
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Da Ming International Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the licensed 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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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
UNDER THE NEW FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders**



Donvex Capital Limited

A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Independent Board Committee is set out on pages 20 to 21 of this circular. A letter from Donvex Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, is set out on pages 22 to 41 of this circular.

A notice convening the EGM to be held at Conference Room A309, Jiangsu Daming Metal Products Co., Limited, No. 1518 Tongjiang Road, Wuxi, Jiangsu, The People's Republic of China on Monday, 31 May 2021 at 3 p.m. is set out on pages EGM-1 to EGM-2 of this circular.

Shareholders are advised to read the Notice of EGM and if you are not able to attend the EGM or its adjournment (as the case may be) in person but wish to exercise your right as a Shareholder, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

10 May 2021

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DEFINITIONS

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

“Acquisition”	the acquisition of 51% of the equity interests in Taiyuan Steel by China Baowu on 23 December 2020
“Annual Cap”	the proposed maximum annual monetary value of the transactions contemplated under the New Framework Agreement for the three years ending 31 December 2023, and each a “Annual Cap”
“Announcement”	the announcement of the Company dated 27 January 2021 in relation to the New Framework Agreement entered into between the Company and China Baowu on 27 January 2021
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“chief executive”	has the meaning ascribed to it under the Listing Rules
“China Baowu”	China Baowu Steel Group Company Limited (中國寶武鋼鐵集團有限公司), a company incorporated in the PRC and a substantial shareholder of the Company
“China Baowu Group”	China Baowu and its subsidiaries, including Taiyuan Steel, STSS and Tisco
“close associate”	has the meaning ascribed to it under the Listing Rules
“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)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Conference Room A309, Jiangsu Daming Metal Products Co., Limited, No. 1518 Tongjiang Road, Wuxi, Jiangsu, The People’s Republic of China on Monday, 31 May 2021 at 3 p.m., or any adjournment thereof, for the purpose of considering and, if thought fit, approving the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps)

DEFINITIONS

“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
“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 owned as to 60% by Jiangsu Daming and 40% by Taiyuan Steel, established pursuant to the shareholders’ agreement dated 13 July 2011. The JVC is an indirect non wholly-owned subsidiary of the Company
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa, established to advise the Independent Shareholders in respect of the continuing connected transactions contemplated under the New Framework Agreement and the Annual Caps
“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under the New Framework Agreement and the Annual Caps
“Independent Shareholder(s)”	the Shareholders other than (a) China Baowu; and (b) Tisco, who will be required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM, and their respective associates
“Latest Practicable Date”	5 May 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“New Framework Agreement”	the framework agreement dated 27 January 2021 entered into between the Company and China Baowu in relation to (i) the supply of steel by the China Baowu Group to the Group; and (ii) the provision of processed metallic goods and processing services by the Group to the China Baowu Group for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively
“Notice of EGM”	the notice convening the EGM as set out on pages EGM-1 to EGM-2 of this circular
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“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), and a subsidiary of Taiyuan Steel
“STSS Agreements”	the framework agreement dated 22 December 2017 entered into between Jiangsu Daming and STSS in relation to the supply of stainless steel and carbon steel by STSS to Jiangsu Daming Group for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020, respectively, and the framework agreement dated 30 September 2018 entered into between Jiangsu Daming and STSS in relation to the (i) supply of stainless steel and carbon steel, processed finished goods or processed semi-finished goods; and (ii) provision of processing service by Jiangsu Daming Group to STSS Group for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020, respectively

DEFINITIONS

“STSS Group”	STSS and its subsidiaries
“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, and a subsidiary of China Baowu
“Tisco”	Tisco Stainless Steel (H.K.) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of STSS, which was in turn a subsidiary of Taiyuan Steel
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

**All the English translation of certain Chinese names or words in this circular are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

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*)
Mr. Jiang Changhong (*Chief Executive Officer*)
Ms. Xu Xia
Mr. Zou Xiaoping
Dr. Fukui Tsutomu
Mr. Zhang Feng
Mr. Wang Jian

Non-executive Directors:

Mr. Lin Changchun
Mr. Lu Jian

Independent non-executive Directors:

Mr. Cheuk Wa Pang
Prof. Hua Min
Mr. Lu Daming
Mr. Liu Fuxing
Mr. Hu Xuefa

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, Tong Jiang Road
Wuxi, Jiangsu
People's Republic of China

Principal Place of

Business in Hong Kong:

Suite 1007, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

10 May 2021

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE NEW FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to the New Framework Agreement entered into between the Company and China Baowu on 27 January 2021 for the (i) supply of steel by the China Baowu Group to the Group; and (ii) provision of processed metallic goods and processing services by the Group to the China Baowu Group during the period from 1 January 2021 to 31 December 2023.

LETTER FROM THE BOARD

As disclosed in the Announcement, since China Baowu is a substantial shareholder of the Company and a connected person of the Company, the China Baowu Group's supply of steel to the Group and the Group's supply of processed metallic goods and processing services to the China Baowu Group pursuant to the New Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed Annual Caps for each of the three years ending 31 December 2023 exceed 5%, the continuing connected transactions contemplated under the New Framework Agreement and the Annual Caps are therefore subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) further information on the New Framework Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules.

BACKGROUND

The Company has been informed by China Baowu that China Baowu has acquired 51% of the equity interests in Taiyuan Steel and the Acquisition was completed on 23 December 2020. Prior to the completion of the Acquisition, the Company was held as to approximately 8.33% by China Baowu and 8.33% by Tisco (a wholly-owned subsidiary of STSS, which was in turn a subsidiary of Taiyuan Steel), respectively. Immediately after the completion of the Acquisition, Taiyuan Steel became a subsidiary of China Baowu, and China Baowu became a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 16.66% of the equity interest in the Company (comprising 8.33% directly held by China Baowu and 8.33% indirectly held by China Baowu through Tisco).

In addition to China Baowu, the Company also procured stainless steel and carbon steel from STSS. Reference is made to the announcement of the Company dated 22 December 2017 and 3 October 2018 in relation to the STSS Agreements. Prior to the completion of the Acquisition, STSS was a connected person of the Company at the subsidiary level by virtue of being a non wholly-owned subsidiary of Taiyuan Steel (a substantial shareholder of the JVC, which was a non wholly-owned subsidiary of the Company) and had entered into various continuing connected transactions with the Company under the STSS Agreements. Upon completion of the Acquisition, the STSS Agreements and the transactions contemplated thereunder remained to constitute continuing connected transactions of the Company, except that STSS became a connected person of the Company at the issuer level by virtue of being a subsidiary of China Baowu (a substantial shareholder of the Company).

The term of the STSS Agreements expired on 31 December 2020. On 27 January 2021, the Company and China Baowu entered into the New Framework Agreement in relation to the ongoing (i) supply of steel by the China Baowu Group to the Group; and (ii) provision of processed metallic goods and processing services by the Group to the China Baowu Group during the period from 1 January 2021 to 31 December 2023.

The historical transaction amounts in relation to the purchase of stainless steel and carbon steel by the Group from STSS Group for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were approximately RMB8,113 million, RMB8,970 million and RMB9,282 million, respectively. The historical transaction amounts in relation to the supply of processed goods and provision of processing services by the Group to STSS Group for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were approximately RMB110 million, RMB81 million and RMB119 million, respectively.

LETTER FROM THE BOARD

China Baowu and the Group had transactions for more than 20 years. The transactions between China Baowu Group (excluding STSS Group) and the Group mainly include (i) purchase of steel by the Group from China Baowu Group (excluding STSS Group); and (ii) supply of processed goods and provision of processing services by the Group to China Baowu Group (excluding STSS Group). The historical transaction amounts in relation to the purchase of steel by the Group from China Baowu Group (excluding STSS Group) for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were approximately RMB5,280 million, RMB4,507 million and RMB4,122 million, respectively. The historical transaction amounts in relation to the supply of processed goods and provision of processing services by the Group to China Baowu Group (excluding STSS Group) for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were approximately RMB17 million, RMB15 million and RMB27 million, respectively.

