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

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

**If you have sold or transferred** all your shares in CNNC International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CNNC INTERNATIONAL LIMITED**

**中核國際有限公司**

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

**(Stock Code: 2302)**

**CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



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A notice convening the EGM to be held on Friday, 31st May, 2013 at 3:30 p.m. at Boardroom 6, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong is set out on pages 29 and 30 of this circular. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the head office of the Company in Hong Kong at Unit 2809, 28th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM should the Shareholders so wish.

15th May, 2013

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## DEFINITIONS

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

“Annual Cap(s)”	the annual caps under the Framework Agreement
“associates”	as defined in the Listing Rules
“Board”	the board of Directors
“CNNC”	China National Nuclear Corporation (中國核工業集團公司), a controlling Shareholder of the Company
“Company”	CNNC International Limited (中核國際有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 2302)
“Directors”	the directors of the Company
“EGM”	extraordinary general meeting of the Company to be convened to approve, among other things, the Framework Agreement and the transactions contemplated thereunder and the proposed Annual Caps
“First Shanghai”	First Shanghai Capital Limited, a licensed corporation under the SFO which engages in type 6 (advising on corporate finance) regulated activity and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Agreement, the transactions contemplated thereunder including the proposed Annual Caps
“Framework Agreement”	the framework agreement dated 23rd April, 2013 and entered into between the Company and CNNC
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising Mr. Cheong Ying Chew Henry, Mr. Cui Liguo and Mr. Zhang Lei, the independent non-executive Directors, and which will make recommendations to the Independent Shareholders in respect of the Framework Agreement, the transactions contemplated thereunder and the proposed Annual Caps
“Independent Shareholders”	Shareholders other than CNNC and its associates

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## DEFINITIONS

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“Latest Practicable Date”	14th May, 2013, being the latest practicable date for ascertaining information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“TradeTech”	TradeTech of Denver Tech Centre
“UxC”	The Ux Consulting Company, LLC
“%”	per cent



**CNNC INTERNATIONAL LIMITED**

**中核國際有限公司**

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

**(Stock Code: 2302)**

*Chairman and Non-executive Director:*

Mr. Cai Xifu

*Executive Directors:*

Mr. Zhang Hongqing

Ms. Wang Ying

*Non-executive Director:*

Mr. Xu Shouyi

*Independent Non-executive Directors:*

Mr. Cheong Ying Chew Henry

Mr. Cui Ligu

Mr. Zhang Lei

*Registered office:*

P.O. Box 309GT

Ugland House

South Church Street

Grand Cayman

Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Unit 2809, 28th Floor

China Resources Building,

26 Harbour Road

Wanchai

Hong Kong

15th May, 2013

*To the Shareholders*

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 24th April, 2013 in relation to the Framework Agreement.

On 23rd April, 2013, the Company (for itself and on behalf of each of its subsidiaries) entered into the Framework Agreement with CNNC (for itself and on behalf of each of its subsidiaries, where applicable) in relation to the supply of uranium products, engagement of technical support services and administrative support services to be provided by CNNC.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide the Shareholders with, among other things, (i) further information of the Framework Agreement; (ii) a letter from the Independent Board Committee containing its advice and recommendations to the Independent Shareholders in respect of the Framework Agreement; (iii) a letter of advice from First Shanghai to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Framework Agreement; and (iv) a notice of the EGM.

### THE FRAMEWORK AGREEMENT

#### Date

23rd April, 2013

#### Parties

- (1) The Company (for itself and on behalf of each of its subsidiaries)
- (2) CNNC (for itself and on behalf of each of its subsidiaries)

As at the Latest Practicable Date, CNNC Overseas Uranium Holding Limited (中核海外鈾業控股有限公司) is a controlling Shareholder interested in 326,372,273 Shares, representing approximately 66.72% of the issued share capital of the Company. CNNC Overseas Uranium Holding Limited is a direct wholly-owned subsidiary of China Uranium Corporation Limited (中國國核海外鈾業有限公司), which in turn is a wholly-owned subsidiary of CNNC. Accordingly, CNNC is a connected person of the Company as defined under the Listing Rules.

#### Duration

The Framework Agreement shall take effect retrospectively on 1st January, 2013 if the condition precedent becomes fulfilled, and will continue thereafter for a term expiring on 31st December, 2015.

The transactions under the Framework Agreement for the period between 1st January, 2013 up to the Latest Practicable Date were carried out on a small scale only and the aggregate transaction amounts did not exceed HK\$1,000,000 and 5% of the applicable percentage ratios of the Listing Rules as at the Latest Practicable Date and were therefore exempt from the reporting, announcement and Independent Shareholders' approval requirement.

#### Transactions

Pursuant to and during the term of the Framework Agreement:

*(a) Supply of uranium products*

The Group has agreed to sell and CNNC has agreed to purchase from the Group the uranium products during the term of the Framework Agreement. The price per pound of the uranium products shall be determined with reference to the one-month, three-month, six-

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## LETTER FROM THE BOARD

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month, twelve-month arithmetic average prices of both the spot price index and long-term price index published weekly or monthly by the UxC and TradeTech and the rational price expectation of the Group and CNNC from time to time.

The Group will make reference to the corresponding spot price or long term price depending on the term of delivery. For instance, the six-month long term price will be referred to for transactions with delivery term of six months. The parties will refer to the latest index published by either UxC or TradeTech on a monthly or weekly basis. Since both sources are industry recognised references for market pricing, the adoption of either of them should reflect the then market price of the uranium products.

