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CHINA NUCLEAR ENERGY TECHNOLOGY CORPORATION LIMITED

中國核能科技集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 611)

SUPPLEMENTAL ANNOUNCEMENT TO ANNUAL REPORT 2021

Reference is made to the annual report 2021 dated 25 April 2022 (the “**Annual Report 2021**”) of China Nuclear Energy Technology Corporation Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) in relation to the Company’s Management Discussion and Analysis in the 2021 Annual Report. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Annual Report 2021.

In addition to the information disclosed in the section headed “ Management Discussion and Analysis” in the Annual Report 2021, this announcement is made to provide supplemental information to the paragraph under “Financing Business”.

BUSINESS MODEL

The indirect wholly owned subsidiary of the Company, CNEC Financial Leasing (Shenzhen) Co., Ltd. (“**CNEC Financial Leasing**”), principally engages in the provision of financial leasing and factoring business in the PRC. The principal mode of finance lease offered mainly include direct-leasing, sale-and-leaseback and recourse factoring. The major source of fund for this business is loans from banks and leasing companies from the same industry for leasing and factoring projects, and internal resources of the Group.

Direct-leasing: The lessee designates the supplier of the selected equipment. Then the lessee, the equipment supplier, and CNEC Financial Leasing sign a tripartite procurement agreement. CNEC Financial Leasing will pay the equipment supplier for the equipment after acceptance of equipment by the lessee and a financial leasing contract will be signed between CNEC Financial Leasing and the lessee. The lessee pays CNEC Financial Leasing rent based on the agreed terms.

Sale-and-leaseback: The lessee sells the equipment to CNEC Financial Leasing and signs an equipment sale and purchase contract with CNEC Financial Leasing. Then CNEC Financial Leasing signs a sale-and-leaseback contract with the lessee. CNEC Financial Leasing pays the lessee for the equipment and the lessee pays CNEC Financial Leasing rent based on the agreed terms.

Recourse factoring: Creditors (sellers or service providers) under trade and service contracts transfer their current or future accounts receivable to CNEC Financial Leasing. CNEC Financial Leasing will then provide financing services for the accounts receivable. In the case where the principal and interest of the factoring financing are not fully repaid, CNEC Financial Leasing has the right to request the debtor of the underlying transaction contract to pay off the debts to CNEC Financial Leasing and to recover the principal and interest from the transferor of the accounts receivable.

CNEC Financial Leasing's target customers mainly include sizable and asset-intensive institutional customers in the PRC covering industries ranging from renewable energy, sports and culture, and technology. Most customers of CNEC Financial Leasing in the PRC are obtained through (a) referrals from business partners of existing customers, banks or peers, (b) marketing and sales effort from CNEC Financial Leasing, and (c) self-owned projects of the Group which will bring potential factoring business opportunities with different suppliers of the Group.

Major terms of loans granted

Subject to the credibility of the customers and quality of the collateral, the financial leases granted normally have a term of 3 to 10 years and interest rate ranging from 5.3% to 5.4% per annum.

Furthermore, all of the total finance lease receivables are secured by photovoltaic power plants, proceeds from sales of electricity and paid up registered capital of the lessees, while all of the total loan receivables are secured by finance lease receivables and trade receivables of the borrowers.

INTERNAL CONTROL PROCEDURES

CNEC Financial Leasing has implemented the following internal control measures in carrying out the financial leasing and factoring business:

Credit risk assessment of customers

- (i) The business and operations department of CNEC Financial Leasing assesses the background and reputation of any new customers by taking into account the new customer's financial status, market share, shareholders background and business reputation. CNEC Financial Leasing also takes into consideration their future business strategies and expansion plan.
- (ii) For customers who meet the access requirements, the business and operations department of CNEC Financial Leasing will conduct due diligence and credit verification. CNEC Financial Leasing researches and analyzes customers' backgrounds, including their operating history, shareholders and other financial information. If applicable, specific needs in respect of the type and specification requirements of the assets will also be studied and compared with CNEC Financial Leasing's historical and market records. After evaluation, the business and operations department of CNEC Financial Leasing will conduct due diligence on the customers and the projects.
- (iii) After the preliminary review process is passed by the risk and compliance department, the application will be submitted to the management for decision making. The management will decide whether to execute the project after comprehensive consideration based on factors such as financing option, capital cost and project risk.

Mechanism in determining loan terms

After the due diligence process, the business and operations department of CNEC Financial Leasing will provide preliminary quotation for client's consideration based on the estimated cost of capital of CNEC Financial Leasing, return assessment and approval by the management.

CNEC Financial Leasing will also evaluate different transaction structures and the relevant leasing and financing options. Lease terms including time frame, the amount of the lease payment, the payment schedule, and financing terms including interest rate, duration and the amount of financing will also be considered for the purpose of making an overall assessment of the legal and operational risks of a particular transaction. Interest rate risk, counterparty and credit risk, the level of debt, and the residual value risk of the subject assets will also be assessed at this stage. Cash flow analysis will also be performed to assess the reliability of the primary source of repayment.

