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DA MING INTERNATIONAL HOLDINGS LIMITED

大明國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1090)

CONTINUING CONNECTED TRANSACTIONS

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



Donvex Capital Limited
富域資本有限公司

Donvex Capital Limited

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DEFINITIONS

Unless the context otherwise requires, the following terms in this circular shall have the meanings set out below:

“Ally Good”	Ally Good Group Limited, a company incorporated in the British Virgin Islands with limited liability, owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia as at the Latest Practicable Date
“Board”	the board of Directors
“Company”	Da Ming International Holdings Limited (大明國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive directors, namely, Prof. Hua Min, Mr. Chen Xuedong and Mr. Cheuk Wa Pang, appointed by the Board to consider and advise the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Donvex Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement and the transactions contemplated thereunder
“Independent Shareholders”	has the meaning as ascribed to it under the Listing Rules
“Jiangsu Daming”	Jiangsu Daming Metal Products Company Limited (江蘇大明金屬製品有限公司), a limited company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Jiangsu Daming Group”	Jiangsu Daming and its subsidiaries
“JVC”	Taiyuan Taigang Daming Metal Products Company Limited (太原太鋼大明金屬製品有限公司), a joint venture company established in the PRC, owned as to 60% by Jiangsu Daming and 40% by Taiyuan Steel, established pursuant to the shareholder’s agreement dated 13 July 2011. The JVC is an indirect non wholly-owned subsidiary of the Company

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	30 November 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“New Framework Agreement”	the annual framework agreement dated 16 November 2011 entered into between Jiangsu Daming and STSS in relation to the supply of stainless steel by STSS to the Jiangsu Daming Group for the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 respectively
“Original Framework Agreement”	The framework agreement dated 4 March 2011 entered into between Jiangsu Daming and STSS in relation to the supply of stainless steel by STSS to Jiangsu Daming for the year ending 31 December 2011
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“STSS”	Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不鏽鋼股份有限公司), a stainless steel producer and a company whose shares are listed on The Shenzhen Stock Exchange (with stock code 000825)
“Taiyuan Steel”	Taiyuan Iron & Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司), a state-owned enterprise incorporated in the PRC
“Taiyuan Steel Group”	for the purpose of this circular, includes Taiyuan Steel and STSS
“%”	per cent

The English names of the PRC entities and departments referred to in this circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

LETTER FROM THE BOARD



DA MING INTERNATIONAL HOLDINGS LIMITED

大明國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1090)

Executive directors:

Mr. Zhou Keming (*Chairman*)

Ms. Xu Xia

Mr. Qian Li

Mr. Zou Xiaoping

Mr. Tang Zhonghai

Non-executive director:

Mr. Jiang Changhong

Independent non-executive directors:

Prof. Hua Min

Mr. Chen Xuedong

Mr. Cheuk Wa Pang

Registered office:

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Headquarters and principal

place of business in the PRC:

No. 1518, Tongjiang Road

Wuxi, Jiangsu

The People's Republic of China

Principal place of business in Hong Kong:

Suite 1007, Central Plaza

18 Harbour Road, Wanchai

Hong Kong

7 December 2011

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 16 November 2011 that Jiangsu Daming and STSS entered into the New Framework Agreement for the ongoing supply of stainless steel by STSS to the Jiangsu Daming Group during the period from 1 January 2012 to 31 December 2014.

Given that each of the applicable ratios in respect of the maximum aggregate annual value under the New Framework Agreement is higher than 5%, the transactions pursuant to the New Framework Agreement constitute non-exempt continuing connected transactions of the Company and is subject to the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any interest in the New Framework Agreement and therefore, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for approving the New Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

On 16 November 2011, written approval for the purpose of approving the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps was obtained from Ally Good, which is beneficially interested in 709,275,000 Shares, representing approximately 68.36% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 14A.43 of the Listing Rules, the Stock Exchange has granted to the Company a waiver from the requirement to hold a general meeting to approve the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

The purpose of this circular is to provide the Shareholders with (i) further details of the New Framework Agreement and the transactions contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the New Framework Agreement; and (iv) other information as required under the Listing Rules.

