indicated:

|                                   | <b>Existing annual cap<br/>for the year ending<br/>31 December 2024<br/>(A)<br/>(RMB'000)</b> | <b>Actual amount<br/>incurred for the<br/>eight months ended<br/>31 August 2024<br/>(B)<br/>(RMB'000)</b> | <b>Utilisation<br/>rate<br/>(B/A)</b> |
|-----------------------------------|---|---|---------------------------------------|
| Purchase of products and services | 150,000   | 61,889  | 41.3%                                 |

As shown in the table above, the actual transaction amount for the purchase of products and services by the Group under the Renewed Purchase Agreement amounted to approximately RMB61.9 million for the eight months ended 31 August 2024, representing approximately 41.3% of the existing annual cap for the year ending 31 December 2024.

As advised by the management of the Group, such low utilisation rate for the eight months ended 31 August 2024 was primarily due to that more of the Group's purchases are typically made in the second half of the year. The transaction amount of the purchase of products and services was approximately RMB150.2 million for year ended 31 December 2023.

The proposed revised annual caps for the Renewed Purchase Agreement for the two years ending 31 December 2025 are set out below:

|                                   | <b>For the year ending<br/>31 December 2024</b><br><i>(RMB'000)</i> | <b>For the year ending<br/>31 December 2025</b><br><i>(RMB'000)</i> |
|-----------------------------------|---|---|
| Purchase of products and services | 250,000   | 445,000   |

In assessing the reasonableness of the proposed revised annual caps under the Renewed Purchase Agreement, we have obtained and reviewed (a) six existing purchase contracts, pursuant to which the purchase amounts of approximately RMB60.8 million and RMB40.2 million are expected to be recognised for the two years ending 31 December 2025, respectively; (b) the draft purchase contract to be entered into between the Group and an associate of CNNC in 2024, pursuant to which the purchase amounts of approximately RMB30.0 million and RMB100.0 million are expected to be recognised for the two years ending 31 December 2025, respectively; and (c) the purchase plans of the subsidiaries of the Company, pursuant to which the Group expects to purchase additional products and services of approximately RMB159.2 million and RMB304.8 million from CNNC and its associates for the two years ending 31 December 2025, respectively.

We have performed independent research on the industry outlook of radiopharmaceuticals sector in the PRC. According to the “Medium and Long-term Development Plan for Medical Isotopes (2021-2035)” (醫用同位素中長期發展規劃 (2021-2035年)), jointly issued by the China Atomic Energy Authority, the Ministry of Science and Technology, the National Medical Products Administration and five other government authorities in May 2021, it aims to advance the research and development of new radiopharmaceuticals, accelerate the realization of independent production and supply of medical isotopes, promote the clinical application of radiopharmaceuticals and increase the concern and awareness of medical isotopes and related industries from all walks of life. In January 2023, Sichuan province released the “Action Plan for the Development of Medical Isotopes and Radiopharmaceuticals Industry in Sichuan Province (2022-2025)” (四川省醫用同位素及放射性藥物產業發展行動計劃 (2022-2025)), it proposes that efforts will be made to build an advanced and complete nuclear medical and health industry system in Sichuan province. With the promulgation of favorable government policies to support the development and supply of the medical isotopes in the PRC, the Chinese radiopharmaceuticals market is expected to continue to grow in future. As such, we consider the Group’s expected demand for the products and services provided by CNNC and its associates to be reasonable for the overall coordinated business development of the Company’s subsidiaries.

Taking into account (a) the existing purchase contracts entered into and the draft purchase contract to be entered into between the Group and CNNC and its associates; and (b) the Group’s increasing demand for the products and services provided by CNNC and its associates in line with industry growth and the Group’s business development, we are of the view that the proposed revised annual caps under the Renewed Purchase Agreement are fair and reasonable.

