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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)

CONNECTED TRANSACTION
CONDITIONAL SUBSCRIPTION OF NEW SHARES BY
THE SUBSCRIBER BEING A CONNECTED PERSON

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



Donvex Capital Limited

CONTENTS

| | <i>Page</i> |
|--|-------------|
| DEFINITIONS | 1 |
| LETTER FROM THE BOARD | 5 |
| LETTER FROM THE INDEPENDENT BOARD COMMITTEE | 13 |
| LETTER FROM THE INDEPENDENT FINANCIAL ADVISER | 15 |
| APPENDIX – GENERAL INFORMATION | 31 |

DEFINITIONS

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

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| “Ally Good” | Ally Good Group Limited, a company incorporated in the British Virgin Islands with limited liability, owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia as at the Latest Practicable Date |
| “Announcement” | the announcement of the Company dated 20 March 2017 (as supplemented by the clarification announcement of the Company dated 21 March 2017) in relation to the Subscription Agreement |
| “associate” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “Business Day” | a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours |
| “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 |
| “Completion” | completion of the subscription of the Subscription Shares pursuant to the Subscription Agreement |
| “Completion Date” | the date falling 5 Business Days after the date (not being later than the Long Stop Date) on which all the conditions precedent (other than the conditions precedent which shall be satisfied upon Completion) are satisfied or waived in full in accordance with the Subscription Agreement, or such other date as the Company and the Subscriber may agree in writing |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | director(s) of the Company |

DEFINITIONS

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| “General Mandate” | the general mandate granted to the Directors by the Shareholders at the Company’s annual general meeting held on 3 June 2016 to allot, issue and deal in new Shares in accordance with the terms and conditions thereof |
| “Governmental Authority” | any government in Hong Kong, the Cayman Islands, the PRC or elsewhere or political subdivision thereof, any department, agency or instrumentality of any government or political subdivision thereof; any court or arbitral tribunal; and the governing body of any securities exchange, including but not limited to the Stock Exchange |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the Board, comprising all the independent non-executive Directors, namely, Prof. Hua Min, Mr. Chen Xuedong, Mr. Cheuk Wa Pang and Mr. Lu Daming, appointed by the Board to consider and advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder |
| “Independent Financial Adviser” | Donvex Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder |
| “Independent Shareholders” | Shareholders other than those who have a material interest in the Subscription Agreement and the transactions contemplated thereunder |
| “JVC” | Taiyuan Taigang Daming Metal Products Company Limited (太原太鋼大明金屬製品有限公司), an indirect non wholly-owned subsidiary of the Company, with 60% of its shares indirectly owned by the Company and 40% of its shares directly owned by Taiyuan Steel |
| “Latest Practicable Date” | 7 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |

DEFINITIONS

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| “Law” | any statute, rule, regulation, law or ordinance, or any judgment, decree or order |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | 31 May 2017 or such other date agreed by the Company and the Subscriber in writing |
| “PRC” | the People’s Republic of China (which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan) |
| “percentage ratio” | the percentage ratio as referred to in Chapter 14 of the Listing Rules |
| “SFO” | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “STSS” | Shanxi Taigang Stainless Steel Co., Ltd (山西太鋼不鏽鋼股份有限公司), a stainless steel producer and a company whose shares are listed on The Shenzhen Stock Exchange (with stock code 000825) |
| “Subscriber” | Tisco Stainless Steel (H.K.) Limited (太鋼不鏽香港有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of STSS, which is in turn a non wholly-owned subsidiary of Taiyuan Steel |
| “Subscription” | the allotment and issuance by the Company and the subscription by the Subscriber of the Subscription Shares pursuant to the Subscription Agreement |
| “Subscription Agreement” | the subscription agreement dated 20 March 2017 entered into between the Company and the Subscriber in relation to the subscription of 103,750,000 new Shares |
| “Subscription Price” | HK\$3.50 per Share |