2. DETAILS OF THE NEW FRAMEWORK AGREEMENT

Date	:	16 November 2011
Parties	:	Jiangsu Daming (as purchaser) STSS (as supplier)
Term	:	1 January 2012 to 31 December 2014
Aggregate volume to be purchased during the term	:	Jiangsu Daming agrees to purchase, and STSS agrees to supply to the Jiangsu Daming Group, stainless steel not exceeding the following amounts during the respective periods as stated below:

Period	Maximum amount of stainless steel in aggregate
From 1 January 2012 to 31 December 2012	400,000 tonnes
From 1 January 2013 to 31 December 2013	600,000 tonnes
From 1 January 2014 to 31 December 2014	700,000 tonnes

Further subcontracts specifying the quantity of the stainless steel will be entered into by the relevant member of the Jiangsu Daming Group on a monthly basis

LETTER FROM THE BOARD

Basis of pricing	:	The purchase price of the stainless steel is to be determined with reference to the prevailing market price of stainless steel in the PRC at the time when the order is placed by the relevant member of the Jiangsu Daming Group with STSS
Payment terms	:	The price of stainless steel is required to be paid upon delivery of the stainless steel by the relevant member of the Jiangsu Daming Group
Conditions precedent	:	The obligations of the parties under the New Framework Agreement shall be conditional upon, if required, the approval of the New Framework Agreement and the transactions contemplated thereunder by the independent Shareholders of the Company and the Stock Exchange

The maximum amounts to be paid by the Jiangsu Daming Group to STSS for the supply of stainless steel pursuant to the New Framework Agreement are expected not to exceed approximately RMB11,200 million (approximately HK\$13,742 million), approximately RMB17,600 million (approximately HK\$21,595 million) and approximately RMB21,600 million (approximately HK\$26,503 million) for the three years ending 31 December 2012, 31 December 2013 and 31 December 2014, respectively, by reference to the historical information of the demand for stainless steel of the Jiangsu Daming Group, the expected expansion in business scale and by reference to the average market price of stainless steel in the PRC market from January 2011 to September 2011.

The Company will comply with the requirement of the annual review as set out in Rules 14A.37 to 14A.40 of the Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded or, when the New Framework Agreement is renewed or, when there is a material change to the terms of the New Framework Agreement.

3. REASONS FOR AND BENEFITS OF THE NEW FRAMEWORK AGREEMENT

The entering into of the New Framework Agreement enables the Group to secure constant supply of quality stainless steel raw materials, which contributes to the stable operation of the business of the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the New Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, have been arrived at after arm's length negotiations, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. INFORMATION ON THE COMPANY

The Group is engaged in processing, distribution and sale of stainless steel products.

LETTER FROM THE BOARD

5. INFORMATION ON TAIYUAN STEEL GROUP

The principal activity of Taiyuan Steel Group is the production of stainless steel and specialised steel.

6. LISTING RULES IMPLICATIONS

As a substantial shareholder of the JVC, which is a non wholly-owned subsidiary of the Company, Taiyuan Steel is a connected person of the Company, and STSS, being a non wholly-owned subsidiary of Taiyuan Steel, is also a connected person of the Company. STSS's ongoing supply of stainless steel to the Jiangsu Daming Group pursuant to the New Framework Agreement constitutes continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the maximum aggregate annual value under the New Framework Agreement is higher than 5%, the transactions pursuant to the New Framework Agreement constitute non-exempt continuing connected transactions of the Company and is subject to the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made reasonable enquiries, none of the Directors has a material interest in the New Framework Agreement and the transactions contemplated thereunder and was required to abstain from voting on the board resolution approving the New Framework Agreement and the transactions contemplated thereunder.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the New Framework Agreement and the transactions contemplated thereunder, on 16 November 2011, the controlling Shareholder, Ally Good, holding 709,275,000 Shares and having the right to attend and vote at such general meeting, had given to the Company its written approval for the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

Pursuant to Rule 14A.43 of the Listing Rules, the Stock Exchange has granted to the Company a waiver from the requirement to hold a general meeting to approve the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps on the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the New Framework Agreement and the transactions contemplated thereunder; and (ii) written Independent Shareholders' approval has been obtained from Ally Good in connection with the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the terms of the New Framework Agreement and the proposed annual caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the new Framework Agreement and the proposed annual caps.

LETTER FROM THE BOARD

7. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the terms of the New Framework Agreement and the proposed annual caps are fair and reasonable, and that the entering into of the New Framework Agreement and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) therefore would recommend the Shareholders to vote in favour of the resolution to approve the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps if a general meeting of the Company were to be held for such purpose. As disclosed above, Ally Good has provided to the Company a written approval of the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and no general meeting will be convened.

8. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

By order of the Board of
Da Ming International Holdings Limited
Zhou Keming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



DA MING INTERNATIONAL HOLDINGS LIMITED

大明國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1090)

7 December 2011

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 7 December 2011 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the New Framework Agreement and the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and whether the terms of the New Framework Agreement and the proposed annual caps are in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 10 to 17 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 3 to 7 of the Circular.

We acknowledge that the Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from the requirement to hold a general meeting pursuant to Rule 14A.43 of the Listing Rules to approve the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps on the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the New Framework Agreement and the transactions contemplated thereunder; and (ii) written Independent Shareholders’ approval has been obtained from Ally Good in connection with the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we are of the opinion that the terms of the New Framework Agreement and the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into of the New Framework Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the resolution should a general meeting be convened by the Company to approve the New Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

Yours faithfully,
Independent Board Committee of
Da Ming International Holdings Limited

Prof. Hua Min

Mr. Chen Xuedong

Mr. Cheuk Wa Pang

Independent Non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

7 December 2011

*The Independent Board Committee and the Independent Shareholders of
Da Ming International Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement and the proposed annual caps, details of which are set out in the letter from the Board contained in the circular of the Company dated 7 December 2011 to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

Professor Hua Min, Mr. Chen Xuedong and Mr. Cheuk Wa Pang, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the New Framework Agreement together with the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of Independent Shareholders as a whole; and to advise the Independent Shareholders as to whether to vote in favour of the New Framework Agreement and the adoption of the proposed annual caps.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the New Framework Agreement and the transactions contemplated therein, the controlling Shareholder, Ally Good Group Limited, holding 709,275,000 Shares, (representing approximately 68.36% of the entire issued share capital of the Company as at the Latest Practicable Date), has given the Company its written approval for the New Framework Agreement and the transactions contemplated therein, the Stock Exchange has granted a waiver pursuant to Rule 14A.43 of the Listing Rules, and no Shareholders’ meeting of the Company will be convened for the approval of the New Framework Agreement and the transactions contemplated therein.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Donvex Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the New Framework Agreement and the proposed annual caps.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and continue to be so at the date of the dispatch of the Circular. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular. The Directors also confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of New Framework Agreement and the proposed annual caps, we have considered the following principal factors and reasons:

1. Background of the New Framework Agreement and the Proposed Annual Caps

The Group is principally engaged in the processing, distribution and sale of stainless steel products and Taiyuan Steel Group is principally engaged in the production of stainless steel and specialized steel.

As disclosed in the Company's announcements dated 13 July 2011 and 27 July 2011 respectively, JVC, being established by Jiangsu Daming, an indirect wholly-owned subsidiary of the Company, is owned as to 60% by Jiangsu Daming and 40% by Taiyuan Steel. Prior to the establishment of JVC, STSS, being a non wholly-owned subsidiary of Taiyuan Steel, had been supplying stainless steel to the Group pursuant to the Original Framework Agreement.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Upon establishment of the JVC, Taiyuan Steel, being the substantial shareholder of JVC, becomes a connected person of the Company and STSS, being a non wholly-owned subsidiary of Taiyuan Steel, is also a connected person of the Company. STSS's ongoing supply of stainless steel to the Group pursuant to the Original Framework Agreement after the establishment of the JVC constitutes the continuing connected transactions of the Company.

As the Original Framework Agreement will expire on 31 December 2011, Jiangsu Daming and STSS entered into the New Framework Agreement in relation to the ongoing supply of stainless steel by STSS to Jiangsu Daming Group from 1 January 2012 to 31 December 2014 to replace the Original Framework Agreement.

2. Reasons and benefits of the New Framework Agreement

As set out in the Letter from the Board, the Directors believe that the Continuing Connected Transactions are consistent with the businesses, commercial objectives and prospects of the Group for securing a constant supply of quality stainless steel raw materials, which contributes to the stable operation of the business of the Group. According to the Prospectus of the Company dated 17 November 2010 and the annual report of the Company for the year ended 31 December 2010, the sale volume of stainless steel products of the Group was approximately 318,602 tonnes, 340,778 tonnes, 419,806 tonnes and 475,797 tonnes for the years ended 31 December 2007, 2008, 2009 and 2010 respectively and the increase was primarily due to the increased demand of the Group's processing services.