DETAILS OF THE NEW FRAMEWORK AGREEMENT

The principal terms of the New Framework Agreement are summarised as follows:

Date:	27 January 2021
Parties:	The Company as (i) the purchaser of steel from the China Baowu Group; and (ii) the supplier of processed metallic goods and processing services to the China Baowu Group China Baowu as (i) the supplier of steel to the Group; and (ii) the purchaser of processed metallic goods and processing services from the Group
Term:	1 January 2021 to 31 December 2023
Amount of steel to be purchased during the term:	The Group agrees to purchase, and the China Baowu Group agrees to supply to the Group, steel not exceeding the following amounts during the respective periods as stated below:

Period	Maximum aggregate amount of steel (RMB' billion)
From 1 January 2021 to 31 December 2021	22.4
From 1 January 2022 to 31 December 2022	28.0
From 1 January 2023 to 31 December 2023	35.4

LETTER FROM THE BOARD

Amount of processed metallic goods and processing services to be supplied during the term: The China Baowu Group agrees to purchase, and the Group agrees to supply to the China Baowu Group, processed metallic goods and processing services not exceeding the following amounts during the respective periods as stated below:

Period	Maximum aggregate amount of processed metallic goods and processing services (RMB' billion)
From 1 January 2021 to 31 December 2021	0.25
From 1 January 2022 to 31 December 2022	0.30
From 1 January 2023 to 31 December 2023	0.35

Basis of pricing: The purchase price of the steel and the purchase price of processed metallic goods and processing fee are to be determined with reference to the prevailing market price of similar products and service at the time when the order is placed and will be on normal commercial terms or not less favourable terms than those available to independent third parties at the relevant time.

The respective prevailing market price of the steel, processed metallic goods and processing fee will be determined on normal commercial terms based on the following:

- (i) the price of similar products or service offered to independent third parties in the same or near region agreed on normal commercial terms in the ordinary course of business; or
- (ii) if the above (i) is not applicable, the price of similar products or service offered to independent third parties in the PRC agreed on normal commercial terms in the ordinary course of business.

LETTER FROM THE BOARD

Payment terms:	Payment should be made by the relevant member of the Group or the relevant member of the China Baowu Group (as the case may be) in accordance with the terms of the definitive contracts (as detailed below) to be entered into.
Definitive Contracts:	Definitive contracts specifying the price, quality, quantity, delivery date and transportation method in relation to the products and service will be entered into between the relevant member of the Group and the relevant member of the China Baowu Group as and when needed.
Conditions precedent:	<p>The obligations of the parties under the New Framework Agreement shall be conditional upon:</p> <ul style="list-style-type: none">(i) if required, the approval of the New Framework Agreement by the independent Shareholders and the Stock Exchange; and(ii) the Company's compliance of the Listing Rules in respect of continuing connected transactions.

BASIS OF THE ANNUAL CAPS

Purchases from China Baowu Group

The maximum aggregate amounts to be paid by the Group to the China Baowu Group for the purchase of steel pursuant to the New Framework Agreement are expected not to exceed approximately RMB22.4 billion, RMB28.0 billion and RMB35.4 billion for each of the three years ending 31 December 2023, respectively, with reference to the historical information of the Group's demand for steel, the scale of the Group's expected business expansion and the average market price of steel in the PRC market from 1 January 2020 to 31 December 2020.

The historical transaction amounts in relation to the purchase of steel by the Group from China Baowu Group for the years ended 31 December 2019 and 31 December 2020 were approximately RMB13.48 billion and RMB13.40 billion, respectively.

The Group expects that the revenues in relation to the distribution and sale of stainless steel products and carbon steel products will increase significantly in 2021. In 2020, the Group's businesses were affected by the pandemic of COVID-19, resulting in the sales volume of the Group's processing centres in areas such as Hubei not being up to the Group's expected levels. Furthermore, the Group expects that the capacities of its processing centres in Jiaxing, Shandong, Jingjiang, etc., will increase in 2021 as there will be new production plants equipped in these processing centres.

LETTER FROM THE BOARD

The sales volume of carbon steel in 2020 was approximately 2,670,000 tonnes. Having considered the historical growth percentage and the economic growth in the PRC, it is expected that the sales volume of carbon steel of the Group will increase by approximately 1,000,000 tonnes in 2021 to approximately 3,670,000 tonnes as compared to that of 2020. In respect of such expected increase in sales volume of carbon steel of approximately 1,000,000 tonnes, approximately 300,000 tonnes are attributable to expected sales as a result of the increase in the Group's production capacity and approximately 700,000 tonnes are attributable to the expected sales based on an average historical growth rate of approximately 30% in sales volume and the recovery of commercial activities in the PRC as a result of the foreseeable relaxation of pandemic control and travel restriction measures in the first quarter of 2021. Due to such expected increase in sales volume of carbon steel, the Group expects to increase its purchase of carbon steel from China Baowu Group by approximately 500,000 tonnes based on the proportion of the Group's carbon steel purchased from China Baowu Group in 2020. Having considered the proportion of approximately 41.20%, which was calculated by dividing (i) the Group's total purchase of 1,100,000 tonnes of carbon steel from China Baowu Group for the year ended 31 December 2020 by (ii) the total sales volume of carbon steel of the Group in 2020 of approximately 2,670,000 tonnes, the Group intends to proportionately increase its purchase from China Baowu Group with reference to the expected increase in sales volume of carbon steel of approximately 1,000,000 tonnes. Therefore, the Group expects to increase its purchase of carbon steel from China Baowu Group by approximately 500,000 tonnes after rounding up the figure. According to certain market information, including news articles in the PRC, China Baowu may acquire other steel manufacturers in 2021. By virtue of such possible acquisitions, some suppliers, which are currently independent third parties of the Company, may become members of the China Baowu Group. Based on the Group's amount of purchases from these potential target companies in 2020, an additional 1,000,000 tonnes of carbon steel (equivalent to approximately RMB3.9 billion) has therefore been included in the proposed annual cap in contemplation of such possible acquisitions by China Baowu.

The sales volume of stainless steel in 2020 was approximately 1,920,000 tonnes. Having considered the historical growth percentage and the economic growth in the PRC, it is expected that the sales volume of stainless steel will increase by approximately 260,000 tonnes to approximately 2,180,000 tonnes in 2021 as compared to that of 2020. Such expected increase in sales volume of stainless steel of approximately 260,000 tonnes is attributable to the expected sales based on an average historical growth rate of approximately 5% to 15% in sales volume and the recovery of commercial activities in the PRC as a result of the foreseeable relaxation of pandemic control and travel restriction measures in the first quarter of 2021. Due to such expected increase in sales volume of stainless steel, the Group expects to increase its purchase of stainless steel from China Baowu Group by approximately 200,000 tonnes based on the proportion of the Group's stainless steel purchased from China Baowu Group in 2020. Having considered the proportion of approximately 41.67%, which was calculated by dividing (i) the Group's total purchase of 800,000 tonnes of stainless steel from China Baowu Group for the year ended 31 December 2020 by (ii) the total sales volume of stainless steel of the Group in 2020 of approximately 1,920,000 tonnes, the Group intends to proportionately increase its purchase from China Baowu Group with reference to the expected increase in sales volume of stainless steel of approximately 260,000 tonnes. Therefore, the Group expects to increase its purchase of stainless steel from China Baowu Group by approximately 110,000 tonnes after rounding up the figure. Due to possible acquisitions of other steel manufacturers by China Baowu in 2021, some suppliers, which are currently independent third parties of the Company, may become members of the China Baowu Group. Based on the Group's amount of purchases from these potential target companies in 2020, an additional 90,000 tonnes of stainless steel has therefore been included in the proposed annual cap in contemplation of such possible acquisitions by China Baowu. On the other hand, the Group expects to increase its purchase of stainless steel from other suppliers by approximately 60,000 tonnes.

LETTER FROM THE BOARD

The historical average price of stainless steel for the year ended 31 December 2020 was in the range of RMB12,000 to RMB15,500 per tonne. The historical average price of carbon steel for the year ended 31 December 2020 was in the range of RMB3,700 to RMB5,000 per tonne. Based on the judgment and analysis of the Group's purchase department on the market and their experience in the industry, it is expected that there will be an increase of approximately 3% to 5% in the average price of stainless steel per tonne in each of the next 3 years, rendering the average price of stainless steel to be estimated at RMB12,200 per tonne, RMB12,800 per tonne and RMB13,300 per tonne for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively. While the average price of stainless steel was estimated based on the forecasted growth rate of the PRC's gross domestic product, the average price of carbon steel was estimated based on the historical high rate of RMB4,000 per tonne. The average price of carbon steel was estimated to be RMB3,900 per tonne, RMB4,000 per tonne and RMB4,000 per tonne for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively.

The Group purchased approximately 800,000 tonnes of stainless steel and 1,100,000 tonnes of carbon steel from China Baowu Group for the year ended 31 December 2020. Based on the above, the Group expects to purchase approximately 1,000,000 tonnes of stainless steel and 2,600,000 tonnes of carbon steel from China Baowu Group for the year ending 31 December 2021 and using an estimated average price for stainless steel of RMB12,200 per tonne and an estimated average price for carbon steel of RMB3,900 per tonne, this amounts to approximately RMB22.4 billion. As a result, the Group expects to purchase approximately RMB22.4 billion from China Baowu Group for the year ending 31 December 2021. The Group is however not obliged to purchase from China Baowu Group if their quotations are not reasonable and comparable to the market price and/or the quotations from other suppliers.