DEFINITIONS

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| “Subscription Shares” | 103,750,000 new Shares |
| “subsidiary” | has the meaning ascribed to it in Section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| “substantial shareholder” | has the meaning ascribed to it under the Listing Rules |
| “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 substantial shareholder of the JVC |
| “Trading Days” | a day on which dealings in the Shares on the Stock Exchange take place |
| “%” | per cent |

LETTER FROM THE BOARD



DA MING INTERNATIONAL HOLDINGS LIMITED

大明國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1090)

Executive directors:

Mr. Zhou Keming (*Chairman*)

Ms. Xu Xia

Mr. Zou Xiaoping

Mr. Jiang Changhong

Mr. Tang Zhonghai

Dr. Fukui Tsutomu

Mr. Zhang Feng

Non-executive director:

Mr. Shen Dong

Independent non-executive directors:

Prof. Hua Min

Mr. Chen Xuedong

Mr. Cheuk Wa Pang

Mr. Lu Daming

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Headquarters and principal place
of business in the PRC:*

No. 1518, Tongjiang Road

Wuxi, Jiangsu

The People's Republic of China

Principal place of business in Hong Kong:

Suite 1007, Central Plaza

18 Harbour Road, Wanchai

Hong Kong

10 April 2017

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
CONDITIONAL SUBSCRIPTION OF NEW SHARES BY
THE SUBSCRIBER BEING A CONNECTED PERSON**

INTRODUCTION

As set out in the Announcement, on 20 March 2017, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 103,750,000 new Shares in cash at the total Subscription Price of HK\$363,125,000 (being HK\$3.50 for each Subscription Share).

LETTER FROM THE BOARD

As the entering into of the Subscription Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company with the highest applicable percentage ratio in respect of the Subscription being higher than 5%, in strict compliance with Rule 14A.92 of the Listing Rules, the same is subject to the reporting, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder, on 21 March 2017, the controlling Shareholder, Ally Good, holding 773,203,000 Shares (representing approximately 67.75% of the entire issued share capital of the Company) as at 21 March 2017 and having the right to attend and vote at such general meeting, has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Ally Good held 773,423,000 Shares representing approximately 67.77% of the entire issued share capital of the Company.

Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange has granted to the Company a waiver from the requirement to hold a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder on the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder; and (ii) Ally Good has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder.

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

THE SUBSCRIPTION AGREEMENT

On 20 March 2017, the Company and the Subscriber entered into the Subscription Agreement. The principal terms of the Subscription Agreement are summarised below.

Date

20 March 2017

Parties

- (a) The Company; and
- (b) the Subscriber.

LETTER FROM THE BOARD

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 103,750,000 Subscription Shares in cash at the total Subscription Price of HK\$363,125,000 (being HK\$3.50 for each Subscription Share).

The aggregate of 103,750,000 Subscription Shares, represent (i) approximately 9.09% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 8.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares immediately after Completion. The aggregate nominal value of 103,750,000 Subscription Shares is HK\$10,375,000.

The Subscription Shares, when issued and fully paid up, shall rank pari passu among themselves and with all of the Shares in issue as at the Completion Date.

Subscription Price

The Subscription Price of HK\$3.50 per Subscription Share represents:

- (a) a discount of approximately 10.03% to the closing price of HK\$3.89 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (b) a discount of approximately 5.91% to the average closing price of HK\$3.72 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the date of the Subscription Agreement; and
- (c) a discount of approximately 7.16% to the closing price of HK\$3.77 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber and with reference to the trading prices of the Share since January 2017 up to the date of the Subscription Agreement being in the range from HK\$3.24 to HK\$4.00 and with the average closing price being approximately HK\$3.78. The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon fulfillment of the following conditions precedent:

- (a) the Listing Committee of the Stock Exchange having granted the listing approval for the listing of and permission to deal in the Subscription Shares and such approval not having been withdrawn or revoked prior to Completion;

