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中国核建

CHINA NUCLEAR INDUSTRY 23 INTERNATIONAL CORPORATION LIMITED

中國核工業二三國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 611)

**CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF FRAMEWORK AGREEMENT
AND SUB-CONTRACTING AGREEMENT**

WITH 中國核工業二三建設有限公司

(CHINA NUCLEAR INDUSTRY 23 CONSTRUCTION COMPANY LIMITED*)

Financial Adviser to the Company



On 14 November 2012 (after trading hours), CNI23 Overseas, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with CNI23, pursuant to which CNI23 Overseas has agreed to engage CNI23 as a construction sub-contractor exclusively to CNI23 Overseas' construction works for the Construction Project in the Site during the term of the Framework Agreement.

On 14 November 2012 (after trading hours) and after signing of the Framework Agreement, CNI23 Overseas, a wholly-owned subsidiary of the Company, entered into the Sub-contracting Agreement with CNI23, pursuant to which the detailed terms for the construction works required to be provided by CNI23 are provided as required by the Framework Agreement.

As at the date of this announcement, CNI23 HK holds approximately 28.25% shareholding interests of the Company and together with China He Investment, a party acting in concert with it, hold approximately 37.66% shareholding interests of the Company. CNI23 holds 100% shareholding interests of CNI23 HK and therefore is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Framework Agreement and the Sub-contracting Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the Proposed Annual Caps are less than 5% and the total amount for the Proposed Annual Caps is less than HK\$10,000,000, the Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but exempted from the Independent Shareholders' approval requirement.

INTRODUCTION

Reference is made to the voluntary announcement made by the Company on 15 October 2012 ("Voluntary Announcement") in respect of a Construction Project in the Site. Subsequent to the signing of the Construction Agreement and the Guarantee Agreement (details of which are set out in the Voluntary Announcement), CNI23 Overseas has entered into the Framework Agreement and the Sub-contracting Agreement with CNI23 pursuant to which CNI23 is appointed as the exclusive sub-contractor to carry out the construction works for CNI23 Overseas in the Site.

THE FRAMEWORK AGREEMENT

On 14 November 2012 (after trading hours), CNI23 Overseas, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with CNI23, pursuant to which CNI23 Overseas has agreed to engage CNI23 as a construction sub-contractor exclusively to CNI23 Overseas' construction works for the Construction Project in the Site during the term of the Framework Agreement. The major terms of the Framework Agreement are set out below:

Date

14 November 2012 (after trading hours)

Parties

- (1) CNI23 Overseas; and
- (2) CNI23.

As at the date of this announcement, CNI23 HK holds approximately 28.25% shareholding interests of the Company and together with China He Investment, a party acting in concert with it, hold approximately 37.66% shareholding interests of the Company. CNI23 holds 100% shareholding interests of CNI23 HK and therefore is a connected person of the Company within the meaning of the Listing Rules.

Term

The Framework Agreement commences from the date on which CNI23 Overseas obtained the consent from COOEC-ENPAL for sub-contracting the Construction Project to CNI23 and shall end on 30 December 2012 or the date on which the Construction Project has been completed and CNI23 Overseas shall have obtained the certificate of satisfaction issued by the main contractor (whichever is later) or such other date as may be agreed by CNI23 Overseas and CNI23.

Nature of Transactions

Pursuant to the Framework Agreement, CNI23 agrees to:

- (1) provide construction and installation works, including but not limited to construction works, installation of equipment and facilities, pipes installation, electrical equipment and meters installation, insulation and non-corrosive engineering work, testing, repair and maintenance works;
- (2) supervise and manage of construction works;
- (3) supply construction equipment and designated materials;
- (4) purchase materials and consumables;
- (5) supply personnel for management, technical and construction workers;
- (6) provide transportation services for the construction equipment and materials and the related services;
- (7) provide water, electricity and related facilities, provisional power equipment and facilities and repair and maintenance services at the Sites;
- (8) provide miscellaneous services such as office equipment, telecommunications systems, living facilities for staff, security, insurance and other related services; and
- (9) provide such other construction works as may be required by CNI23 Overseas from time to time.