In respect of the expected increase in relation to distribution and sale of stainless steel from 2022 onwards, the Group has taken into account the increase of (i) approximately 15% annual sales volume; and (ii) approximately 5% in unit price per tonne. The increase of approximately 15% annual sales volume is attributable to the 10% compound annual growth rate of the consumption of stainless steel in China in the past 10 years and the 14% compound annual growth rate of the sales volume of stainless steel of the Group in the past 10 years.

In respect of the expected increase in relation to distribution and sale of carbon steel from 2022 onwards, the Group has estimated based on the increase of approximately 30% annual sales volume and the unit price of RMB4,000 per tonne. The increase of approximately 30% annual sales volume is based on the compound annual growth rate of over 30% in relation to the sales volume of carbon steel of the Group since the Group commenced its business in relation to carbon steel products in 2013.

Based on the above average annual growth rates in sales volume of stainless steel and carbon steel of 15% and 30% respectively and adopting some buffer to ensure the flexibility for the Group in dealing with any favourable increase in demands for its products, the Group expects to purchase approximately 1,200,000 tonnes of stainless steel and 3,200,000 tonnes of carbon steel from the China Baowu Group for the year ending 31 December 2022. Based on an estimated average price for stainless steel of RMB12,800 per tonne and an estimated average price for carbon steel of RMB4,000 per tonne, the Group expects to purchase approximately RMB28.0 billion from the China Baowu Group for the year ending 31 December 2022. The Group expects to purchase approximately 1,500,000 tonnes of stainless steel and 3,900,000 tonnes of carbon steel from the China Baowu Group for the year ending 31 December 2023. Based on an estimated average price for stainless steel of RMB13,300 per tonne and an estimated average price for carbon steel of RMB4,000 per tonne, the Group expects to purchase approximately RMB35.4 billion from the China Baowu Group for the year ending 31 December 2023.

LETTER FROM THE BOARD

Supply of processed metallic goods and provision of processing service to China Baowu Group

The maximum aggregate amounts to be paid by the China Baowu Group to the Group for the provision of processed metallic goods and processing service pursuant to the New Framework Agreement are expected not to exceed approximately RMB0.25 billion, RMB0.30 billion and RMB0.35 billion for each of the three years ending 31 December 2023, respectively, with reference to the historical information of the China Baowu Group's demand for processed metallic goods and processing services and the indications from China Baowu regarding its requirement for the Group's processing services.

The historical transaction amounts in relation to the supply of processed goods and provision of processing services by the Group to China Baowu Group for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were RMB127 million, RMB96 million and RMB146 million, respectively.

The unit price of service fees in relation to each type of processing service charged by the Group are expected to remain at the current level but the Group expects that the estimated average processing income per tonne of steel will be on an increasing trend as the level of complexity and time required for the processing services required by the China Baowu Group are expected to increase based on the Group's discussion with and indications from China Baowu Group.

It is expected that the revenues of the Group in relation to the supply of processed goods and provision of processing services to China Baowu Group will expand with an increase of over 60% in 2021 as compared to that of 2020. Having considered that (i) the impact of the pandemic of COVID-19 is expected to diminish in 2021; and (ii) the Group and China Baowu Group has strong intention for closer cooperation from 2021 onwards, the Group expects that there will be an increase in revenues in relation to the supply of processed goods and provision of processing services to China Baowu Group of approximately 66% amounting to approximately RMB0.25 billion for the year ending 31 December 2021. The expected increase of approximately 66% in revenue is due to the adverse impact of the pandemic of COVID-19 on the business for the year ended 31 December 2020, the effect of which is expected to diminish in 2021.

With reference to the average growth rate of the consumption of steel in the PRC, the Group estimated that the annual growth rate in processing volume for the years ending 31 December 2022 and 31 December 2023 to be approximately 8%. On the other hand, in view of the increasing complexity of the processing services as requested by the China Baowu Group, the Group estimated that the annual growth rate of its processing income per tonne for the years ending 31 December 2022 and 31 December 2023 to be approximately 10%.

Having considered the above expected average growth rates, the supply of processed goods and provision of processing services to China Baowu Group for the years ending 31 December 2022 and 31 December 2023 are estimated to be RMB0.30 billion and RMB0.35 billion respectively.

With reference to the historical transaction amounts and having taken into account the expected increase in the Group's business volumes in terms of transaction amounts, the annual caps in relation to the maximum aggregate amount of processed metallic goods and processing services are determined to be RMB0.25 billion, RMB0.30 billion and RMB0.35 billion for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively.

For details in relation to the internal control policies of the Group, please refer to the section headed "Pricing and Internal Control".

LETTER FROM THE BOARD

The Company will comply with the requirement of the annual review as set out in Rules 14A.71 to 14A.72 of the Listing Rules and will re-comply with the relevant Listing Rules before any of the Annual Caps is exceeded, or when the New Framework Agreement is renewed or there is any material change to the terms of the New Framework Agreement.

PRICING AND INTERNAL CONTROL

The price in relation to the purchase of steel by the Group from China Baowu Group is determined with reference to the ex-factory price provided by China Baowu Group. Such ex-factory price is different for each supplier and is set by China Baowu Group having taken into account its costs and its analysis on the commodities market conditions. All purchasers of steel from the same supplier will be subject to the same ex-factory price. Based on the experience of the Directors over the years, the market price of steel is led by steel suppliers. The settlement price between the Group and a steel supplier is the ex-factory price.

The purchase department of the Company will obtain quotations from at least 3 suppliers (including China Baowu Group) for different types of steel in the market every month. Based on past practice, every steel supplier will provide one or more quotations every month and the same quotation is provided to all customers. The orders placed in the month will be subject to the latest quotation from the relevant supplier as confirmed with the supplier on the date of the order. The purchase department will assess whether the quotations provided by China Baowu Group are reasonable by comparing them with the steel prices of the same type of steel from other suppliers in the market, taking into account the demands of the Group's customers and considering whether the steel from any particular supplier is better than another in the market, and submit report to the department manager and department head of the purchase department for approval before the Group would confirm to place purchase orders with the China Baowu Group. The Group is not obliged to purchase from China Baowu Group if their quotations are not reasonable and comparable to the market price and/or the quotations from other suppliers.

In respect of the sale of processed goods and provision of processing services by the Group to China Baowu Group, the price is determined by the Group with reference to the costs and weight of the raw materials, the model and specifications of the relevant type of steel, service fees in relation to processing services and costs of delivery and the terms of the processing services are provided by the Group for China Baowu Group's consideration and acceptance. The costs of the raw materials are based on the prevailing market price provided by raw material suppliers (which are independent third parties) on the day when the order is placed. At least 3 quotations would be obtained from the raw material suppliers to assess the prevailing market price. The Group will select the raw material supplier based on the demands and specifications of China Baowu Group. The costs of delivery are based on the actual costs incurred by the Group for the delivery of the processed goods to its customers through third party service providers. Service fees for processing services are charged on a per tonne basis and vary between different type of processing services involving different level of complexity and time required. The same charging standard applies to all customers (without any discounts offered to any particular customers). The basis for determining the price for sale of processed goods and provision of processing services by the Group to China Baowu Group is consistent with that for sale of processed goods and provision of processing services by the Group to independent third parties.

LETTER FROM THE BOARD

Service fees charged on a per tonne basis in relation to each type of processing service provided by the Group are determined by the sales management department of the Group with reference to the prevailing market price of similar type of processing services by obtaining quotations by the sales management department of the Group from at least 3 other suppliers providing similar type of processing services. The sales management department would consider the quotations obtained from the other suppliers and take into account the Group's production costs to set the pricing standards, which will be reviewed in light of the market conditions from time to time. The pricing standards will be passed to the sales department and used as the pricing guidelines. According to the customer's needs, the sales staff will prepare sales order with reference to the weight and prevailing market price per tonne of the raw materials on that day and the processing services required for the approval of the sales manager and the head of the sales department before it is issued.

Based on the above, the Board considers that the procedures disclosed above can allow the Group to assess on whether the pricing in relation to goods and services provided by or to China Baowu Group are at prevailing market prices and ensure that the transactions between the Group with the China Baowu Group will be conducted on normal commercial terms or better.

Each of the finance department, purchase department and sales department of the Company has been informed about the annual caps in relation to the transactions contemplated under the New Framework Agreement. The finance department will check (i) the purchase amount of the Group with the purchase department; and (ii) the sales amount of the Group with the sales department every month to ensure that the actual transaction amounts will not exceed the relevant annual caps. The actual transaction amounts will be audited by the auditors of the Company every year.

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 steel raw materials for the stable operation of the business of the Group, and secure stable revenue and maintain good relationship with a renowned steel manufacturer.