CNEC Financial Leasing will proceed to obtain preliminary indications from the financial institutions for the financing arrangements (if any). CNEC Financial Leasing will generally require indications from at least three financial institutions on the proposed financial arrangement.

Approval process for granting loans

- (i) After confirmation of principal terms with the customers, the business and operations department of CNEC Financial Leasing will submit the project report to the risk review and decision committee for approval. If approval is obtained, recommendation to the board of directors of CNEC Financial Leasing can be made. After the approval of the board of directors of CNEC Financial Leasing is obtained, the business and operations department of CNEC Financial Leasing will then proceed to prepare the agreement and relevant document on the basis of the negotiated and approved terms of the asset acquisition, lease and the financing of the finance lease (if any).
- (ii) Following the determination of the specifications and the detailed terms of the financing arrangements (if any), CNEC Financial Leasing will proceed to coordinate with different parties for the finance lease and financing. The process represents the collaborative efforts of different departments to ensure that all the related arrangements will be completed according to the planned schedule. The finance and treasury department of CNEC Financial Leasing grants financing according to the financing conditions and timetable of the signed finance lease agreement and the financing of the finance lease agreement (if any).
- (iii) Furthermore, all the financial leases and factoring business will be subject to further approval by the board of directors of the Company if the transaction may trigger any disclosure and/or shareholder's approval requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Monitoring loan repayment and recovery

The asset management department of CNEC Financial Leasing monitors the receipt of the lease payment from the customers, and closely monitors if there is any delay in the lease payment by the customers and follow-up actions to be taken promptly in case of such delay. CNEC Financial Leasing will closely monitor the financial condition and operation of the customers and (if applicable) the guarantors (collectively, the “**Obligors**”) by, amongst other things, requesting financial statements of the Obligor semi-annually and keeping track of the Obligors in public domain for analysis. Annual on-site checks at the Obligors’ premise will be carried out to check the operating condition of the Obligors, project progress and condition of the leased assets, all of which will be documented accordingly. CNEC Financial Leasing will also obtain other relevant information from industry analysis, online information and research report, in order to evaluate the creditability of the Obligors and identify any potential default risk and based on the result of such evaluations, and to timely implement measures such as on-site checks (if and when necessary), replenishment of leased assets, amendments to the terms of the lease agreement, seizure of the leased assets or termination of the lease agreement.

Taking actions on delinquent loans

If there is overdue payment, the business and operations department and asset management department of CNEC Financial Leasing will keep a close contact with customers and creditors to keep the relevant parties informed of the current development and seek a proper solution to resolve or mitigate the risk exposure of CNEC Financial Leasing. Upon the enquiry to the customer, CNEC Financial Leasing may at its own discretion grant a limited time extension, usually not exceeding three months to the customer. Upon expiry of the time extension period, CNEC Financial Leasing will send demand letters to the defaulting customers. In the event of a default, CNEC Financial Leasing may also negotiate settlement proposals with the customer. Where settlement proposals cannot be agreed, or where the customer fails to honour the commitments under the settlement proposals, or the customer lost contact with CNEC Financial Leasing, CNEC Financial Leasing may institute legal proceedings against the customer and seek to enforce the secured assets to recover the principal and outstanding interest. In determining the time extension, the settlement proposals and the possible enforcement action, we will have regard to, amongst other things, (i) the loan-to-value ratio of the loan (including interest), (ii) the costs of legal action, and (iii) the probability and ability of realizing the underlying security.

Impairment and write-off of loans

For the year ended 31 December 2021, the Group has recorded no impairment loss (2020: 0) and no write-off of loans (2020: 0) from the financial lease and factoring business.

Concentration of loans to major clients

As at 31 December 2021, the Group has a moderate level of concentration of credit risk as 13% (2020: 18%) and 47% (2020: 59%) of the total finance lease receivables and loan receivables was due from the Group's largest customer and the five largest customers of the financing segment respectively. The Group's financing segment concentration risk of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2020: 100%) of the total finance lease receivables and loan receivables.

The Board confirmed that the supplemental information provided in this announcement does not affect any other information contained in the Annual Report 2021 and, save as disclosed above, the contents of the Annual Report 2021 remain unchanged.

By Order of the Board
China Nuclear Energy Technology Corporation Limited
Shu Qian
Chairman

Hong Kong, 8 July 2022

As at the date of this announcement, the executive Directors of the Company are Mr. Shu Qian (Chairman), Mr. Wu Yuanchen (Vice Chairman), Mr. Li Hongwei (Vice Chairman), Mr. Liu Genyu (Co-Chief Executive Officer), Ms. Huang Yan, Ms. Liu Jianrong; and the independent non-executive Directors of the Company are Dr. Xu Shiqing, Mr. Kang Xinquan and Dr. Su Lixin.