LETTER FROM THE BOARD

- (b) all other necessary approvals and consents as may be required from any Governmental Authorities and/or other persons, or pursuant to applicable Law for the Subscription, the Subscription Agreement and the transactions contemplated thereunder having been obtained and not having been withdrawn or revoked prior to Completion;
- (c) no event, circumstance, effect, occurrence or state of affairs or any combination thereof having occurred which has material adverse effect on the business, operations, assets, liabilities (including contingent liabilities), business or financial condition, results or prospects of the Group as a whole (except for (i) any change that generally affects the industries or markets in which the Group operates in; (ii) any change in the financial markets or general economic or political conditions; and (iii) any change in Law or any accounting principle applicable to the Group);
- (d) the Company's representations and warranties under the Subscription Agreement shall be true, accurate and correct in all material respects as of the date of the Subscription Agreement and as of the date of Completion as though made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct as of such specific date); and
- (e) the Subscriber's representations and warranties under the Subscription Agreement shall be true, accurate and correct in all material respects as of the date of the Subscription Agreement and as of the date of Completion as though made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct as of such specific date).

At any time on or before the Long Stop Date:

- (i) the Company may, in its sole discretion, waive in whole or in part the condition precedent (e) above by written notice to the Subscriber on such terms as the Company may decide; and
- (ii) the Subscriber may, in its sole discretion, waive in whole or in part the conditions precedent (c) and/or (d) above by written notice to the Company on such terms as the Subscriber may decide.

If any of the conditions precedent as set out above is not satisfied (or waived in accordance with the terms of the Subscription Agreement) on or before the Long Stop Date, the Subscription Agreement shall automatically terminate and the Company and the Subscriber shall cease to have any rights or liabilities under the Subscription Agreement, save and except in respect of any antecedent breach of the Subscription Agreement, other provisions of the Subscription Agreement which are stated therein to survive termination, and any rights and liabilities of the Company and the Subscriber accrued prior to termination.

LETTER FROM THE BOARD

Completion

Completion shall take place at the date falling 5 Business Days after the date (not being later than the Long Stop Date) on which all the conditions precedent as set out above (other than the conditions precedent (c), (d) and (e) as set out above, which shall be satisfied upon Completion) are satisfied or waived in full in accordance with the Subscription Agreement, or such other date as the Company and the Subscriber may agree in writing.

GENERAL MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The Subscription Shares will be issued under the General Mandate granted to the Directors pursuant to an ordinary resolution of the Shareholders passed at the annual general meeting of the Company on 3 June 2016 whereby the Directors have been duly authorised to allot and issue up to 228,250,000 new Shares, representing 20% of the total issued share capital of the Company as at 3 June 2016.

As at the Latest Practicable Date, no new securities of the Company have been issued under the General Mandate since the General Mandate was granted and the maximum number of new Shares that could be issued by the Company under the General Mandate is 228,250,000 Shares.

APPLICATION FOR LISTING

Application has been made by the Company to the Listing Committee of the Stock Exchange for granting approval for the listing of, and permission to deal in, the Subscription Shares.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The net proceeds from the Subscription is expected to be approximately HK\$362.2 million, of which approximately HK\$156.0 million is expected to be applied for the development of the processing centre of the Group in Jingjiang, the PRC (“**Processing Centre**”) including purchases of equipment and construction work; and approximately HK\$206.2 million is expected to be applied as the working capital of Jiangsu Daming Metal Products Co., Ltd (a wholly-owned subsidiary of the Company which is principally engaged in processing, distribution and sales of stainless steel products in the PRC) to pay the day-to-day operation expenses including settlement of accounts payables, payments of staff salaries, utilities charges, payments of transportation expenses and to increase the cash balances to a more healthy level and as a precautionary measure, considering that the trade payables of the Group which were payable within 6 months amounted to approximately RMB2,492 million as at 31 December 2016 whereas the trade receivables of the Group which were receivable within 6 months amounted to approximately RMB113.4 million as at 31 December 2016 and the cash balance of the Group as at 31 December 2016 was approximately RMB53 million. In the financial year ended 31 December 2016, there was an increase in the processing orders received by the Group (of which some were still being processed and therefore were not reflected in the trade receivables of the Group) and hence an increase in the Group’s purchases of raw materials and the need to maintain adequate inventory. Currently, the second phase of the Processing Centre is still under construction whereas the first phase of the Processing Centre is already in operation providing processing services to the Group’s customers. The Directors considers that the