**(iii) Renewed Supply Agreement**

Set out below are the existing annual cap and actual transaction amount of the Renewed Supply Agreement for the period indicated:

|                                 | <b>Existing annual cap<br/>for the year ending<br/>31 December 2024<br/>(A)<br/>(RMB'000)</b> | <b>Actual amount<br/>incurred for the<br/>eight months ended<br/>31 August 2024<br/>(B)<br/>(RMB'000)</b> | <b>Utilisation<br/>rate<br/>(B/A)</b> |
|---------------------------------|---|---|---------------------------------------|
| Supply of products and services | 150,000   | 61,714  | 41.1%                                 |

As shown in the table above, the actual transaction amount of the supply of products and services by the Group under the Renewed Supply Agreement amounted to approximately RMB61.7 million for the eight months ended 31 August 2024.

The proposed revised annual caps for the Renewed Supply Agreement for the two years ending 31 December 2025 are set out below:

|                                 | <b>For the year ending<br/>31 December 2024<br/>(RMB'000)</b> | <b>For the year ending<br/>31 December 2025<br/>(RMB'000)</b> |
|---------------------------------|---|---|
| Supply of products and services | 300,000   | 700,000   |

In assessing the reasonableness of the proposed revised annual caps under the Renewed Supply Agreement, we have obtained and reviewed the Group's calculation of the estimated transaction amount under the Renewed Supply Agreement for the two years ending 31 December 2025. We noted the expected increase in the transaction amount under the Renewed Supply Agreement is mainly due to the following factors:

- (a) The Group has applied to participate in the centralised research and development project of CNNC and its associates and the scientific research service fees are expected to be approximately RMB60.0 million and RMB180.0 million for the two years ending 31 December 2025, respectively.
- (b) The Group proposes to acquire a target company (the "**Target Company**") which is engaged in the manufacture and sale of electron accelerator irradiation devices and provision of maintenance services. The acquisition is expected to be completed by the end of 2024. The Target Company was listed on National Equities Exchange and Quotations and has been provided products and services to CNNC's associates. We have reviewed the interim report of the Target Company for the six months ended

30 June 2024 and noted the transaction amount of supply of products and services by the Target Company to CNNC's associates was approximately RMB31.7 million for the six months ended 30 June 2024. As such, the transaction amount is expected to be approximately RMB70.0 million for the year ending 31 December 2024. As CNNC's associates plan to purchase additional electron accelerator irradiation devices from the Target Company in 2025, the transaction amount is expected to be approximately RMB300.0 million for the year ending 31 December 2025.

- (c) The Group plans to launch new medical equipment in 2024 and 2025 which are expected to contribute to the increase in the transaction amount of approximately RMB10.0 million and RMB70.0 million for the two years ending 31 December 2025, respectively.
- (d) The Group expects to provide radioactive source products of approximately RMB60 million for the startup of new nuclear reactors in Xiapu of CNNC's associates for the year ending 2025.

Taking into account the above factors, we consider the proposed revised annual caps under the Renewed Supply Agreement to be fair and reasonable.

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

In order to protect the interests of the Shareholders, the Group has adopted certain internal control procedures to monitor the utilisation of the annual cap, details of which are set out in the section headed "Internal Control System for Continuing Connected Transactions" in the Letter from the Board.

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

- (i) The transactions contemplated under the Agreements are conducted on a nonexclusive basis;
- (ii) The Company has adopted such rules of internal control as exemplified by the Connected Transaction Management Measures;