The Framework Agreement is a master agreement which sets out the principles of the construction works to be carried out by CNI23 for CNI23 Overseas in relation to the Construction Project upon which detailed terms (including the contract value) are to be determined between the parties by way of entering into a separate sub-contracting agreement or such other agreement(s) as CNI23 Overseas may require. Pursuant to the Framework Agreement, the parties have entered into the Sub-contracting Agreement which provides the detailed terms of the construction works required to be carried out by CNI23 in respect of the Construction Project. Please refer to the section headed “Sub-Contracting Agreement” below for further information. According to the Framework Agreement, the parties agree that such detailed terms shall be fair and reasonable and on normal commercial terms which are no less favourable than the terms which can be obtained by CNI23 Overseas from independent third parties for the similar construction projects.

Condition Precedent

The Framework Agreement is conditional, and shall take effect, upon the consent obtained from COOEC-ENPAL for sub-contracting the Construction Project to CNI23 under the Construction Agreement. Such consent has been obtained on 14 November 2012.

THE SUB-CONTRACTING AGREEMENT

On 14 November 2012 (after trading hours) and after signing of the Framework Agreement, CNI23 Overseas, a wholly-owned subsidiary of the Company, entered into the Sub-contracting Agreement with CNI23, pursuant to which the detailed terms for the construction works required to be provided by CNI23 for the Construction Project are provided as required by the Framework Agreement. The major terms of the Sub-contracting Agreement are set out below:

Date

14 November 2012 (after trading hours) and after signing of the Framework Agreement

Parties

- (1) CNI23 Overseas; and
- (2) CNI23.

As at the date of this announcement, CNI23 HK holds approximately 28.25% shareholding interests of the Company and together with China He Investment, a party acting in concert with it, hold approximately 37.66% shareholding interests of the Company. CNI23 holds 100% shareholding interests of CNI23 HK and therefore is a connected person of the Company within the meaning of the Listing Rules.

Term

The Sub-contracting Agreement commences from the date on which CNI23 Overseas obtained the consent from COOEC-ENPAL for sub-contracting the Construction Project to CNI23 (i.e. 14 November 2012) and shall end on 30 December 2012 or the date on which the Construction Project has been completed and CNI23 Overseas shall have obtained the certificate of satisfaction issued by the main contractor (whichever is later) or such other date as may be agreed by CNI23 Overseas and CNI23.

Nature of Transactions

Pursuant to the Sub-contracting Agreement, CNI23 agrees to provide the services set out in the sub-paragraph “Nature of Transactions” of the section headed “The Framework Agreement” and the detailed requirements for the works are set out in the Sub-contracting Agreement.

Condition Precedent

The Framework Agreement is conditional, and shall take effect, upon the date of effectiveness of the Framework Agreement (i.e. 14 November 2012).

Other Major Terms

The other major terms of the Sub-contracting Agreement are as follows:

1. CNI23 is required to comply with the works required to be done by CNI23 Overseas as set out in the Construction Agreement (unless otherwise instructed by CNI23 Overseas) and also the tender document submitted by COOEC-ENPAL.
2. The total contract value for the Sub-contracting Agreement is RMB7,780,895.25 (equivalent to approximately HK\$9,589,115) and the contract value shall be paid by CNI23 Overseas to CNI23 according to the milestones for the construction works completed in accordance with the Sub-contracting Agreement. CNI23 Overseas shall pay the relevant amounts according to the milestones to CNI23 after its receipt of the relevant amounts under the Construction Agreement from COOEC-ENPAL. In the event that the owner of the Site or COOEC-ENPAL shall require the construction works to be changed which results in the contract value between COOEC-ENPAL and CNI23 Overseas to be changed, both CNI23 Overseas and CNI23 shall negotiate on the contract value of the Sub-contracting Agreement accordingly. CNI23 shall be responsible for the payment of its own tax.
3. CNI23 Overseas shall have the discretion to determine whether or not the equipment and materials are to be supplied by CNI23 Overseas directly or to be purchased by CNI23. In the event that CNI23 Overseas shall purchase directly, CNI23 Overseas shall have the right to adjust the contract value of the Sub-contracting Agreement or the relevant cost amount of the work-done by CNI23 accordingly.
4. Notwithstanding the signing of the Sub-contracting Agreement, the obligations of CNI23 under the Guarantee Agreement will not be affected.