LETTER FROM THE BOARD

Processing Centre will enhance the Group's processing capacity and the Group's capability to provide a broader range of processing services on both stainless steel and carbon steel materials and that the development of the Processing Centre is in the interest of the Company and its Shareholders as a whole.

The Group is principally engaged in processing, distribution and sale of stainless steel and carbon steel products, and the Subscriber is principally engaged in the trading of steel materials. The entering into the Subscription Agreement enables the Group to strengthen the strategic business relationship with the Subscriber and Taiyuan Steel. The Directors (including all the independent non-executive Directors) are of the view that the terms of the Subscription Agreement are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

CAPITAL-RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any other fund raising exercises in the past 12 months immediately before the Latest Practicable Date.

EFFECT ON THE SHAREHOLDING OF THE COMPANY UPON THE COMPLETION

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion (assuming there being no other changes in the issued share capital of the Company between the Latest Practicable Date and Completion) are as follows:

| | As at the Latest Practicable Date | | Immediately after Completion | |
|--|--|---------------------|---|---------------------|
| | <i>Number of Shares</i> | <i>Approx. %</i> | <i>Number of Shares</i> | <i>Approx. %</i> |
| <i>Substantial Shareholder</i> | | | | |
| – Ally Good Group Limited ⁽¹⁾ | 773,423,000 | 67.770% | 773,423,000 | 62.122% |
| <i>Directors</i> | | | | |
| – Zou Xiaoping ⁽²⁾ | 5,026,000 | 0.440% | 5,026,000 | 0.404% |
| – Zhang Feng ⁽³⁾ | 1,624,000 | 0.142% | 1,624,000 | 0.130% |
| – Fukui Tsutomu ⁽⁴⁾ | 942,000 | 0.083% | 942,000 | 0.076% |
| – Tang Zhonghai ⁽⁵⁾ | 480,000 | 0.042% | 480,000 | 0.039% |
| – Zhou Keming | 26,000 | 0.002% | 26,000 | 0.002% |
| – Xu Xia | 24,000 | 0.002% | 24,000 | 0.002% |
| <i>Subscriber</i> | 0 | 0.000% | 103,750,000 | 8.333% |
| <i>Public Shareholders</i> | 359,705,000 | 31.519% | 359,705,000 | 28.892% |
| Total | <u>1,141,250,000</u> | <u>100.000%</u> | <u>1,245,000,000</u> | <u>100.000%</u> |

LETTER FROM THE BOARD

Notes:

- (1) As at the date of this Circular, Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, both being Directors; and Mr. Zhou Keming is the spouse of Ms. Xu Xia, who is a Director.
- (2) 26,000 Shares are held by Mr. Zou Xiaoping, a Director of the Company and 5,000,000 Shares are held by Ms. Li Jun, spouse of Mr. Zou Xiaoping.
- (3) In addition to the 1,624,000 Shares held by Mr. Zhang Feng as at the Latest Practicable Date, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 400,000 underlying Shares.
- (4) 76,000 Shares are held by Dr. Fukui Tsutomu, a Director of the Company and 866,000 Shares are held by Ms. Fukui Mizuho, spouse of Dr. Fukui Tsutomu. In addition to the 942,000 Shares held by Dr. Fukui Tsutomu and his spouse as at the Latest Practicable Date, Dr. Fukui Tsutomu is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 500,000 underlying Shares.
- (5) In addition to the 480,000 Shares held by Mr. Tang Zhonghai as at the Latest Practicable Date, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 600,000 underlying Shares.