The Directors are of the view that the Group can operate independently from China Baowu despite the Annual Caps proposed for the three years ending 31 December 2023 on the following basis:

- (i) for each of the year ended 31 December 2018 ("**Year 2018**"), the year ended 31 December 2019 ("**Year 2019**") and the year ended 31 December 2020 ("**Year 2020**"), the Group's purchases from China Baowu and its subsidiaries (including STSS) amounted to, in aggregate, approximately 44.93%, 40.92% and 41.13% of the Group's total purchases in the relevant period, respectively. The Directors are of the view that the Group has maintained the purchase transactions with China Baowu Group (including STSS) at a stable and reasonable level;

LETTER FROM THE BOARD

- (ii) although the Group has a long-term business relationship with China Baowu Group (including STSS), and has entered into the New Framework Agreement with China Baowu with a view to maintaining good business relationship with China Baowu, the New Framework Agreement only provides for the maximum amount of steel that may be purchased by the Group but does not impose a minimum purchase commitment or requirement on the part of the Group. In considering whether to purchase steel from China Baowu Group, the Group will take into account the prices and other terms offered by China Baowu Group and other suppliers. To the best of the Directors' knowledge, information and belief, there are currently more than 20 stainless steel and carbon steel suppliers in the PRC and it is not difficult to find substitute suppliers for stainless steel and carbon steel similar to those offered by the China Baowu Group;
- (iii) whilst China Baowu Group is one of the largest stainless steel mills and a reputable steel supplier in the PRC, the Group has purchased stainless and carbon steel from and maintained good business relationship with suppliers other than the China Baowu Group. During Year 2018, Year 2019 and Year 2020, the Group had purchased stainless steel and/or carbon steel from more than 20 suppliers and has established good business relationships with the top 5 suppliers of the Group (without taking into account of China Baowu) for at least 3 years. In the event that the China Baowu Group fails to supply stainless steel and/or carbon steel to the Group or if the prices and other terms offered by China Baowu Group are less favourable than those offered by the other suppliers, the Group will be able to source similar stainless steel and carbon steel from other suppliers; and
- (iv) the relationship between the Group and the China Baowu Group is mutual and complementary: the Group has been one of the top customers of STSS in the past few years and was the largest customer of STSS in Year 2018 and Year 2019, and China Baowu Group has leveraged on the Group's processing capabilities to secure customers that require individualised and advanced processing services.

Based on the above, the Directors consider that the Group can operate independently from China Baowu Group despite the Annual Caps proposed for the three years ending 31 December 2023.

The Directors (including the independent non-executive Directors having taken into account the advice of the Independent Financial Adviser) are of the view that the terms of the New Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

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

LETTER FROM THE BOARD

INFORMATION ON CHINA BAOWU GROUP

The China Baowu Group is principally engaged in the operation of state-owned assets as authorised by the State Council of the PRC.

The ultimate beneficial owner of China Baowu is the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

LISTING RULES IMPLICATIONS

As a substantial shareholder of the Company, China Baowu is a connected person of the Company. The actual aggregate transaction amount between the Group and the China Baowu Group for the period from 23 December 2020 to 27 January 2021 was approximately RMB10,649,000 (excluding the aggregate transaction amount between Jiangsu Daming Group on the one hand, and STSS and its subsidiaries on the other hand) (“**China Baowu Transactions**”).

The highest applicable percentage ratio in respect of the China Baowu Transactions was more than 0.1% and HK\$3,000,000 on 1 January 2021 and an announcement in relation to the China Baowu Transactions should have been made on the same day. Due to the Company’s inadvertent oversight, no such announcement was made on 1 January 2021.

The remedial measure(s) taken/ to be taken by the Company to prevent similar incident and ensure compliance with relevant Listing Rules in the future are as follows:

- (a) the Company has instructed its finance department, purchase department and sales department to closely monitor the transaction amount of the Group from time to time and report to the executive directors to assess whether any disclosure or compliance requirements under the Listing Rules will be triggered;
- (b) the Company will enhance the training provided to the Directors, the senior management and responsible staff, including requesting its legal adviser to give seminars on the compliance requirements and practical knowledge of compliance issues to its staff, so as to reinforce their understanding of and to emphasize the importance of compliance with the Listing Rules;
- (c) the Company will strengthen the implementation of its internal control system including but not limited to strengthening the coordination and reporting arrangements for regulatory compliance matters among the various departments of the Company and the Board to ensure compliance with the Listing Rules; and
- (d) the Company will maintain closer cooperation with its professional advisers in relation to regulatory compliance.

LETTER FROM THE BOARD

The China Baowu Group's ongoing supply of steel to the Group and the Group's ongoing supply of processed metallic goods and processing services to the China Baowu Group pursuant to the New Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The actual aggregate transaction amount between the Group and the China Baowu Group for the period from 1 January 2021 to the Latest Practicable Date was approximately RMB48.19 million, which falls below the exemption threshold under Rule 14A.76(2) of the Listing Rules. Such actual aggregate transaction amount from 1 January 2021 to the Latest Practicable Date is lower than expected because the Independent Shareholders' approval in relation to the New Framework Agreement and the transactions contemplated thereunder has not yet been obtained. The business between the Group and China Baowu Group cannot be carried out as expected. However, the demand for the transactions between the Group and China Baowu Group has not been affected and upon obtaining the Independent Shareholders' approval, the business between the Group and China Baowu Group can be carried out as expected, rendering the transaction amount to increase.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed Annual Caps for each of the three years ending 31 December 2023 exceed 5%, the continuing connected transactions contemplated under the New Framework Agreement and the Annual Caps therefore are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Lin Changchun, a non-executive director of the Company, is currently the senior vice president of Baowu Group Echeng Iron & Steel Co., Ltd, which is a subsidiary of China Baowu. Mr. Lu Jian, a non-executive director of the Company, is currently the deputy director of the marketing centre and head of the marketing and management department at STSS, which is a subsidiary of China Baowu.

Save and except for Mr. Lin Changchun and Mr. Lu Jian who were materially interested in the New Framework Agreement and the transactions contemplated thereunder and therefore had abstained from voting on the Board resolutions approving the New Framework Agreement and the transactions contemplated thereunder, the Directors confirm that none of the other Directors had a material interest in the New Framework Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held at Conference Room A309, Jiangsu Daming Metal Products Co., Limited, No. 1518 Tongjiang Road, Wuxi, Jiangsu, The People's Republic of China on Monday, 31 May 2021 at 3 p.m., to consider and, if thought fit, approve the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps). Any Shareholder with a material interest in the transactions will be required to abstain from voting on the resolution to approve the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

As at the Latest Practicable Date, China Baowu, Tisco and their respective associates, which were interested in, in aggregate, 207,500,000 Shares, representing approximately 16.66% of the issued share capital of the Company, will abstain from voting at the EGM on the resolution in relation to the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

LETTER FROM THE BOARD

The Notice of EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event by 3 p.m. on Saturday, 29 May 2021 (Hong Kong time), being 48 hours before the time appointed for the holding of the EGM. Completion and returning of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021, both days inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the EGM.

In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 25 May 2021.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa, has been established to advise and provide recommendation to the Independent Shareholders in respect of New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 20 to 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 41 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

The Directors (including the independent non-executive Directors having taken into account the advice of the Independent Financial Adviser) are of the view that the terms of the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

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

The English version shall prevail in case of any discrepancy or inconsistency between this English version and its Chinese translation.

Yours faithfully,
For and on behalf of the Board of
Da Ming International Holdings Limited
Zhou Keming
Chairman



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)

10 May 2021

To the Independent Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE NEW FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 10 May 2021 (“**Circular**”) despatched to the Shareholders of which this letter forms part. Unless the context requires otherwise, terms and expressions defined or adopted in the Circular shall have the same meanings in this letter.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

We wish to draw your attention to the letter from the Board as set out on pages 5 to 19 of the Circular and the text of a letter of advice from the Independent Financial Adviser as set out on pages 22 to 41 of the Circular, both of which provide details of the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the New Framework Agreement (including the Annual Caps) and the principal factors and reasons considered by the Independent Financial Adviser and its advice, we are of the opinion that the terms of the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the New Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

Yours faithfully
For and on behalf of
the Independent Board Committee of
Da Ming International Holdings Limited

Mr. Cheuk Wa Pang Prof. Hua Min Mr. Lu Daming Mr. Liu Fuxing Mr. Hu Xuefa
Independent Non-Executive Directors

LETTER FROM THE 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 2502, 25th Floor
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

10 May 2021

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE NEW FRAMEWORK AGREEMENT

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 (the “**Letter from the Board**”) contained in the circular of the Company dated 10 May 2021 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

On 27 January 2021, the Company and China Baowu entered into the New Framework Agreement in relation to the ongoing (i) supply of steel raw materials by China Baowu Group to the Group; and (the “**Purchase of Steel Raw Materials**”); and (ii) provision of processed metallic goods and steel processing services by the Group to China Baowu Group (the “**Provision of Steel Processing Services**”) during the period from 1 January 2021 to 31 December 2023.