There may also be circumstances where supplies are limited with few transactions actually completed in the market and the price indices may not accurately reflect the then market price of uranium products. Under such circumstances, the Group and CNNC would, on an arms-length and commercial basis and after taking into account factors including but not limited to the then quotations from independent buyers or sellers, agree on a rational price, which is expected to be higher than the then industry price indices.

The prices payable to the Group will be settled by CNNC within one month from completion of each purchase of uranium products.

*(b) Engagement of technical support services*

Pursuant to the Framework Agreement, the Group will engage CNNC to provide technical support services in relation to the nuclear and uranium resources projects of the Group upon request by the Company for each of the three financial years ending 31st December, 2013, 2014 and 2015 at a fee not higher than the prevailing market rate of the similar services.

The fee payable to CNNC will be settled by the Group within 30 days upon presentation of invoices by CNNC after satisfactory completion of the services from time to time.

*(c) Engagement of office accommodation and vehicle transportation support services*

Pursuant to the Framework Agreement, the Group will engage CNNC to provide office accommodation and vehicle transportation support services in relation to the operations in Beijing, the PRC of the Group during the term of the Framework Agreement at a fee not higher than the prevailing market rate of the similar services.

The fee payable to CNNC will be settled by the Group within 30 days upon presentation of invoices by CNNC after satisfactory completion of the services from time to time.

For engagement of technical support services and office accommodation and vehicle transportation support services by CNNC, the Group shall obtain market quotes (as opposed from quotes by CNNC, as far as possible, two quotes from independent third parties (as defined under the Listing Rules) to the Group) to determine the prevailing

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## LETTER FROM THE BOARD

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market rates of these services under the Framework Agreement. If there are limited quotes in the open market or no service provider is available for the services, the Group will request CNNC to give its quote for similar services provided to its independent third parties (as defined under the Listing Rules) to determine the prevailing market rates.

The terms of the transactions under the Framework Agreement will be determined on arms length negotiation and on normal commercial terms.

### Condition Precedent

The Framework Agreement and the proposed Annual Caps are conditional upon the approval of the Independent Shareholders at the EGM.

### PROPOSED ANNUAL CAPS AND DETERMINATION

The proposed Annual Caps for the transactions with CNNC for the three financial years ending 31st December, 2013, 2014 and 2015 are set out as follows:

Transaction	Amounts in HK\$'000		
	Proposed Annual Caps for the year ending		
	31st December, 2013	31st December, 2014	31st December, 2015
Supply of uranium products	600,000	800,000	1,100,000
Engagement of technical support services	30,000	25,000	20,000
Engagement of office accommodation and vehicle transportation support services	2,350	2,350	2,350
<b>Aggregate amount of the Annual Caps:</b>	<b><u>632,350</u></b>	<b><u>827,350</u></b>	<b><u>1,122,350</u></b>

In determining the proposed Annual Caps of the transactions under the Framework Agreement for each of the three financial years ending 31st December, 2013, 2014 and 2015, the Board has taken account for reference of the following principal factors:

- (a) in respect of the supply of uranium products, (i) the maximum consideration of uranium products as fixed in the Framework Agreement; (ii) the estimated growth of the transaction volume taking into account of the anticipated increase in the amount of uranium products to be generated by the Group; and (iii) the prevailing market price of uranium products;

The relevant growth trends and the maximum considerations, which in turn are the Annual Caps in respect of the supply of uranium products, were determined with reference to, amongst others, (i) the capability of the Group to source and sell uranium products as reflected in the pro rata historical trading amount; (ii) CNNC is a large scale state-owned nuclear enterprise under the PRC central government and a major consumer of uranium products in the PRC market; and



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## LETTER FROM THE BOARD

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(iii) the discussion with CNNC in relation to its planned maximum potential dollar amount of uranium products allocated to be sourced from the Group, which will be one of the uranium suppliers of CNNC, for each of the upcoming years to cope with the demand from the existing and new nuclear power plants of CNNC.

The Annual Caps in respect of the supply of uranium products amount to HK\$600,000,000, HK\$800,000,000 and HK\$1,100,000,000 for each of the years ending 31st December, 2013, 2014 and 2015, respectively. CNNC has been operating nuclear power plants in the PRC and several new nuclear power plants of CNNC will commence operation from 2013 (the “**New Power Plants**”). Each of the Annual Caps is calculated based on the multiplication of (i) the annual volume demand of the New Power Plants which have commenced or would commence operation for the subject year after taking into account the New Power Plants have to begin procurement since half-year before their commencement of operation; and (ii) the unit price which is comparable with the unit price transacted with independent third parties in the recent period. Taking into account, in particular, (i) the annual demand of the New Power Plants; (ii) the uranium products require up to half a year to process before actual usage at the New Power Plants, therefore the New Power Plants have to begin procurement since half-year before their commencement of operation; and (iii) the adopted unit price is comparable with the unit price transacted with independent third parties in the recent period.

On the supply side, the Group has commenced trading of uranium products since the second half of 2012 and achieved a turnover of approximately HK\$417,000,000 for the six months ended 31st December, 2012. On a pro rata basis, the turnover from the trading of uranium products would amount to approximately HK\$834,000,000 for the year ended 31st December, 2012. The Group has thus the potential capability to source and supply HK\$800,000,000 or even higher worth of uranium products for this new business in the upcoming years.