Having considered the principal business of the Group and the nature of the transactions contemplated under the New Framework Agreement, we concur with the view of the Directors that the Group will have a stable supply of quality stainless steel raw materials for its stainless steel processing services to manufacturers across different industries by entering into the New Framework Agreement. As such, we agree that the entering into the New Framework Agreement falls within the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

3. Basis of determination

Pricing of the New Framework Agreement

The Directors confirmed that purchase price of the stainless steel of STSS is determined with reference to (i) the market price of stainless steel in the PRC; and (ii) the grading of the stainless steel raw materials placed by Jiangsu Daming.

Payment terms of the New Framework Agreement

No credit period is allowed by STSS to Jiangsu Daming with respect to the supply of stainless steel and Jiangsu Daming is obliged to settle the payment upon delivery of stainless steel by STSS. This payment term in the New Framework Agreement is the same as the Original Framework Agreement and that the Directors confirmed that such payment term is of a normal commercial practice in conducting stainless steel business in the PRC. We have reviewed the purchase orders placed by Jiangsu Daming to other independent stainless steel raw materials suppliers and noticed that the payment is required to be settled upon delivery of products. In this respect, we consider that the pricing and term of payment as contained in the New Framework Agreement is a normal commercial term.

Aggregate volume to be purchased during the term of the New Framework Agreement

The maximum volume of stainless steel to be purchased during the term of the New Framework Agreement is determined after taking into account (i) the historical sale record of stainless steel products of the Group; (ii) the existing scale and operation capacity of Jiangsu Daming; (iii) the anticipated growth and development of stainless steel processing business of the Group; and (iv) the anticipated growth for the customer of processed stainless steel products in the forthcoming years.

According to the Stainless Steel Council of China Special Steel Enterprises Association (“CSSC”), stainless steel consumption in PRC had increased from 8.22 million tonnes in 2009 to 9.4 million tonnes in 2010. The stainless steel consumption in PRC was 7.17 million tonnes for the nine months ended 30 September 2011 increased slightly from 7.05 million tonnes for the nine months ended 30 September 2010.

According to the statistics data published by the National Bureau of Statistics of PRC, the output of crude steel and steel materials for the ten months ended 31 October 2011 was approximately 580.8 million tonnes and 740.2 million tonnes respectively, and showed an increase of 11.1% and 13.7% respectively compared to the same period in 2010.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following financial information is extracted from the Prospectus and the annual report of the Company for the year ended 31 December 2010 and the unaudited interim report of the Company for the six months ended 30 June 2011:

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2010	Six months ended 30 June 2011
<i>RMB (million)</i>						
Sale revenue	9,034.6	7,976.8	6,447.4	8,972.6	4,073	5,742
Sale volume (tonnes)	318,602	340,778	419,806	475,797	219,191	266,970
Growth rate		6.9%	23.2%	13.3%		21.8%

The sale volume and revenue of the Company increased from 2007 to 2010 and the increase of the revenue and sale volume of the Group for the six months ended 30 June 2011 as compared to same period in 2010 was approximately 41% and 22% respectively. As such, the growth of the sale volume of the Company outpaced the industry in PRC in 2010.

As discussed with the management of the Company, the relatively higher purchase volume from 400,000 tonnes to 600,000 tonnes for the year ending 31 December 2013 was mainly attributable to the expected commencement of production of the JVC in 2013 which resulting more stainless steel raw materials is necessary. The management of the Company also advised that the current utilization rate of the processing centres of the Group are highly utilized and it is anticipated that the demand of processed products/services of the Group will be increased due to (i) the anticipated growth of the revenue and demand of the Group and (ii) the Group had been continuously contributing capital investments for increasing the processing capabilities of the process centres in order to provide more comprehensive processing products/services to customers. As such, more purchase of stainless steel raw materials is anticipated during the year ending 31 December 2013. According to the interim report of the Company for the six months ended 30 June 2011 and as confirmed by the Directors, the Group has commenced the design and construction of the sixth phase in its Wuxi processing centre in the second half of 2011 with a view to further enhance and complement its deep processing capability.