- (iii) Under the leadership of the Board, the Company has set up a connected transaction leading group headed by the chief financial officer, which is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts, etc.), regularly reviewing the Group's internal control systems for the connected transactions and offering proposals for modification, organizing (on an annual basis) the training of connected transactions across the Group and conducting periodic supervision and inspection of the connected transactions, etc.;
- (iv) Each subsidiary of the Group has established its own connected transaction group as headed by a senior manager responsible for finance. Specific personnel in the audit and discipline supervision department are placed in charge of pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the setting of price for each of the continuing connected transactions disclosed in this announcement;
- (v) Under the leadership of the connected transaction leading group, the Company's internal control and risk management department conducts regular internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain comprehensive and effective. Further, the audit department (legal compliance department) is tasked with conducting prudent review of the connected transaction contracts, whilst the finance department is entrusted with the control of pricing of the connected transactions and the contract implementation department is responsible for monitoring the transaction amounts in a timely manner;
- (vi) Connected transactions of the Company shall be conducted in accordance with the Company's internal control procedures, and all of the Company's subsidiaries are required to submit implementation reports of connected transactions on a monthly basis. The Company shall thereupon consolidate, review, sum up and analyze data so collected in order to monitor the transaction amounts concerned and ensure that they are kept within the annual caps, and recommends improvement measures for any issues identified;
- (vii) The Board reviews the implementation of the continuing connected transactions on an annual basis and reviews the financial reports where implementation of continuing connected transactions are being disclosed on a half-yearly basis. Matters under review shall mainly include: whether the Company and the relevant connected person(s) have performed the continuing connected transaction agreement during the relevant period and whether the actual transaction amounts incurred are within the annual caps as approved at the general meeting;

- (viii) Reports are made by the independent non-executive Directors on the performance of their duties to the general meeting of the Company on an annual basis. Such reports include opinions on (a) whether the actual transaction amounts incurred are within the annual caps under the continuing connected transactions as approved at the general meeting; (b) whether the continuing connected transactions are conducted pursuant to the relevant agreements; and (c) whether the terms of the continuing connected transactions are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Shareholders of the Company as a whole;
- (ix) The supervisory committee of the Company supervises on matters pertaining to the continuing connected transactions. Among its responsibilities are the reviewing of annual financial reports and interim financial reports where implementation of continuing connected transactions is disclosed. It is also tasked with compliance review of connected transactions under the relevant regulatory requirements in domestic and overseas listing venues, and conducting review on whether the prices for such transactions are fair and reasonable and whether the performance of the obligations thereunder are detrimental to the interests of the Company and the Shareholders;
- (x) The audit committee of the Company reviews annual financial reports, annual reports, interim financial reports and interim reports where disclosure is made accordingly on the implementation of the continuing connected transactions and opines on the connected transactions during the reporting periods on matters such as the fairness of the connected transactions and whether the actual transaction amounts incurred are within the annual caps prescribed for the continuing connected transactions; and
- (xi) The external auditor of the Company conducts interim and year-end audit for each financial year, issues its opinions and letters to the Board in relation to the implementation of the pricing policies under the continuing connected transactions and whether the actual connected transaction amounts incurred are within the annual caps prescribed for the continuing connected transactions during the preceding year pursuant to the Listing Rules and submits the same to the Stock Exchange.

In assessing whether the above internal control measures are put in place and effectively implemented, we have obtained and reviewed the monthly reports issued by the finance department of the Company on the actual transaction amounts of each of the Renewed Agreements and noted that the annual caps had been closely monitored.

In addition, as stated in the section headed “3. Principal terms of the Renewed Agreements” above, we have obtained and reviewed (i) the tender documents as well as the comparable quotations received by the Group for engineering construction services during 2021 to 2023; (ii) sample purchase contracts entered into between the Group and CNNC and its associates during 2021 to 2023; and (iii) sample supply contracts entered into between the

Group and CNNC and its associates or the independent customers during 2021 to 2023. Based on our review, we noted that the internal control procedures had been adhered and were in accordance with the pricing mechanism under the Renewed Agreements. As such, we are of the view that appropriate and adequate internal control procedures are in place to ensure that the transactions contemplated under the Renewed Agreements will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **OPINION AND RECOMMENDATION**

Having taken into account the above principal factors and reasons, we consider that the Renewed Agreements are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Renewed Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the revision of the annual caps under each of the Renewed Agreements.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

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