Although the majority of revenue from the uranium trading segment of the Group may be derived from sales to CNNC, the focused sales to CNNC are reasonable as (i) the uranium products are goods demanded in the market, the Group could easily switch from selling to CNNC to selling to other independent third parties (as defined in the Listing Rule) at any time and the risks arising from the focused sales to CNNC is minimal; (ii) in respect of profitability, the sales to CNNC would be on terms that are no less favourable than those offered to independent third parties (as defined in the Listing Rule), which were profitable for the year ended 31st December, 2012, and might allow the Group to save marketing and selling expenses for the procurement of and negotiation with customers from around the world, implying the more focused sales could potentially be slightly more profitable than selling to a diverse customer base; (iii) in respect of industry demand, CNNC is a large scale nuclear enterprise in the PRC and demands considerable amount of uranium products from time to time in the industry,

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## LETTER FROM THE BOARD

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which justifies CNNC as a potential long term stable customer that the Group could focus its sales efforts and develop close business relationship; (iv) in respect of credit risk, CNNC is a large scale state-owned enterprise under the PRC central government and may have lower credit risk as compared with private enterprises; and (v) in respect of revenue diversification, the development of the Mongolia Project (as defined below) is ongoing and could be a potential major revenue source of the Group after its commencement of commercial operation.

Apart, the reliance of CNNC as the customer of the Group pursuant to the Framework Agreement will not be worsening during the subsistence of the Framework Agreement for the period from 1st January, 2013 to 31st December, 2015 for the reasons that (i) it is the internal control policy of the Group that it will not have any single customer accounts for over 80% of the turnover of the Group; (ii) the Group will enter into long term supply schedule and committed contracts with its customers to make sure the turnover of the Group will not suffer significantly if any particular customer ceases to acquire products from the Group; and (iii) the Group will source customers from difference geographical locations.

For the above reasons, the Directors (including the independent non-executive Directors but excluding Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi who have elected to abstain from voting) consider that the supply of uranium products to CNNC will not constitute over-reliance on the part CNNC by the Group and the related Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

- (b) in respect of the engagement of technical support services to be provided by CNNC in relation to the nuclear and uranium resources projects of the Group, (i) the maximum consideration of the above services as fixed in the Framework Agreement; (ii) the estimated progress of the nuclear and uranium resources projects of the Group; and (iii) the prevailing market rate of the above services.

As the estimated total pre-production capital cost in connection with the Mongolia Project (as defined below) is approximately HK\$2,184,000,000. The Group anticipates to obtain the relevant mining licence in the second half in 2013 for the period up to 31st December, 2015, the Group will primarily require feasibility study and pre-production design services from CNNC for the pre-production of the Mongolia Project (as defined below). Taking into account, in particular, (i) the total pre-production capital cost of the Mongolia Project (as defined below); (ii) with the development of the Mongolia Project (as defined below) progresses over time, the required annual amount of pre-production technical support services, particularly feasibility study and pre-production design services, will decrease; and (iii) the discussion with CNNC in relation to its expected maximum potential dollar amount of relevant services to be provided to

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## LETTER FROM THE BOARD

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the Group for each of the upcoming years, the Group determined the relevant growth trends and the maximum considerations, which in turn are the Annual Caps for the technical support services; and

- (c) in respect of the engagement of the administrative support services to be provided by CNNC in relation to the office accommodation and vehicle transportation in Beijing, the PRC of the Group, (i) maximum consideration of the above services as fixed in the Framework Agreement; (ii) the estimated progress of the office accommodation and vehicle transportation support requirements of the Group; and (iii) the prevailing market rate of the above services.

As the historical transaction amount for the period from 1st January to 24th April, 2013 amounted to approximately HK\$728,449. On a pro rata basis, the transaction amount for the year ending 31st December, 2013 would amount to approximately HK\$2,330,000. Taking into account, in particular, (i) the pro rata transaction amount for the year ending 31st December, 2013; (ii) the operating scale in the PRC is currently not expected to be materially expanded in the upcoming years; and (iii) the discussion with CNNC in relation to the expected continuation of the existing fees for each of the upcoming years, the Group determined the relevant growth trends and the maximum considerations, which in turn are the Annual Caps for the administrative support services.

The Directors (including the independent non-executive Directors but excluding Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi who have elected to abstain from voting) consider that the terms of the Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **REASONS AND BENEFITS FOR THE TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT**

CNNC is principally engaged in nuclear related products, and construction and operation of nuclear power plants which requires uranium products for its operation, and has extensive technical knowledge in the construction of uranium related projects. As at the date of the Latest Practicable Date, the Group holds two existing uranium projects, one in Mongolia, and another, which the Group holds 37.2% ownership, in Niger. As at the Latest Practicable Date, the Group has been granted a mining licence in respect of its project in Niger (please refer to the circular dated 4th March, 2010 issued by the Company, in particular, pages 195 to 198 for details of the mining licence) and also exploration licences (please refer to the circular dated 30th June, 2009 issued by the Company, in particular, Appendix IV A-20 and 21 for details of the exploration licences) in respect of its project in Mongolia (“**Mongolia Project**”). It was in the process of obtaining a mining licence in respect of the Mongolia Project. Construction work of the uranium project in Mongolia is expected to commence in the near future, whilst the production of uranium ore located in Niger has commenced in 2011. The Directors consider that the Framework Agreement can enhance the technical support on the Group’s uranium projects and can strengthen the business of the Group to endow Shareholders with a stable and good return.

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## LETTER FROM THE BOARD

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The continuing connected transactions contemplated under the Framework Agreement are expected to occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi had elected to abstain from voting at the meeting of the Directors held on 27th March, 2013 (the “**Meeting of the Directors**”) to consider the Framework Agreement, the transactions contemplated therein and also the Annual Caps.