The Company has been informed by China Baowu that China Baowu has acquired 51% of the equity interests in Taiyuan Steel and the Acquisition was completed on 23 December 2020. Prior to the completion of the Acquisition, the Company was held as to approximately 8.33% by China Baowu and 8.33% by Tisco (a wholly-owned subsidiary of STSS, which was in turn a subsidiary of Taiyuan Steel), respectively. Immediately after the completion of the Acquisition, Taiyuan Steel became a subsidiary of China Baowu, and China Baowu became a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 16.66% of the equity interest in the Company (comprising 8.33% directly held by China Baowu and 8.33% indirectly held by China Baowu through Tisco). As such, the transactions (including (i) the Purchase of Steel Raw Materials and (ii) the Provision of Steel Processing Services), pursuant to the New Framework Agreement, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules (the “**Continuing Connected Transactions**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed annual caps for each of the three years ending 31 December 2023 exceed 5%, the Continuing Connected Transactions and their respective annual caps therefore are subject to the reporting, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Cheuk Wa Pang, Prof. Hua Min, Mr. Lu Daming, Mr. Liu Fuxing and Mr. Hu Xuefa, has been established to advise the Independent Shareholders on:

- (a) whether the terms of the New Framework Agreement and the Continuing Connected Transactions are (i) on normal commercial terms and in the ordinary and usual course of business of the Company, and (ii) fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (b) how the Independent Shareholders should vote in respect of the resolution(s) to approve the New Framework Agreement, and the transactions contemplated thereunder at the EGM.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement, and the transaction contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the "**Management**"). We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the New Framework Agreement, and 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 form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New Framework Agreement, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the New Framework Agreement (together with the proposed caps thereof), we have taken into consideration the following principal factors and reasons:

1. Background of the New Framework Agreement

The Group is principally engaged in the processing, distribution and sale of steel products (including stainless steel and carbon steel).

China Baowu Group is principally engaged in the manufacturing and distribution of steel products. Prior to the Acquisition, certain subsidiaries of the Company and certain subsidiaries of China Baowu entered into a series of Supply Agreements in relation to ongoing supply of stainless steel and carbon steel by the relevant subsidiaries of China Baowu to the relevant subsidiaries of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the announcement of the Company dated 22 December 2017 and 3 October 2018, Jiangsu Daming Metal Products Company Limited (an indirect wholly-owned subsidiary of the Company) and STSS (a non wholly-owned subsidiary of Taiyuan Steel) entered into the STSS Agreements in relation to the ongoing (a) supply of steel raw materials by STSS to the Group; and (b) provision of steel processing services by the Group to STSS during the period from 1 January 2018 to 31 December 2020. The STSS Agreements had been expired on 31 December 2020.

With reference to the Letter from the Board, China Baowu acquired 51% of the equity interests in Taiyuan Steel on 23 December 2020. Since STSS became an indirect non-wholly owned subsidiary of China Baowu after the completion of the Acquisition, the Company and China Baowu entered into the New Framework Agreement in relation to the ongoing transactions, including (i) the Purchase of Steel Raw Materials; and (ii) the Provision of Steel Processing Services.

2. Reasons for and benefits of the New Framework Agreement

With reference to the Letter from the Board, the Directors believe that the entering into of the New Framework Agreement enables the Group to (i) secure constant supply of quality steel raw materials for the stable operation of the business of the Group, (ii) secure stable revenue, and (iii) maintain good relationship with a renowned steel manufacturer.

According to the annual report of the Company for the year ended 31 December 2017, 2018 and 2019, the sale volume of steel products of the Group (including stainless steel and carbon steel) was approximately 3.30 million tonnes, 3.82 million tonnes and 4.54 million tonnes for the year ended 31 December 2017, 2018 and 2019, respectively, which represents a compound annual growth rate (“CAGR”) of 17.3% and show a steady growth rate of the sale volume of steel products in the past 3 years. As advised by the Management, such increase was primarily due to the increased demand of the Group’s carbon steel processing services.

Besides, due to the long history and close working relationship between the Group and China Baowu Group, China Baowu Group has been familiar with the product specifications or demands of the Group, and accordingly could supply the raw materials based on different demands from the Group in a cost-effective manner.

Having considered (i) the principal business of the Group; (ii) the nature of the Continuing Connected Transactions; (iii) the historical growth trend of the sale volume of steel products of the Group; and (iv) the stable cooperation in respect of supply of steel raw materials between the Group and China Baowu Group, we concur with the view of the Directors that the Group should have a stable supply of quality steel raw materials for the operation of its business by entering into the New Framework Agreement. As such, we are of the view 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 THE INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the New Framework Agreement

The principal terms of the New Framework Agreement are summarised as follows:

Date:	27 January 2021
Parties:	The Company China Baowu
Period:	1 January 2021 to 31 December 2023
Subject matter:	(i) the Purchase of Steel Raw Materials; and (ii) the Provision of Steel Processing Services
Basis of pricing:	(i) The purchase price of the steel raw materials; and (ii) the purchase price of the processed metallic goods and processing fee, are to be determined with reference to the prevailing market price of similar products and service at the time when the order is placed and will be on normal commercial terms or not less favourable terms than those available to independent third parties at the relevant time.

The respective prevailing market price of the steel, processed metallic goods and processing fee will be determined on normal commercial terms based on the following:

- (i) the price of similar products of service offered by/to independent third parties in the same or near region agreed on normal commercial terms in the ordinary course of business of the Group; or
- (ii) if the above (i) is not applicable, the price of similar products and service offered by/to independent third parties in the PRC agreed on normal commercial terms in the ordinary course of business of the Group.

Payment terms:	Payment should be made by the relevant member of the Group or the relevant member of the China Baowu Group (as the case may be) in accordance with the terms of the definitive contracts (as detailed below) to be entered into.
Definitive contracts:	Definitive contracts specifying the price, quality, quantity, delivery date and transportation method in relation to the products and service will be entered into between the relevant member of the Group and the relevant member of the China Baowu Group as and when required.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions precedent: The obligations of the parties under the New Framework Agreement shall be conditional upon:

- (i) if required, the approval of the New Framework Agreement by the independent Shareholders and the Stock Exchange; and
- (ii) the Company's compliance of the Listing Rules in the respect of continuing connected transactions.

4. Basis of determination

A. *The ongoing merger and reorganisation of the China Baowu Group*

In September 2016, the State-owned Assets Supervision and Administration Commission of the State Council (“國務院國有資產監督管理委員會”) had agreed to the strategic reorganisation of Baosteel Group (“寶山鋼鐵股份有限公司”) and Wuhan Iron and Steel Group (“武漢鋼鐵集團”), and the merger of them into the China Baowu Group, as the largest iron and steel enterprise in the PRC.

Subsequently, encouraged by the above PRC government's policies, the China Baowu Group continued with its merger strategy by acquiring a number of steel enterprises in a large-scale operation in the PRC in order to centralise the resources and improve the production efficiency. Upon completion of the merger with Taiyuan Steel on 23 December 2020, the China Baowu Group has become the largest steel enterprise in the world in terms of the production capacity.

After discussing with the Management, we understand that certain steel enterprises that have been acquired or may potentially be acquired by the China Baowu Group have stable business relationship with the Group, in particular for supplying steel materials to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In this regard, we have obtained a list from the Group demonstrating the details of those steelmakers, as the Group's suppliers of steel raw materials, which have been acquired or may potentially be acquired by the China Baowu Group.