Views

Based on the principal terms of the New Framework Agreement, in particular that (i) the New Framework Agreement does not restrict the Group to purchase stainless steel raw materials from other independent third parties; (ii) the purchase price of stainless steel is to be determined with reference to the prevailing market price of stainless steel in the PRC at the time when the order is placed by the relevant member of the Jiangsu Daming Group with STSS; and (iii) the maximum purchase volume to be purchased during the term of the New Framework Agreement is consistent with the existing business scale and future expansion of the Group, we concur with the view of the Directors that the terms of the New Framework Agreement are fair and reasonable, on normal commercial terms and in the interests of the Group and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

3. Other Major Terms of the New Framework Agreement

We have reviewed the other major terms of the New Framework Agreements and are not aware of any terms which are exceptional to normal market practice.

In light of the foregoing, we are of the opinion that the terms of the New Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Independent Shareholders as a whole.

4. The Proposed Annual Caps

(i) *The basis of determination of the Annual Caps*

Set out below are the Proposed Annual Caps for each of the three years ending 31 December 2014:

	Proposed Annual Caps		
	For the year ending 31 December		
	2012	2013	2014
Proposed Annual Caps	11,200 million	17,600 million	21,600 million
Growth rate		57.1%	22.7%
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Expected purchase price per tonne	28,000	29,000	31,000
Expected maximum tonnes of purchase per year	400,000	600,000	700,000

As set out in the Letter from the Board in this Circular, the Proposed Annual Caps for the three years ending 31 December 2014 was determined by reference to (i) the historical information of the demand of stainless steel of the Jiangsu Daming Group; (ii) the expected expansion in business scale; and (iii) the average market price of stainless steel in the PRC market from January 2011 to September 2011. As confirmed by the management of the Company and contained in the Letter from the Board of this Circular, the Company has also taken into account the average market price of stainless steel in the PRC market from January 2011 to September 2011 in setting the proposed annual caps. As advised by the management of the Company, the average market price of stainless steel raw materials purchased from STSS ranged from approximately RMB24,000 per tonne and RMB27,000 per tonne during the period.

In assessing the reasonableness and fairness of the Proposed Annual Caps, we have discussed with the management of the Company and reviewed the underlying principal assumptions and bases considered in the determination of the Proposed Annual Caps. We understand from the management of the Company that the Company has adopted the Proposed Annual Cap by considering (i) the historical sale revenue of the Group; (ii) the historical consumption of the stainless steel products of the Group; (iii) the historical

LETTER FROM INDEPENDENT FINANCIAL ADVISER

purchase price of stainless steel raw materials of the Group; (iv) the anticipated growth of the Group's business; and (v) the anticipated growth in the consumption in the stainless steel based on the historical consumption of stainless steel. With respect to the market price of stainless steel from January 2011 to September 2011, according to the information disclosed in the website of STSS, the highest prices of stainless steel raw materials during February 2011 to September 2011 ranged between RMB28,100 per tonne and RMB26,100 per tonne. We have also reviewed the purchase orders placed by Jiangsu Daming to STSS during January 2011 to September 2011, the average purchase price of stainless steel raw materials ranged between approximately RMB24,000 per tonne and RMB27,000 per tonne during the period.

In assessing the anticipated growth of Group's business and the consumption of stainless steel products, based on our research on the global stainless steel demand index issued by the International Stainless Steel Forum ("ISSF"), the demand index is estimated to be increased from approximately 170 in 2011 to 190 in 2012. Moreover, according to the notice dated 24 October 2011, 鋼鐵工業“十二五”發展規劃 (Development Plan for the Steel Industry under the PRC's 12th Five-year Plan) issued by the Ministry of Industry and Information Technology of the People's Republic of China, the estimated consumption of stainless steel in China is estimated to be increased from approximately 9.4 million tonnes in 2010 to approximately 16.0 million tonnes in 2015.