Each of Mr. Cai Xifu, Mr. Zhang Hongqing and Mr. Xu Hongchao (resigned on 1st April, 2013) had served or is currently serving various subsidiaries within the group of companies of CNNC. Mr. Xu Shouyi is a non-executive Director of the Company. He was a director of the audit department of China Nuclear Energy Industry Corporation (“**CNEIC**”) and currently is the general manager of Yenaut Industrial Co., Ltd. (“**Yenaut**”). Both CNEIC and Yenaut are subsidiaries of CNNC, the contracting party to the Framework Agreement. These Directors elected to abstain from voting at the Meeting of the Directors in order to avoid any possible conflict of interest. None of the Directors has any material interest in the transaction.

The Directors (including the independent non-executive Directors but excluding Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi who have elected to abstain from voting) consider that the Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm’s length basis between the parties on normal commercial terms. The Directors (including the independent non-executive Directors but excluding Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi who have elected to abstain from voting) believe that the terms of the Framework Agreement (including the Annual Caps) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CNNC Overseas Uranium Holding Limited (中核海外鈾業控股有限公司) is a controlling Shareholder interested in 326,372,273 Shares, representing approximately 66.72% of the issued share capital of the Company. CNNC Overseas Uranium Holding Limited is a direct wholly-owned subsidiary of China Uranium Corporation Limited (中國國核海外鈾業有限公司), which in turn is a wholly-owned subsidiary of CNNC.

Accordingly, CNNC is a connected person of the Company as defined under the Listing Rules. As the aggregate amount of the proposed Annual Caps under the Framework Agreement exceeds 5% of one or more of the applicable percentage ratios (as defined in the Listing Rules), the transactions under the Framework Agreement constitute non-exempt continuing connected transactions and are subject to reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A

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## LETTER FROM THE BOARD

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of the Listing Rules. CNNC and its associates will abstain from voting at the EGM of the Company to approve the Framework Agreement, the transactions contemplated thereunder and the proposed Annual Caps.

### GENERAL

As at the Latest Practicable Date, the principal activities of the Group were the exploration and trading of mineral properties.

CNNC is a large-scale state-owned enterprise established in the PRC and principally engaged in the research and development of nuclear related products, nuclear electricity production, nuclear fuel and nuclear technology development and application, and the construction and operation of nuclear power plants.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising of all the independent non-executive Directors has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Framework Agreement and the transactions contemplated thereunder, including the proposed Annual Caps.

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Framework Agreement and the transactions contemplated thereunder, including the proposed Annual Caps has been set out on pages 13 and 14 of this circular.

First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders and a letter from First Shanghai to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Framework Agreement and the transactions contemplated thereunder, including the proposed Annual Caps has been set out in pages 15 to 26 of this circular.

### EGM

The notice of the EGM is set out on page 29 and 30 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the head office of the Company in Hong Kong at Unit 2809, 28th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should the Shareholders so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions at the EGM will be voted on by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Board (including the independent non-executive Directors but excluding Mr. Cai Xifu, Mr. Zhang Hongqing, Mr. Xu Hongchao (resigned on 1st April, 2013) and Mr. Xu Shouyi who have elected to abstain from voting) is of the opinion that the terms of the Framework Agreement and the transaction contemplated thereunder, including the proposed Annual Caps, are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of resolution proposed at the EGM.

### ADDITIONAL INFORMATION

The attention of the Shareholders is drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**CNNC International Limited**  
中核國際有限公司  
**Cai Xifu**  
*Chairman*



**CNNC INTERNATIONAL LIMITED**

**中核國際有限公司**

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

**(Stock Code: 2302)**

15th May, 2013

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 15th May, 2013 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the Framework Agreement and the transactions contemplated thereunder including the proposed Annual Caps and whether such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

First Shanghai has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Framework Agreement were entered into on normal commercial terms; and the terms of the Framework Agreement and the transactions contemplated thereunder including the proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 15 to 26 of this Circular.

Your attention is also drawn to the letter from the Board set out on pages 3 to 12 of the Circular and the additional information set out in the appendix of the Circular.



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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Having considered the terms of the Framework Agreement and the transactions contemplated thereunder including the proposed Annual Caps, and the advice of First Shanghai, we are of the opinion that the Framework Agreement were entered into on normal commercial terms; and the terms of the Framework Agreement and the transactions contemplated thereunder including the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Framework Agreement and the transactions contemplated thereunder including the proposed Annual Caps.

Yours faithfully,  
For and on behalf of  
Independent Board Committee of  
**CNNC International Limited**  
中核國際有限公司

**Cheong Ying Chew**  
**Henry**

**Cui Ligu**

**Zhang Lei**

*Independent Non-executive Directors*



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## LETTER FROM FIRST SHANGHAI

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*The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement and the transactions contemplated thereunder, including the proposed Annual Caps for inclusion in this circular.*



### FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

15th May, 2013

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement and the transactions contemplated thereunder (the “**Continuing Connected Transactions**”), including the proposed Annual Caps, details of which are set out in the circular of the Company to the Shareholders dated 15th May, 2013 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 23rd April, 2013, the Company (for itself and on behalf of each of its subsidiaries) entered into the Framework Agreement with CNNC (for itself and on behalf of each of its subsidiaries, where applicable) in relation to the supply of uranium products to CNNC and the engagement of technical and administrative support services to be provided by CNNC. As detailed in the letter from the Board in the Circular, CNNC is a controlling shareholder of the Company. Accordingly, CNNC is a connected person of the Company as defined under the Listing Rules and the transactions contemplated under the Framework Agreement constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules, which are subject to, amongst others, approval by the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Cheong Ying Chew Henry, Mr. Cui Liguang and Mr. Zhang Lei, has been established to advise the Independent Shareholders in respect of the Framework

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## LETTER FROM FIRST SHANGHAI

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Agreement, the Continuing Connected Transactions and the proposed Annual Caps. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group were true at the time they were made and continued to be true up to the time of the holding of the EGM. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and CNNC and its subsidiaries.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion on the Framework Agreement, the Continuing Connected Transactions and the Annual Caps, we have taken into account the following principal factors and reasons:

#### **1. Background of and reasons for the Continuing Connected Transactions**

The Group is principally engaged in the exploration and trading of mineral properties. The Group has invested in two existing uranium projects, one in Mongolia (the “**Mongolia Project**”), and another, which the Group holds 37.2% ownership, in Niger. The construction work of the Mongolia Project is expected to commence in the near future.