Company	Background	Status	Transaction amount with the Group (RMB' billion)	
			2019	2020
Wuhan Iron and Steel Group (武漢鋼鐵集團)	a leading state-owned steel maker located in Hubei Province, the PRC	Completed in 2016	1.93	0.82
Wuhan Iron & Steel Group Echeng Iron & Steel Co., Ltd. (武漢鋼鐵集團鄂城鋼鐵有限責任公司)	a major state-owned steel maker located in Hubei Province, the PRC	Completed in 2016	0.10	0.11
Magang Holding Co., Ltd (馬鋼集團)	a leading state-owned steel maker located in Anhui Province, the PRC and the shares of the company are listed on Shanghai Stock Exchange (600808.SH)	Completed in 2019	0.44	0.34
Chongqing Iron & Steel Company Limited (重慶鋼鐵股份有限公司)	a leading state-owned steel maker located in Chongqing, the PRC and the shares of the company are listed on the Stock Exchange (1053.HK)	Completed in 2020	–	0.14

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company	Background	Status	Transaction amount with the Group (RMB' billion)	
			2019	2020
Taiyuan Steel (太原 鋼鐵)	a leading state-owned stainless steel maker located in Shanxi Province, the PRC and the shares of STSS (a non wholly-owned subsidiary of Taiyuan Steel) are listed on Shenzhen Stock Exchange (000825.SZ)	Completed in 2020	7.58	7.92
Potential Target A	a leading state-owned steel maker located in Shandong Province, the PRC	In progress and expected to complete in 2021	0.01	0.10
Potential Target B	a largest state-owned steelmaker located in Guangxi, the PRC	In progress and expected to complete in 2021	3.69	4.30

By virtue of such mergers, the independent third-party suppliers of the Group have or would become the Company's connected persons and therefore the transactions with them shall be counted into the continuing connected transactions between the Company and the China Baowu Group under Chapter 14A of Listing Rules. As such, we consent with the Management that the estimated amounts on the transactions with the suppliers, which would become the Company's connected persons as a result of the foreseeable mergers by the China Baowu Group, have been taken into account when determining the Proposed Annual Caps A and Proposed Annual Caps B under the New Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. Proposed annual caps of the Purchase of Steel Raw Materials

The table below sets forth the maximum aggregate amounts of the Purchase of Steel Raw Materials under the New Framework Agreement (the “**Proposed Annual Caps A**”) for the three years ending 31 December 2023:

	Year ending 31 December 2021 (RMB’ billion)	Year ending 31 December 2022 (RMB’ billion)	Year ending 31 December 2023 (RMB’ billion)
Proposed Annual Caps A	22.4	28.0	35.4
Growth rate		25.0%	26.4%

Assessment on the Proposed Annual Caps A

In order to understand the Proposed Annual Caps A, we have obtained and reviewed a purchase plan demonstrating the Group’s estimation on purchase amounts of steel raw material from China Baowu Group. The table below sets forth the details (including (i) the purchase volume of steel and (ii) the average purchase price per tonne of steel) of the Purchase of Steel Raw Materials, e.g. stainless steel and carbon steel, for the two years ended 31 December 2020, and three years ending 31 December 2023:

	Year ended 31 December 2019 (Actual)	Year ended 31 December 2020 (Actual)	Year ending 31 December 2021 (Estimated)	Year ending 31 December 2022 (Estimated)	Year ending 31 December 2023 (Estimated)
<i>– Stainless steel</i>					
Purchase volume of stainless steel (tonne)	779,000	800,000	1,000,000	1,200,000	1,500,000
Average purchase price per tonne of stainless steel (RMB)	12,670	11,800	12,170	12,800	13,300
Total amount (RMB’ billion)	9.87	9.44	12.17	15.36	19.95
<i>– Carbon steel</i>					
Purchase volume of carbon steel (tonne)	1,014,000	1,100,000	2,610,000	3,150,000	3,850,000
Average purchase price per tonne of carbon steel (RMB)	3,556	3,600	3,910	4,000	4,000
Total amount (RMB’ billion)	3.61	3.96	10.21	12.60	15.40
<i>– Stainless steel and carbon steel</i>					
Total amount (RMB’ billion)	13.48	13.40	22.38	27.96	35.35

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Historical Purchase Amounts

As demonstrated in the table above, the historical purchase amounts for the years ended 31 December 2019 and 2020 (“**Historical Purchase Amounts**”) was approximately RMB13.48 billion and RMB13.40 billion respectively. Such slight decrease in the Historical Purchase Amount for the year ended 31 December 2020 was mainly due to the temporary downturn in the market price of stainless steel as a result of the caused by global outbreak of COVID-19 through 2020.

In addition, it is noted that volume of stainless steel and carbon steel purchased by the Group from China Baowu was approximately 0.8 million tonnes and 1.1 million tonnes for the year ended 31 December 2020 respectively, representing an increase of 3% and 8% as compared to the previous year, respectively. As such, we are of the view that the cooperation between the Group and China Baowu in respect of supply of the steel raw materials are stable despite the outbreak of COVID-19 in 2020.

Proposed Annual Caps A

To assess the reasonableness and fairness of the basis of determination of the Proposed Annual Caps A, we have discussed with the Management and reviewed the underlying principal assumptions and bases considered in the determination of the Proposed Annual Caps A. We understand from the Management that the Company has adopted the Proposed Annual Cap A by considering (a) Historical Purchase Amounts as stated above; (b) the market outlook of steel in the PRC; and (c) the anticipated growth of the Group’s business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The market outlook of steel in the PRC

We have conducted the following research and analysis on the market trend of steel:

- A. According to a market research published on the website of Qianzhan Industry Research Institute (前瞻產業研究院 or <https://www.qianzhan.com/>), a leading industry research and market consultancy institute in the PRC, it is estimated that the consumption of steel in the PRC will grow from approximately 25.5 million tonnes in 2020 to approximately 34.6 million tonnes in 2025 with an average growth rate of 7.1% per annum.
- B. With reference to the market analysis published by Steelcn.cn (中鋼網 or <https://www.steelcn.cn>), it is the government's strategies that, under the 14th Five-Year Plan 2021 to 2025 (“十四五規劃”),
 - a. additional investment will be made to more infrastructure industries across different regions of the PRC;
 - b. the real estate market in the PRC will remain stable as a result of bullish domestic demand in the PRC; and
 - c. the manufacturing industries in the PRC, in particular for clear energy automakers, will experience a significant growth in terms of the production volumes.

As the development of above industries will result in strong demand on steels, we understand from the market article that an increase in the production volume as well as the market price of steels is foreseeable during the period of the 14th Five-Year Plan.

The anticipated growth of the Group's business

The Group has worked closely with China Baowu Group to determine the Proposed Annual Caps A for each of the three years ending 31 December 2023. We have reviewed such purchasing plans provided by the Group and noted the following details based on the purchasing plans:

- (i) the estimated amount of the Purchase of Steel Raw Materials for the year ending 31 December 2021 are expected to increase by approximately RMB8.98 billion as compared to the actual amount of the Purchase of Steel Raw Materials for the year ended 31 December 2020; and
- (ii) the estimated amount of the Purchase of Steel Raw Materials for the years ending 31 December 2022 and 2023 is approximately RMB28.0 billion and RMB35.4 billion, representing a growth rate of approximately 25% and 26% as compared to the previous year respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ending 31 December 2021

To assess the fairness and reasonableness of the growth in the business, we have discussed with the Management and assessed that the estimated amount of the Purchase of Steel Raw Materials for the year ending 31 December 2021 by considering (1) the expected increase in the transaction amounts with the China Baowu Group as a result of its foreseeable merger with two existing suppliers of the Group; and (2) the expected business growth of the Group as follows:

- (1) As discussed above, it is expected that the China Baowu Group will acquire the controlling interests in Potential Target A and Potential Target B respectively during 2021 and therefore the transaction amounts of such suppliers for the year ending 31 December 2021 shall be counted into the Proposed Annual Caps A. Based on the understanding from the Group, we are of the view that it is fair and reasonable for the Group to take into account the growth of approximately RMB4.05 billion from Potential Target A and Potential Target B, as the average of historical transaction amounts of approximately RMB3.7 billion and RMB4.4 billion for the years ended 31 December 2019 and 2020 respectively;
- (2) The increase rate in the purchase volume has been estimated to be 7%, which is generally consistent with the growth rate in the steel consumption in the PRC of 7.1% per annum during 2020 to 2025 as stated in the above section headed “The market outlook of the steel in the PRC”; and

In addition, based on our review on the steel price index published on <https://www.mysteel.com/>, the steel price has increased by 8.8% during the period of 31 December 2020 and 31 March 2021. In this regard, we are of the view that it is fair and reasonable to estimate the overall growth rate in the steel price in 2021 to be 9% despite the Group adopted a growth rate of 3.2% on the purchasing price of stainless steel based on the discussion and negotiation with the China Baowu Group; and

- (3) A buffer of 10% has been properly adopted to ensure the flexibility for the Group in dealing with any unforeseeable increase of the Continuing Connected Transactions under the Proposed Annual Caps A.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the two years ending 31 December 2022 and 2023

In addition, based on our assessment on the amounts in the next two years, we consider that the growth rate of approximately 25% and 26% in the transaction amount for 2022 and 2023 respectively is justifiable after taking into account the following facts and circumstances:

- (1) The overall growth in the purchase volume of 7%, which is the same as the year of 2021;
- (2) The overall growth in the steel price of 8%, which is similar to the year of 2021, although the Group considers that the growth rate in stainless steel price might fall into the range of 3% to 5% while the carbon steel price might remain at a stable level of RMB4,000 per tonne during 2022 to 2023; and
- (3) A buffer of 10% has been properly adopted to ensure the flexibility for the Group in dealing with any unforeseeable increase of the Continuing Connected Transactions under the Proposed Annual Caps A.