As advised by the management of the Company, the financial information in respect of the purchase of stainless steel raw materials from STSS is summarized as below:

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2011
<i>RMB (million)</i>					
Cost of purchase of stainless steel raw materials from STSS	3,391	3,494	3,854	4,243	2,865
% of total purchase of stainless steel	36.8%	47.9%	60.5%	45.5%	47.0%

The Directors are of the view that (i) the current purchase of stainless steel raw materials from STSS represented approximately 45% – 60% of the total purchase of stainless steel raw materials during the last three years despite of the fluctuation during the periods and the percentage is likely to be retained in forthcoming years; (ii) the anticipated increase in purchase price of stainless steel raw materials is in line with the foreseeable inflation in China; and (iii) the demand of the Group's products and sale revenue will be on an upward trend due to the continued economic growth in the PRC.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(ii) *Views*

Based on the aforesaid factors and reasons as above mentioned and upon taking into account the business plan and prospect of the Group, we are of the view that the Proposed Annual Caps was determined after careful and due consideration by the Directors, and is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Independent Shareholders as a whole. Having said, as the Proposed Annual Cap relates to future events and estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2014. Therefore, we express no opinion as how closely the actual amounts of the Continuing Connected Transactions will correspond with the Proposed Annual Caps.

RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the New Framework Agreement are entered into within the usual and ordinary course of business of the Company and the terms thereof, including the payment terms, the maximum purchase volume to be purchased during the term and the Proposed Annual Caps, are of normal commercial terms and fair and reasonable so far as the Company and the independent shareholders of the Company are concerned. Accordingly, we consider that the New Framework Agreement is in the interests of the Company and the Shareholders as a whole. We advise the Independent Board Committee to recommend the independent shareholders of the Company to vote in favor of the ordinary resolutions of the Company to approve the New Framework and the Proposed Annual Caps if the Company were to convene a Shareholders' meeting for the approval of the New Framework and transactions contemplated therein.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes 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. DISCLOSURE OF INTERESTS

Directors and chief executives

As at the Latest Practicable Date, the interests of the Directors or chief executives of the Company in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or 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 were as follows:

(a) Beneficial interests and long positions in Shares:

(i) Long position in the Shares and underlying Shares

Name of Director	Nature of interests	Number of Shares/ underlying Shares held	% of issued share capital of the Company
Mr. Zhou Keming	Corporate (Note 1)	709,275,000	68.36%
Ms. Xu Xia	Corporate (Note 1)	709,275,000	68.36%
Mr. Qian Li	Personal	7,350,000	0.71%
Mr. Zou Xiaoping	Family (Note 2)	7,350,000	0.71%
Mr. Tang Zhonghai	Personal (Note 3)	600,000	0.06%

Notes:

- The Shares are held by Ally Good, which is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia.
- The Shares are held by Mr. Zou Xiaoping's spouse, Ms. Li Jun.
- The interests represent the underlying Shares in respect of the share options granted pursuant to the share options scheme of the Company.

(ii) Long position in the shares of associated corporation(s)

Name of Director	Name of associated corporation (Note 4)	Nature of interests	Number of shares held	% of issued share capital of associated corporation
Mr. Zhou Keming	Ally Good	Personal (Note 5)	1,000	100%
Ms. Xu Xia	Ally Good	Personal (Note 5)	1,000	100%

Notes:

4. Ally Good is interested in approximately 68.36% of the issued share capital of the Company.
5. 772 shares of Ally Good are held by Mr. Zhou Keming and 228 shares of Ally Good are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, Mr. Zhou Keming is also the sole director of Ally Good, being a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

Apart from the above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or 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.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS INTEREST IN ASSETS

Since the date to which the latest published audited accounts of the Company were made up until the Latest Practicable Date, none of the Directors or proposed Directors or experts had or had proposed to acquire or dispose or lease any interest, direct or indirect, in any assets to any member of the Group.

6. DIRECTORS INTEREST IN CONTRACTS

As at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

7. EXPERT

The following is the qualification of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualification
Donvex Capital Limited	a corporation licensed for carrying out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Donvex Capital Limited had given and had not withdrawn consent to the issue of this circular with inclusion of its letter, which has been prepared for inclusion in this circular and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, Donvex Capital Limited did not have any shareholding in any member of the Group or any right, whether legally enforceable or not, to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there were no material adverse changes in the financial or trading positions of the Company since 31 December 2010, the date to which the latest published audited financial statements of the Company were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong, which is situated at Suite 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, for a period of 14 days from the date of this circular:

- (a) the New Framework Agreement;
- (b) the letter from the Independent Board Committee dated 7 December 2011; and
- (c) the letter from the Independent Financial Adviser dated 7 December 2011.

10. MISCELLANEOUS

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The company secretary of the Company is Mr. Leung Man Fai.
- (c) The principal place of business of the Company in Hong Kong is situated at Suite 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

11. LANGUAGE

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.