CNNC, being the parent company of the Company, is principally engaged in the business of nuclear related products, and the construction and operation of nuclear power plants which requires uranium products for its operation, and has extensive knowledge in the construction of uranium related projects. According to the website of CNNC, it is a large scale state-owned nuclear enterprise under the PRC central government and has successfully built the first nuclear plant in the PRC and has engaged in the research of uranium mine exploration, mining and refinery.

The three categories of the Continuing Connected Transactions include (i) the supply of uranium products to CNNC; (ii) the engagement of technical support services to be provided by CNNC; and (iii) the engagement of administrative support services to be provided by CNNC.

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## LETTER FROM FIRST SHANGHAI

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*(i) The supply of uranium products to CNNC*

With reference to the annual report of the Company for the year ended 31st December, 2012 (the “**2012 Annual Report**”), the Group did not record any revenue for the year ended 31st December, 2011 under its continuing operations, but had revenue of approximately HK\$417 million for the year ended 31st December, 2012, which was solely generated from the commencement of the uranium trading business. We further note that the uranium trading business recorded segment profit of approximately HK\$30 million, representing a segment profit margin of approximately 7%, for the year ended 31st December, 2012. We are advised by the management of the Group that the Group has established its own business connections in the industry for the sourcing of uranium. Given CNNC is a large scale state-owned nuclear enterprise that demands uranium for its business, the supply of uranium products to CNNC under the Framework Agreement can expand the customer base of the uranium trading business of the Group, which was revenue generating and profitable for the year ended 31st December, 2012.

*(ii) The engagement of technical support services to be provided by CNNC*

According to the letter from the Board in the Circular, the construction work of the uranium project in Mongolia is expected to commence in the near future. As mentioned above, CNNC is a large scale state-owned nuclear enterprise under the PRC central government and CNNC has successfully built the first nuclear plant in the PRC and has engaged in the research of uranium mine exploration, mining and refinery. The procurement of technical support services from CNNC under the Framework Agreement allows the Group to leverage on the technological expertise of CNNC in areas including but not limited to resources exploration, preliminary studies, technology experimentation, project design, project evaluation and consultancy services to develop the Mongolia Project.

*(iii) The engagement of administrative support services to be provided by CNNC*

As detailed in the letter from the Board in the Circular, the procurement of administrative support services from CNNC are for office accommodation and vehicle transportation support services in relation to the operations of the Group in Beijing, the PRC. As stated in the 2012 Annual Report, estimating from the long-term supply and demand and the fact that the goal of the PRC in developing nuclear power remains unchanged, uranium products, as the essential raw materials for nuclear power generation, maintain considerable potential for price increase in the long run. We are advised by the management of the Group that the PRC will be a major market which the Group wishes to further develop and the procurement of administrative support services is for the facilitation of such development.

Taking into account the above factors, in particular, (i) CNNC is a large scale state-owned nuclear enterprise in the PRC with relevant technological expertise; (ii) the supply of uranium products to CNNC can expand the customer

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## LETTER FROM FIRST SHANGHAI

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base of the uranium trading business of the Group, which was revenue generating and profitable for the year ended 31st December, 2012; (iii) the procurement of technical support services from CNNC allows the Group to leverage on the technological expertise of CNNC to develop the Mongolia Project; (iv) the procurement of administrative support services from CNNC are for the facilitation of the business development of the Group in the PRC; and (v) the terms of the Continuing Connected Transactions are fair and reasonable as discussed below, we are of the view that the entering into of the Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

### 2. Principal terms of the Framework Agreement

With reference to the Framework Agreement, set out in the table below is the summary of pricing terms for each of the Continuing Connected Transactions:

<b>Description of transaction</b>	<b>Principal terms</b>
Supply of uranium products to CNNC	The price per pound of the uranium products shall be determined with reference to the one-month, three-month, six-month, twelve-month arithmetic average prices of both the spot price index and long-term price index published weekly or monthly by the UxC and TradeTech and the rational price expectation of the Group and CNNC from time to time. The prices payable to the Group will be settled by CNNC within one month from completion of each purchase of uranium products.
Engagement of technical support services to be provided by CNNC	At a fee not higher than the prevailing market rate of similar services.
Engagement of administrative support services to be provided by CNNC	At a fee not higher than the prevailing market rate of similar services.

In respect of the supply of uranium products to CNNC, the price per pound of the uranium products shall be determined with reference to the one-month, three-month, six-month, twelve-month arithmetic average prices of both the spot price index and long-term price index published by the UxC and TradeTech and the rational price expectation of the Group and CNNC from time to time. The Group will make reference to the corresponding spot price or long term price depending on the term of delivery. For instance, the six-month long term price will be referred to for transactions with delivery term of six months. The parties will refer to the latest index published by either UxC or TradeTech on a monthly or weekly basis. Since both

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## LETTER FROM FIRST SHANGHAI

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sources are industry recognised references for market pricing, the adoption of either of them should reflect the then market price of the uranium products. However, we are also advised by the management of the Group that there may be circumstances where supplies are limited with few transactions actually completed in the market and the industry price indices may not accurately reflect the market price at that point of time. Under such circumstances, the Group and CNNC would, on arms-length and commercial basis after taking into account factors including but not limited to the then quotations from independent buyers or sellers, agree on a rational price, which is expected to be higher than the then industry price indices. We are further advised by the management of the Group that the Group does not intend to sell to CNNC if the selling price is lower than the relevant industry price indices. The prices payable to the Group shall be settled by CNNC within one month from completion of each purchase of uranium products, which we understand to be in line with the credit period of 30 days allowed by the Group to its trade customers as stated in the 2012 Annual Report.