Views

Having considered the factors and circumstances as stated above, we concur with the Directors that the Proposed Annual Caps A under the New Framework Agreement is fair and justifiable, on normal commercial terms or better, in ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing policies and procedures

The Group has implemented the following pricing policies and procedures in place for its daily operation in respect of the Continuing Connected Transactions:

- The procurement department of the Company is responsible for preparing a budget of the purchase of steel raw materials, which is based on (i) the historical volume consumed by the Group; (ii) the sales order received by its customers; and (iii) the inventory level of the steel raw materials. Such budget will be reviewed and approved by the Management.
- After the approval of the said budget by the Management, the procurement department of the Company would identify no less than three different suppliers, including China Baowu Group and two other pre-approved independent suppliers from the list of pre-approved suppliers.
- The procurement department of the Company would assess the pre-approved supplier based on their record of historical transactions with the Group, including any delay of delivery and quality of the products, and update the list of pre-approved suppliers on a monthly basis.
- After obtaining the quotations from three different suppliers, the procurement department of the Company would compare the steel prices of the same type of steel from other suppliers in the market, taking into account the demands of the Group's customers and considering whether the steel from any particular supplier is better than another in the market, and submit report to the Management for approval before the Group would confirm to place purchase orders with China Baowu Group.

We have obtained a complete list of all Purchase of Steel Raw Materials for the year ended 31 December 2020 and randomly selected one transaction in each quarter from the list as samples. Based on the samples selected, we have reviewed the corresponding quotations from two pre-approved independent suppliers and (ii) compared them with the unit price of steel offered by China Baowu Group. We note that the unit price of steel offered by the China Baowu Group is not higher than and the other relevant terms are not less favorable than those offered by the pre-approved independent suppliers to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Views

Having considered that (i) the Group has established an internal control procedure to ensure that the pricing for the Purchase of Steel Raw Materials under the New Framework Agreement is not less favourable than those offered by independent third parties; (ii) the Company will collect the quotations from independent third parties in the market, at a regular basis, to compare with price offered by China Baowu; and (iii) the Management will review the continuing connected transactions under at a regular basis, we are of the view that the pricing policies and procedures for the Purchase of Steel Raw Materials under the New Framework Agreement is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

– *Proposed annual caps of the Provision of Steel Processing Services*

The table below sets forth the maximum aggregate amounts of the Provision of Steel Processing Services under the New Framework Agreement (the “**Proposed Annual Caps B**”) for the three years ending 31 December 2023:

	Year ending 31 December 2021 <i>(RMB’ billion)</i>	Year ending 31 December 2022 <i>(RMB’ billion)</i>	Year ending 31 December 2023 <i>(RMB’ billion)</i>
Proposed Annual Caps B	0.25	0.30	0.35
Growth rate		20.0%	16.6%

Assessment on the Proposed Annual Caps B

In order to understand the Proposed Annual Caps B, we have obtained and reviewed a sales plan demonstrating the Group’s estimation on the amounts of the Provision of Steel Processing Services to the China Baowu Group. The table below sets forth the details (including (i) the processing volume of steel and (ii) the average processing price per tonne of steel) of the Provision of Steel Processing Services for the two years ended 31 December 2020, and three years ending 31 December 2023:

	Year ended 31 December 2019 <i>(Actual)</i>	Year ended 31 December 2020 <i>(Actual)</i>	Year ending 31 December 2021 <i>(Estimated)</i>	Year ending 31 December 2022 <i>(Estimated)</i>	Year ending 31 December 2023 <i>(Estimated)</i>
Processing volume of steel (<i>tonne</i>)	181,000	247,000	375,000	412,000	435,000
Average processing price per tonne of steel (<i>RMB</i>)	530	600	660	720	800
Subtotal (<i>RMB’ billion</i>)	0.10	0.15	0.25	0.30	0.35

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Historical Processing Services Amounts

We have reviewed the historical processing services amounts for the years ended 31 December 2019 and 2020 (the “**Historical Processing Services Amounts**”), which was approximately RMB0.10 billion and RMB0.15 billion respectively. As discussed with the Management, the increase of the Historical Processing Services Amounts in 2020 was mainly due to:

- (i) the increase in the market price of carbon steel which is a reference made to the Group when determining the unit price for the Provision of Steel Processing Services, details of which have been stated in the section headed “Pricing policies and procedures” below; and
- (ii) the increase in processing volume of steel as a result of the growth in the demand of steel from the China Baowu Group.

Proposed Annual Caps B

To assess the reasonableness and fairness of the Proposed Annual Caps B, we have discussed with the Management and reviewed the underlying principal assumptions and bases considered in the determination of the Proposed Annual Caps B. We understand from the Management that the Company has adopted the Proposed Annual Cap B by considering (a) the Historical Processing Services Amounts as stated above and (b) the anticipated growth of the demand from the China Baowu Group.

The anticipated growth of the demand from the China Baowu Group

The Group has worked closely with China Baowu Group to determine sales budget plans for each of the three years ending 31 December 2023. We have reviewed such sales budget plans provided by the Group and assessed the estimated transaction amounts for the three years ending 31 December 2023.

For the year ending 31 December 2021

- (i) The estimated processing volume of steel (including stainless steel and carbon steel) for the year ending 31 December 2021 is 375,000 tonnes.

With the ongoing merger and reorganization, the China Baowu Group has the increasing demand on finish steel products from its end customers. Accordingly, the China Baowu Group’s demand for the Provision of Steel Processing Services from the Group has been enhanced.

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We have obtained a list from the Group which summarizes the details of the purchase orders received by the China Baowu Group in the first quarter of 2021, including but not limited to the volume, requirement on raw materials and processing techniques, which requires the processing services from the Group. Based on the list, it is noted that the Group has the demand on finished steel products with the processing volume of approximately 95,000 tonnes from the China Baowu Group for the Provision of Steel Processing Services as at 31 March 2021, representing an annualised volume for the year ending 31 December 2021 of 380,000 tonnes which is in line with the Group's budget; and

- (ii) On the other hand, we have assessed the unit price for the Provision of Steel Processing Services mainly by considering (a) the market price of steel in the PRC; and (b) the processing service fees subject to the level of complexity and processing techniques required for different raw materials.
 - a. As discussed in this letter above, an average growth rate of 8% is the market price of steel is adopted by the Group on a fair and reasonable basis; and
 - b. Based on the abovementioned list, we have reviewed the processing techniques required by the China Baowu Group in accordance with the purchase orders that it has received. Furthermore, we have compared them with the Group's purchase orders in the previous year and note that the specifications for the processing service required by the customers as at 31 March 2021 generally have higher level of complexity and more comprehensive procedure for processing services, which would result in a higher charge to the China Baowu Group.

In this regard, we consider that it is fair and reasonable to forecast a growth rate in unit price of the Provision of Steel Processing Services of 10% for the year ending 31 December 2021.

For the two years ending 31 December 2022 and 2023

In order to assess the estimated transaction amount of the Provision of Processing Raw Materials of approximately RMB296.64 million and RMB348 million, representing a growth rate of 20% and 17% in the respect year, we have taken into account the following facts and circumstances:

- (1) The growth in the steel consumption in the PRC of 7% during 2022 to 2023 as stated in above section headed "the market outlook of steel in the PRC";
- (2) The stable growth in the steel price of 8% per annum during 2022 to 2023, which is the same as the year of 2021; and

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- (3) The level of complexity and processing techniques that would be required by the China Baowu Group in the foreseeable future based on the communication and discussion between China Baowu and its end customers.

Views

Based on the review as stated above, we concur with the Directors that the Proposed Annul Caps B under the New Framework Agreement is fair and justifiable, on normal commercial terms or better, in ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole.

Pricing policies and procedures for the Provision of Steel Processing Services

The Group has implemented the following pricing policies and procedures in place for provision of processing services by the Group to China Baowu. The price is determined by the Group with reference to the costs and weight of the raw materials, the model and specifications of the relevant type of steel, service fees in relation to processing services and costs of delivery and the terms of the processing services provided by the Group for China Baowu, where:

- (i) The costs of the raw materials are based on the prevailing market price on the day when the order is placed. The Group would obtain at least three quotations from the raw materials suppliers to assess the market price of the steel raw materials with the same or similar specifications required by the China Baowu Group;
- (ii) The costs of delivery are based on the actual costs incurred by the Group for the delivery of the processed goods to its customers; and
- (iii) The processing fees for are charged on a per tonne basis and determined based on different type of processing services involving different level of complexity and time and processing techniques required. Besides, the processing fees are with reference to the prevailing market price for the same or similar type of processing services by obtaining at least three quotations from other processing service providers in the market.