PROPOSED ANNUAL CAPS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2012

The following table sets out the Proposed Annual Caps of the Continuing Connected Transactions under the Framework Agreement and Sub-contracting Agreement for the financial year ending 31 December 2012.

	For the financial year ending 31 December 2012 Proposed Annual Caps (RMB)
Continued Connected Transactions	
(1) provision of construction and installation works, including installation of equipment and facilities, pipes installation, electrical equipment and meters installation, insulation and non-corrosive engineering work	4,230,000
(2) supervision and management of construction works	780,000
(3) supply of construction equipment and designated materials	630,000
(4) purchase of materials and consumables	420,000
(5) supply of personnel for management, technical and construction workers	870,000
(6) provision of transportation services for the construction equipment and materials and the related services	490,000
(7) provision of water, electricity and related facilities, provisional power equipment and facilities and repair and maintenance services	150,000
(8) provision of miscellaneous services such as office equipment, telecommunications systems, living facilities for staff, security, insurance and other miscellaneous facilities and expenses	260,000
Total amount:	7,830,000 (equivalent to approximately HK\$9,649,631)

BASIS IN DETERMINING THE PROPOSED ANNUAL CAPS

Prior to the signing of the Framework Agreement and the Sub-contracting Agreement, CNI23 Overseas and the Group have not carried out any transactions with CNI23 as described in the paragraph “Nature of Transactions” of the section headed “The Framework Agreement” of this announcement. In determining the Proposed Annual Caps for the Continuing Connected Transactions for the financial year ending 31 December 2012, the Board has based on their estimates on Sub-contracting Agreement. Important and objective assumptions and factors, though not exhaustive but were arrived at after due and careful consideration of data currently in hand, are set out as below:

- (i) expected quantity of materials, equipment, facilities, utilities and services required to be provided by CNI23 for the Construction Project pursuant to the Sub-contracting Agreement;
- (ii) the expected price of relevant materials, equipment, facilities, utilities and services; and
- (iii) a buffer to cater for the mild fluctuation in price of the materials, equipment, facilities, utilities and services, inflation and foreign exchange rate.

The pricing policy for each of the Continuing Connected Transactions has been determined based on normal commercial terms which are no less favourable than the terms which can be obtained by CNI23 Overseas from independent third parties for the similar construction projects. Pricing has been agreed upon between the parties for each transaction by reference to the aforementioned pricing policy through arm’s length negotiations.

REASONS FOR AND BENEFIT OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in property investment, hotel and restaurant operations in Hong Kong. CNI23 Overseas, indirect wholly-owned by the Company, is an investment holding company.

It is the corporate strategy of the Group to continue to identify investment opportunities with the aim to diversify its business to a section which is less susceptible to global financial markets while at the same time has a steady revenue stream. The Group already has investment in an associated company, Zhong He Libert, which is principally engaged in the manufacturing and sales of prefabricated pipes and related equipment for uses by chemical plants and energy plants in the PRC and overseas. On 15 October 2012, CNI23 Holdings has completed the acquisition of 26.5% equity interests of CNI23 Nuclear Power Maintenance which principally engages in inspection, maintenance, repair, construction, installation and provision of expertise in such work for nuclear power plants and also provision of construction work for non-nuclear power companies.