In respect of the procurement of technical and administrative support services from CNNC, the fees shall not be higher than the prevailing market rate of similar services. Details of determining the market rate are set out in the section headed “Internal control measures regarding the Continuing Connected Transactions” below.

In addition, as stated in the letter from the Board in the Circular, the terms of the Continuing Connected Transactions will be determined on arms length negotiation and on normal commercial terms.

Taking to account, in particular, (i) the pricing term in respect of the supply of uranium products to CNNC shall primarily be determined with reference to the relevant industry price indices; (ii) the payment term in respect of the supply of uranium products to CNNC is in line with the credit period allowed by the Group to its trade customers; (iii) the fees in respect of the procurement of technical and administrative support services from CNNC shall not be higher than the prevailing market rate of similar services; and (iv) measures are in place as required under the Listing Rules to govern the internal control of the Group and monitor the Continuing Connected Transactions as detailed in the section headed “Internal control measures regarding the Continuing Connected Transactions” below, we are of the view that the terms of the Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM FIRST SHANGHAI

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### 3. Annual Caps

The following is a summary of the Annual Caps for each of the years ending 31st December, 2013, 2014 and 2015:

	For the year ending 31st December,		
	2013	2014	2015
	HK\$ million	HK\$ million	HK\$ million
Supply of uranium products to CNNC	600	800	1,100
Engagement of technical support services to be provided by CNNC	30	25	20
Engagement of administrative support services to be provided by CNNC	<u>2</u>	<u>2</u>	<u>2</u>
	<u>632</u>	<u>827</u>	<u>1,122</u>

Except for the engagement of administrative support services provided by CNNC since 1st January, 2013 which has constituted a de minimis transaction of the Company under Chapter 14A of the Listing Rules, we are advised by the management of the Group that the Group has not previously entered into any types of transactions under the Framework Agreement with CNNC up to the Latest Practicable Date.

*(i) The supply of uranium products to CNNC*

According to the letter from the Board in the Circular, the relevant growth trends and the maximum considerations, which in turn are the Annual Caps in respect of the supply of uranium products, were determined with reference to, amongst others, (i) the capability of the Group to source and sell uranium products as reflected in the pro rata historical trading amount; (ii) CNNC is a large scale state-owned nuclear enterprise under the PRC central government and a major consumer of uranium products in the PRC market; and (iii) the discussion with CNNC in relation to its planned maximum potential dollar amount of uranium products allocated to be sourced from the Group, which will be one of the uranium suppliers of CNNC, for each of the upcoming years to cope with the demand from the existing and new nuclear power plants of CNNC.

The Annual Caps in respect of the supply of uranium products amount to HK\$600 million, HK\$800 million and HK\$1,100 million for each of the years ending 31st December, 2013, 2014 and 2015, respectively. We are advised by the management of the Group that CNNC has been operating nuclear power plants in the PRC and new nuclear power plants of CNNC are expected to commence operation in each of the years ending 31st December 2013, 2014 and 2015 (the “**New Power Plants**”). We have reviewed the schedule of the expected annual demand of the New Power Plants and we have been advised by the management of the Group that each of the Annual Caps in respect of the supply of uranium products is calculated based on the multiplication of (i) the annual volume



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## LETTER FROM FIRST SHANGHAI

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demand of the New Power Plants which have commenced or would commence operation for the subject year after taking into account the New Power Plants have to begin procurement since half-year before their commencement of operation; and (ii) the unit price which is comparable with the unit price transacted with independent third parties in the recent period. We are further advised by the management of the Group that the uranium products to be sold to CNNC require up to half a year to process before actual usage at the New Power Plants, therefore the New Power Plants have to begin procurement since half-year before their commencement of operation.

In respect of the capability of the Group to source and supply uranium products, we understand that the Group has commenced trading of uranium products since the second half of 2012 and achieved a turnover of approximately HK\$417 million for the six months ended 31st December, 2012. Accordingly, on a pro rata basis, the turnover of the Group from the trading of uranium products would amount to approximately HK\$834 million for the year ended 31st December, 2012. Moreover, we have reviewed the turnover of the Group from the trading of uranium products for the three months ended 31st March, 2013. Taking into account our aforementioned review of the historical turnover amounts, we consider the Group has the potential capability to source and supply the amount of uranium products to meet the Annual Caps for this new business.

In addition, the Annual Caps provide the flexibility to the Group to supply uranium products to CNNC, which is a revenue generating business for the Group, on terms that are fair and reasonable as discussed above.

Based on the aforementioned factors, we consider the Annual Caps in respect of the supply of uranium products for each of the years ending 31st December, 2013, 2014 and 2015 to be reasonable.