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In order to assess the pricing policies of the Provision of Steel Processing Service, we have obtained a complete list of all Provision of Steel Processing Services for the year ended 31 December 2020 and randomly selected one transaction in each quarter from the list as samples. Based on the samples selected, we have reviewed:

- (i) the corresponding quotations obtained from other suppliers and processing service providers in connection with the costs of the raw materials and processing fees, respectively. After comparing them with the prices offered to the China Baowu Group. We are of the view that the costs of the raw materials and processing fees adopted in determining the unit price for the Provision of Steel Processing Services are in line with the prevailing market level; and
- (ii) the corresponding quotations from two pre-approved independent customers and compared them with the unit price of the Provision of Steel Processing Services offered by the Group to China Baowu. We note that the unit price offered to the China Baowu Group is not lower than and the other relevant terms are not less favorable than those offered to the pre-approved independent customers of the Group.

Views

Having considered that (i) the Group has established an internal control procedure to ensure that the pricing for the Provision of Steel Process Services under the New Framework Agreement is not less favourable than those offered to independent third parties; (ii) the Company will collect the quotations from independent third parties in the market, at a regular basis, to compare with price offered to China Baowu to ensure the consistency with the current market price; and (iii) the Management will review the continuing connected transactions at a regular basis, we are of the view that the pricing policies and procedures for the Provision of Steel Processing Services under the New Framework Agreement is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

Internal control policies and procedures for the Continuing Connected Transactions

The Group has implemented the following internal control policies and procedures in place to ensure that the annual cap of the Continuing Connected Transactions will not be exceeded and the relevant Listing Rules will be complied with from time to time:

- The finance department of the Company reviews the amount of the Continuing Connected Transactions on a monthly basis to ensure the respective annual cap not being exceeded.
- The independent auditors will be engaged to review the Continuing Connected Transactions in compliance with the requirements of the annual reporting under the Listing Rules.
- The independent non-executive Directors would review the Continuing Connected Transactions to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable.

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To assess the internal control procedures, we have (i) obtained the internal control manual of the Company and reviewed the above procedures in respect of the Continuing Connected Transactions; (ii) discussed with the Management to ensure the finance department of the Company would follow the internal control policies to review the amount of the Continuing Connected Transactions on a monthly basis; and (iii) reviewed the monthly report prepared by the finance department.

Based on our review, we understand that the financial department of the Company produces, on a monthly basis, a report to the management team summarising (a) the monthly amounts of the continuing connected transactions of the Company and (b) the aggregate amounts of the continuing connected transactions of the Company for the current financial year. Such monthly report would provide the management team with a necessary mechanism to monitor the progress of the continuing connected transactions and to ensure that the amounts would not exceed the annual caps of the continuing connected transactions.

Views

Based on the above, we concur with the view of the Directors that the internal control measures adopted by the Group for the Continuing Connected Transactions under the New Framework Agreement have been properly implemented, and are sufficient to safeguard the interest of the Company and Independent Shareholders.

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 terms 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 Agreement and the proposed caps if the Company were to convene a Shareholders' meeting for the approval of the New Framework Agreement and transactions contemplated therein.

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

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Donvex Capital Limited who has over 19 years of experience in corporate finance industry.

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. DISCLOSURES 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 (the “**Model Code**”) 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	Personal, family and corporate	793,551,000 ⁽¹⁾	63.73%
Mr. Jiang Changhong	Personal	384,000	0.03%
Ms. Xu Xia	Personal, family and corporate	793,551,000 ⁽¹⁾	63.73%
Mr. Zou Xiaoping	Personal and family	5,060,000 ⁽²⁾	0.41%
Dr. Fukui Tsutomu	Personal and family	1,864,000 ⁽³⁾	0.15%
Mr. Zhang Feng	Personal	2,244,000 ⁽⁴⁾	0.18%
Mr. Wang Jian	Personal and family	1,696,000 ⁽⁵⁾	0.14%

Notes:

- 793,435,000 shares are held by Ally Good Group Limited, which is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia. 60,000 shares are held by Mr. Zhou Keming and 56,000 shares are held by Ms. Xu Xia personally.
- 60,000 shares are held by Mr. Zou Xiaoping and 5,000,000 shares are held by Mr. Zou Xiaoping’s spouse, Ms. Li Jun.

3. The interest comprises 498,000 shares held by Dr. Fukui Tsutomu, 866,000 shares held by Dr. Fukui Tsutomu's spouse, Ms. Mizuho Fukui and 500,000 underlying shares in respect of the share options granted to Dr. Fukui pursuant to the share option scheme of the Company.
4. The interest comprises 2,144,000 shares and 100,000 underlying shares in respect of the share options granted pursuant to the share options scheme of the Company.
5. The interest comprises 448,000 shares held by Mr. Wang Jian, 848,000 shares held by Mr. Wang Jian's spouse, Ms. Zhang Minxian and 400,000 underlying shares in respect of the share options granted to Mr. Wang Jian 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	Nature of interests	% of issued share capital	
			Number of shares interested	of the associated corporation
Mr. Zhou Keming	Ally Good Group Limited ⁽⁶⁾	Personal and family	1,000 ⁽⁷⁾	100%
Ms. Xu Xia	Ally Good Group Limited ⁽⁶⁾	Personal and family	1,000 ⁽⁷⁾	100%

Notes:

6. As at the Latest Practicable Date, Ally Good Group Limited is the holder of 63.72% of the issued share capital of the Company and is an associated corporation under SFO.
7. 772 shares are held by Mr. Zhou Keming and 228 shares are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

Mr. Lin Changchun, a non-executive director of the Company, is currently the senior vice president of Baowu Group Echeng Iron & Steel Co., Ltd, which is a subsidiary of China Baowu. Mr. Lu Jian, a non-executive director of the Company, is currently the deputy director of the marketing centre and head of the marketing and management department at STSS, which is a subsidiary of China Baowu.

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 Group Limited, 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. Save for Mr. Zhou Keming, no other directors of the Company is a director or employee of 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 provisions 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.

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 close 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 31 December 2020, being 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 and their respective associates 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 its consent to the issue of this circular with inclusion of its letter (which has been prepared for inclusion in this circular) 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.

As at the Latest Practicable Date, Donvex Capital Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

The Letter from the Independent Financial Adviser is given as of the date of this circular for incorporation herein.

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 2020, 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 (unless typhoon signal No. 8 or above is hoisted or a black rainstorm warning signal is issued) 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 from the date of this circular up to and including the date of the EGM:

- (a) the New Framework Agreement;
- (b) the letter from the Board, the text of which is set out on pages 5 to 19 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 22 to 41 of this circular;
- (e) the written consent referred to under the section headed “Expert” in this appendix; and
- (f) this circular.

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 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of the shareholders of Da Ming International Holdings Limited (“**Company**”) will be held at Conference Room A309, Jiangsu Daming Metal Products Co., Limited, No. 1518 Tongjiang Road, Wuxi, Jiangsu, The People’s Republic of China on Monday, 31 May 2021 at 3 p.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolution of the Company:

ORDINARY RESOLUTION

1. **“THAT:**

- (a) the New Framework Agreement (as defined in the circular of the Company dated 10 May 2021 of which this notice forms part (“**Circular**”)) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;
- (b) the Annual Caps (as defined in the Circular) in respect of the proposed maximum annual monetary value of the transactions contemplated under the New Framework Agreement for each of the three years ending 31 December 2023 be and are hereby approved; and
- (c) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the New Framework Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

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

Hong Kong, 10 May 2021

NOTICE OF EXTRAORDINARY GENERAL MEETING

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, Tong Jiang Road
Wuxi, Jiangsu
People's Republic of China

Principal Place of

Business in Hong Kong:
Suite 1007, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

Notes:

- (1) The register of members of the Company will be closed from 26 May 2021 to 31 May 2021 (both days inclusive), during which period no transfer of Shares can be registered. In order to be entitled to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 May 2021.
- (2) Any member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 3:00 p.m. on 29 May 2021 (Hong Kong time), being 48 hours before the time appointed for the EGM. Completion and returning of the form of proxy will not preclude a member from attending and voting in person at the EGM or any adjournment thereof should she/he so wishes.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at any 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 are 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 of the relevant joint holding.
- (4) In compliance with Rule 13.39(4) of the Listing Rules, voting on the resolution proposed in this notice shall be decided by way of a poll at the EGM.
- (5) If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a "black" rainstorm warning signal is expected to be in force at any time after 7:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the respective websites of the Company (<http://www.dmssc.net>) and the Stock Exchange (www.hkexnews.hk) to notify Shareholders of the date, time and venue of the rescheduled EGM.

If a tropical cyclone warning signal No. 8 or above or a "black" rainstorm warning signal is lowered or cancelled at or before 7:00 a.m. on the date of the EGM and where conditions permit, the EGM will be held as scheduled. The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

Having considered their own situations, Shareholders should decide on their own whether they would attend the EGM under a bad weather condition and if they do so, they are advised to exercise care and caution.

- (6) Shareholders are advised to read the circular of the Company dated 10 May 2021 which contains information concerning the resolutions to be proposed in the EGM.