As announced by the Company on 15 October 2012, CNI23 Overseas has entered into the Construction Agreement with COOEC-ENPAL in relation to the construction of a captive power station in the Site. CNI23 Overseas has also entered into the Guarantee Agreement with COOEC-ENPAL and CNI23 whereby CNI23 guaranteeing the obligations of CNI23 Overseas under the Construction Agreement with COOEC-ENPAL. Please refer to the announcement of the Company dated 15 October 2012 for details. As CNI23 Overseas requires the expertise of CNI23 to assist it in carrying out the construction works required under the Construction Agreement with COOEC-ENPAL, the Company considers that it is for the Group’s benefit to enter into the Framework Agreement and the Sub-contracting Agreement with CNI23.

CNI23 has expertise in this regard. CNI23 is a state-owned enterprise established in the PRC in 1958 and is one of the largest nuclear power plants installation corporations in the PRC. CNI23 is awarded by the PRC government as the main contractor for construction of nuclear plant with first class qualification. During more than 50 years of development, CNI23 has been engaged in nuclear power projects, nuclear research projects and non-nuclear projects such as petrochemical and electrical installation projects in the PRC. It has been awarded national prizes including the Luban Prize.

The Directors consider that the transactions contemplated under the Framework Agreement and the Sub-contracting Agreement will allow the Group to maximize the profits and bring synergy effect both to the Group and CNI23, thereby facilitating the expansion of the Group's businesses.

Mr. Dong Yuchuan, a non-executive Director and the chairman of the Company, is also the Chairman of the Board and Director General of CNI23, which wholly owns CNI23 HK; Mr. Lei Jian, an executive Director, is a director of China He Investment, a party acting in concert with CNI23 HK; Mr. Han Naishan, an executive Director and is also the Deputy Director General and Chief Engineer of CNI23; Mr. Guo Shuwei, an executive Director, is a director of CNI23 HK and also the General Manager of the International Department of CNECC and CNI23; and Mr. Song Limin, an executive Director, is the secretary to the Director General of CNI23. Accordingly, Messrs. Dong Yuchuan, Lei Jian, Han Naishan, Guo Shuwei and Song Limin had abstained from voting at the Board meeting in respect of the Framework Agreement, the Sub-contracting Agreement and the transactions contemplated thereunder. The Board confirms that except for Messrs. Dong Yuchuan, Lei Jian, Han Naishan, Guo Shuwei and Song Limin, none of the other Directors had any material interest in the Framework Agreement, the Sub-contracting Agreement and the transactions contemplated thereunder. Accordingly, none of the other Directors, except for the abovementioned Directors, was required to abstain from voting on the Board resolutions in relation to the Framework Agreement, the Sub-contracting Agreement and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors and except for Messrs. Dong Yuchuan, Lei Jian, Han Naishan, Guo Shuwei and Song Limin who had abstained from voting at the Board meeting approving the Framework Agreement, the Sub-contracting Agreement and the transactions contemplated thereunder due to the reasons stated above) consider that Framework Agreement and the Sub-contracting Agreement were entered into in the ordinary course of business of the Group and on normal commercial terms, and the terms and conditions therein (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CNI23 HK holds approximately 28.25% shareholding interests of the Company and together with China He Investment, a party acting in concert with it, hold approximately 37.66% shareholding interests of the Company. CNI23 holds 100% shareholding interests of CNI23 HK and therefore is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Framework Agreement and the Sub-contracting Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the Proposed Annual Caps are less than 5% and the total amount for the Proposed Annual Caps is less than HK\$10,000,000, the Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but exempted from the Independent Shareholders' approval requirement.