Nonetheless, we are advised by the management of the Group that, in the case where (i) the Group is not able to source and sell a notable amount of uranium products; and (ii) the purchase prices offered by CNNC are no less favourable than those offered by independent third parties, the majority of revenue from the uranium trading segment of the Group may be derived from sales to CNNC. After collectively taking into account the following principal factors as advised by the management of the Group, where (i) in respect of business model, given that the uranium products are goods demanded in the market, the Group could easily switch from selling to CNNC to selling to other independent third parties at any time and the risks arising from the focused sales to CNNC is minimal; (ii) in respect of profitability, the sales to CNNC would be on terms that are no less favourable than those offered to independent third parties, which were profitable for the year ended 31st December, 2012, and might allow the Group to save marketing and selling expenses for the procurement of and negotiation with customers from around the world, implying the more focused sales could potentially be slightly more profitable than selling to a diverse

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## LETTER FROM FIRST SHANGHAI

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customer base; (iii) in respect of industry demand, CNNC is a large scale nuclear enterprise in the PRC and demands considerable amount of uranium products from time to time in the industry, which justifies CNNC as a potential long term stable customer that the Group could focus its sales efforts and develop close business relationship; (iv) in respect of credit risk, CNNC is a large scale state-owned enterprise under the PRC central government and may have lower credit risk as compared with private enterprises; and (v) in respect of revenue diversification, the development of the Mongolia Project is ongoing and could be a potential major revenue source of the Group after its commencement of commercial operation, we consider the potential preferential and focused sales to CNNC to be reasonable.

*(ii) The engagement of technical support services to be provided by CNNC*

According to the letter from the Board in the Circular, the relevant growth trends and the maximum considerations, which in turn are the Annual Caps in respect of the procurement of technical support services, were determined with reference to, amongst others, (i) the total pre-production capital cost of the Mongolia Project; (ii) with the development of the Mongolia Project progresses over time, the required annual amount of pre-production technical support services, particularly feasibility study and pre-production design services, will decrease; and (iii) the discussion with CNNC in relation to its expected maximum potential dollar amount of relevant services to be provided to the Group for each of the upcoming years.

The Annual Caps in respect of the procurement of technical support services amount to approximately HK\$30 million, HK\$25 million and HK\$20 million for each of the years ending 31st December, 2013, 2014 and 2015, respectively. We are advised by the management of the Group that the Group anticipates to obtain the mining licence for the Mongolia Project in the second half of 2013 and, for the period up to 31st December, 2015, the Group will primarily require feasibility study and pre-production design services from CNNC for the pre-production of the Mongolia Project. We are further advised by the management of the Group that the declining trend of the Annual Caps is attributable to the reduction in the required amount of technical support services from CNNC, which is mainly due to the gradual completion and the reduction in demand for feasibility study and pre-production design services from CNNC over time along with the progression of the development of the Mongolia Project. With reference to the technical report contained in the circular of the Company dated 30th June, 2009 and as advised by the management of the Group, the total pre-production capital costs of the Mongolia Project amounts to around US\$280 million (equivalent to approximately HK\$2,184 million). We note that the Annual Caps in respect of the procurement of technical support services represent only approximately 1%, 1% and 1% of the abovementioned total pre-production capital costs for each of the years ending 31st December, 2013, 2014 and 2015, respectively.



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## LETTER FROM FIRST SHANGHAI

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In addition, the Annual Caps provide the flexibility, but not the obligation, to the Group to procure technical support services from CNNC, which is a large scale state-owned nuclear enterprise under the PRC central government with relevant technological expertise, at the maximum amount indicated by the Annual Caps and on terms that are fair and reasonable as discussed above.

Based on the aforementioned factors, particularly the maximum amount of technical support services is not material as compared with the total pre-production capital costs, we consider the Annual Caps in respect of the procurement of technical support services for each of the years ending 31st December, 2013, 2014 and 2015 to be reasonable.

*(iii) The engagement of administrative support services to be provided by CNNC*

According to the letter from the Board in the Circular, the relevant growth trends and the maximum considerations, which in turn are the Annual Caps in respect of the procurement of administrative support services were determined with reference to, amongst others, (i) the pro rata transaction amount for the year ending 31st December, 2013; (ii) the operating scale in the PRC is currently not expected to be materially expanded in the upcoming years; and (iii) the discussion with CNNC in relation to the expected continuation of the existing fees for each of the upcoming years. Historical transaction amount in respect of the procurement of administrative support services from CNNC for the period from 1st January to 24th April, 2013, being the date of the announcement in relation to the entering of the Framework Agreement (the “**Initial Period**”), amounted to approximately HK\$0.7 million.

The Annual Caps in respect of the procurement of administrative support services amount to approximately HK\$2 million for each of the years ending 31st December, 2013, 2014 and 2015. We are advised by the management of the Group that the Annual Caps in respect of the procurement of administrative support services from CNNC, on a pro rata basis, are approximately equivalent to the historical transaction amount during the Initial Period. We are also advised by the management of the Group that, for the upcoming years, (i) the demand of administrative support services from CNNC is not expected to materially change given the operating scale of the Group in the PRC is currently not expected to be materially expanded; and (ii) the existing fees for the procurement of administrative support services from CNNC is not expected to materially change based on the discussion with CNNC. Furthermore, we note that the Annual Caps in respect of the procurement of administrative support services for each of the years ending 31st December, 2013, 2014 and 2015 represent approximately 8% of the administrative expenses of the Group of approximately HK\$24 million for the year ended 31st December, 2012 as stated in the 2012 Annual Report.

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## LETTER FROM FIRST SHANGHAI

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In addition, the Annual Caps provide the flexibility, but not the obligation, to the Group to procure administrative support services from CNNC, which can facilitate the PRC operations of the Group, at the maximum amount indicated by the Annual Caps and on terms that are fair and reasonable as discussed above.

Based on the aforementioned factors, particularly (i) the maximum amount of administrative support services are, on a pro rata basis, approximately equivalent to the historical transaction amount during the Initial Period; and (ii) the demand and the existing fee for the procurement of administrative support services from CNNC are not expected to materially change in the upcoming years, we consider the Annual Caps in respect of the procurement of administrative support services for each of the years ending 31st December, 2013, 2014 and 2015 to be reasonable.

*(iv) Conclusion*

Taking into account the above factors and that measures are in place as required under the Listing Rules to govern the internal control of the Group and monitor the Continuing Connected Transactions as detailed in the section headed “Internal control measures regarding the Continuing Connected Transactions” below, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Internal control measures regarding the Continuing Connected Transactions**

As set out in the letter from the Board in the Circular, for engagement of technical support services and office accommodation and vehicle transportation support services by CNNC, the Group shall obtain market quotes (as opposed from quotes by CNNC, as far as possible, two quotes from independent third parties (as defined under the Listing Rules) to the Group) to determine the prevailing market rates of these services under the Framework Agreement. If there are limited quotes in the open market or no service provider is available for the services, the Group will request CNNC to give its quote for similar services provided to its independent third parties (as defined under the Listing Rules) to determine the prevailing market rates. We are further advised by the management of the Group that, as part of the internal control procedures of the Group, the finance department of the Group will be responsible for, amongst others, obtaining quotations from independent third parties (as defined under the Listing Rules) in the market, monitoring records of the transaction value in respect of the Continuing Connected Transactions on a regular basis and ensuring their respective actual transaction amounts will not exceed the relevant Annual Caps for each of the years ending 31st December, 2013, 2014 and 2015.

In addition, the Continuing Connected Transactions are subject to a number of annual review requirements under the Listing Rules which include:

- (i) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts of the Company that the Continuing Connected Transactions have

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## LETTER FROM FIRST SHANGHAI

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been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

- (ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) confirming that the Continuing Connected Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company if the Continuing Connected Transactions involve provision of goods or services by the Company; (c) have been entered into in accordance with the relevant agreement governing the Continuing Connected Transactions; and (d) have not exceeded the respective Annual Cap;
- (iii) the Company will allow, and will procure that the counterparties will allow, the auditors of the Company sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of reporting on the Continuing Connected Transactions. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above respectively.

In light of the internal control measures and reporting requirements attached to the Continuing Connected Transactions as covered above, in particular, (i) the mechanism of obtaining market quotes to determine the prevailing market rates of the services under the Framework Agreement; (ii) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (iii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

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**LETTER FROM FIRST SHANGHAI**

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**RECOMMENDATION**

Having considered the above, we are of the opinion that (i) the entering into of the Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and, together with the Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Framework Agreement, the Continuing Connected Transactions and the Annual Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Eric Lee**                      **Fanny Lee**  
*Managing Director*    *Managing Director*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accepts full responsibility, include particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

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

**3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**4. MATERIAL ADVERSE CHANGE**

Up to the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in businesses apart from the Group's businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

## 6. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

Up to the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31st December, 2012 (being the date to which the latest published audited consolidated financial statements of the Group was made up).

## 7. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

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

## 8. EXPERTS AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or letter contained in this circular:

<b>Name</b>	<b>Qualifications</b>
First Shanghai	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, First Shanghai was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, First Shanghai does not have any interest, either directly or indirectly, in any assets which have been, since 31st December, 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 9. MISCELLANEOUS

The English version of this circular shall prevail over the Chinese text for the purpose of interpretation.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekdays other than public holidays at the principal place of business of the Company in Hong Kong from the date of this circular up to including the date of the EGM:

- (a) the Framework Agreement; and
- (b) the letter from First Shanghai



**CNNC INTERNATIONAL LIMITED**

**中核國際有限公司**

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

**(Stock Code: 2302)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of CNNC International Limited (the “**Company**”) will be held at Boardroom 6, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong at 3:30 p.m. on Friday, 31st May, 2013 for the purpose of considering and, if thought fit, passing with or without amendments the following resolution which will be proposed as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT:**

the performance by the Group of the transactions contemplated under the agreement and the annual caps referred to in the agreement (the “**Framework Agreement**”) dated 23rd April, 2013 entered into between the Company and CNNC (a copy of which has been produced at this Meeting and marked “A” and initialed by the chairman of this Meeting for the purpose of identification) be and is hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to do all such acts and things and to take such steps (which are ancillary to the Framework Agreement and of administrative nature) as they may consider necessary, desirable or expedient to give effect to or in connection with the Framework Agreement or any of the transactions contemplated thereunder (which are ancillary to the Framework Agreement and of administrative nature)”

By order of the Board  
**CNNC International Limited**  
中核國際有限公司  
**Cai Xifu**  
*Chairman*

Hong Kong, 15th May, 2013



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## NOTICE OF EGM

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

*Head office and principal place of business in Hong Kong:  
Unit 2809, 28th Floor  
China Resources Building,  
26 Harbour Road  
Wanchai  
Hong Kong*

*Notes:*

1. A form of proxy to be used for the meeting is enclosed with the circular of the Company despatched to the shareholder of the Company on 15th May, 2013.
2. Any member of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting (or at any one class meeting).
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered the head office of the Company in Hong Kong at Unit 2809, 28th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting at which the person named in the instrument proposes to vote. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
6. As at the date of this notice, the Board comprises non-executive director and chairman, namely, Mr. Cai Xifu, executive directors, namely, Mr. Zhang Hongqing and Ms. Wang Ying, non-executive director, namely, Mr. Xu Shouyi and independent non-executive directors, namely, Mr. Cheong Ying Chew Henry, Mr. Cui Liguang and Mr. Zhang Lei.