DEFINITIONS

In the announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“China He Investment”	China He Investment (Hong Kong) Company Limited 中核投資(香港)有限公司, a company incorporated in Hong Kong with limited liability;
“CNECC”	中國核工業建設股份有限公司 (transliterated as China Nuclear Engineering Corporation Co., Ltd.*), a state-owned enterprise established in the PRC and owns 80% of CNI23;
“CNI23”	中國核工業二三建設有限公司 (transliterated as China Nuclear Industry 23 Construction Company Limited*), a state-owned enterprise established in the PRC;
“CNI23 HK”	China Nuclear Industry 23 Construction (Hong Kong) Company Limited 中國核工業二三建設(香港)有限公司, a company incorporated in Hong Kong with limited liability;
“CNI23 Holdings”	CNI23 Holdings Company Limited (中核二三控股有限公司), a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company;
“CNI23 Nuclear Power Maintenance”	深圳中核二三核電檢修有限公司 (Shenzhen CNI23 Nuclear Power Maintenance Co., Ltd.*), a sino-foreign equity joint venture established in the PRC;
“CNI23 Overseas”	CNI23 Overseas Development Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“Company”	China Nuclear Industry 23 International Corporation Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the same meaning ascribed thereto in the Listing Rules;
“Construction Agreement”	the construction agreement dated 15 October 2012 entered into between CNI23 Overseas and COOEC-ENPAL in relation to the Construction Project;

“Construction Project”	the construction of a captive power station in the Site;
“Continuing Connected Transactions”	the transactions between CNI23 Overseas and CNI23 as set out in the paragraph headed “PROPOSED ANNUAL CAPS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2012” in this announcement;
“COOEC-ENPAL”	COOEC-ENPAL Engineering Co., Ltd. 海工英派尔工程有限公司, a limited liability company established in the PRC;
“Director(s)”	director(s) of the Company;
“Framework Agreement”	the framework agreement dated 14 November 2012 entered into between CNI23 Overseas and CNI23 in relation to CNI23 Overseas sub-contracting the construction works for the Construction Project to CNI23;
“Group”	the Company and its subsidiaries;
“Guarantee Agreement”	the guarantee agreement dated 15 October 2012 entered into between CNI23 Overseas, CNI23 and COOEC-ENPAL;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholders”	Shareholders other than CNI23 HK and its associates;
“Iraq”	the Republic of Iraq;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	The People’s Republic of China, for the sole purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan;
“Proposed Annual Caps”	the estimated total annual monetary value of the Continuing Connected Transactions for the financial year ending 31 December 2012;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Site”	Missan Oil Fields of Buzurgan area in Iraq;

“Sub-contracting Agreement”	the sub-contracting agreement dated 14 November 2012 entered into between CNI23 Overseas and CNI23 in relation to CNI23 Overseas sub-contracting the construction works for the Construction Project to CNI23 which sets out the detailed terms and works required to be done by CNI23 as required by the Framework Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Zhong He Libert”	江蘇中核利柏特股份有限公司 (transliterated as Jiangsu China Nuclear Industry Libert INC.*); and
“%”	per cent.

For the purposes of illustration only, any amount denominated in RMB in this announcement and translated into HK\$ was translated at the rate of RMB0.81143 = HK\$1. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.

By order of the Board
China Nuclear Industry 23
International Corporation Limited
DONG Yuchuan
Chairman

Hong Kong, 14 November 2012

As at the date of this announcement, the Directors of the Company are: Mr. Dong Yuchuan, who is the chairman and a non-executive Director; Mr. Chan Shu Kit, who is the vice-chairman and an executive Director; Mr. Lei Jian, Mr. Han Naishan, Mr. Guo Shuwei, Mr. Chan Ho Man, Mr. Chung Chi Shing, Ms. Jian Qing and Mr. Song Limin, all of whom are executive Directors; and Mr. Chan Ka Ling, Edmond, Mr. Chang Nan, Dr. Dai Jinping and Mr. Yu Lei, all of whom are independent non-executive Directors.

* *For identification purposes only*