INFORMATION ON THE GROUP

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

INFORMATION ON THE SUBSCRIBER

The Subscriber is a company incorporated in Hong Kong with limited liability whose issued share capital is indirectly non wholly-owned by Taiyuan Steel. The principal activity of the Subscriber is the trading of steel materials.

IMPLICATIONS UNDER LISTING RULES

As at the Latest Practicable Date, the Subscriber is an indirect non-wholly owned subsidiary of Taiyuan Steel and Taiyuan Steel is a substantial shareholder of the JVC, which is in turn a non wholly-owned subsidiary of the Company. Accordingly, Taiyuan Steel is a connected person of the Company, and the Subscriber, being an associate of Taiyuan Steel, is also a connected person of the Company at the subsidiary level. As the entering into of the Subscription Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company with the highest applicable percentage ratio in respect of the Subscription being higher than 5%, in strict compliance with Rule 14A.92 of the Listing Rules, the same is subject to the reporting, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder, on 21 March 2017, the controlling Shareholder, Ally Good, holding 773,203,000 Shares (representing approximately 67.75% of the entire issued share capital of the Company) as at 21 March 2017 and having the right to attend and vote at such general meeting, has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Ally Good held 773,423,000 Shares representing approximately 67.77% of the entire issued share capital of the Company.

LETTER FROM THE BOARD

Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange has granted to the Company a waiver from the requirement to hold a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder on the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder; and (ii) Ally Good has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder.

The Directors confirm that none of the Directors has a material interest in the Subscription Agreement and the transactions contemplated thereunder. Accordingly, none of the Directors was required to be abstained from voting on the Board resolutions approving the Subscription Agreement and the transactions contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Prof. Hua Min, Mr. Chen Xuedong, Mr. Cheuk Wa Pang and Mr. Lu Daming, has been formed to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 13 to 14 of this circular, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 30 of this circular.

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

ADDITIONAL INFORMATION

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

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



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 April 2017

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
CONDITIONAL SUBSCRIPTION OF NEW SHARES BY
THE SUBSCRIBER BEING A CONNECTED PERSON**

We refer to the circular of the Company dated 10 April 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and whether the terms of the Subscription Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 15 to 30 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 5 to 12 of the Circular and the additional information set out in the Appendix to the Circular.

We acknowledge that the Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from the requirement to hold a general meeting pursuant to Rule 14A.37 of the Listing Rules to approve the Subscription Agreement and the transactions contemplated thereunder on the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder; and (ii) Ally Good has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

Independent Board Committee of

Da Ming International Holdings Limited

Prof. Hua Min

Mr. Chen Xuedong

Mr. Cheuk Wa Pang

Mr. Lu Daming

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

10 April 2017

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

Dear Sir/Madam

CONNECTED TRANSACTIONS CONDITIONAL SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER BEING A CONNECTED PERSON

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 Subscription Agreement and the transactions contemplated thereunder, 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 April 2017 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.

Reference is made to the announcement dated 20 March 2017, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 103,750,000 new Shares in cash at the total Subscription Price of HK\$363,125,000 (being HK\$3.50 for each Subscription Share). The Subscription Shares represent (i) approximately 9.09% of the existing issued share capital of the Company as at the date of this Circular; and (ii) approximately 8.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares immediately after Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Subscriber is an indirect non-wholly owned subsidiary of Taiyuan Steel and Taiyuan Steel is a substantial shareholder of the JVC. Therefore, Taiyuan Steel is a connected person of the Company, and the Subscriber, being an associate of Taiyuan Steel, is also a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect to the Subscription is higher than 5%, the Subscription Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and, in strict compliance with Rule 14A.92 of the Listing Rules, are subject to the reporting, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder, Ally Good, the controlling Shareholder holding 773,203,000 Shares (representing approximately 67.75% of the entire issued share capital of the Company) as at 21 March 2017, has given to the Company its written approval for the Subscription Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Ally Good held 773,423,000 Shares representing approximately 67.77% of the entire issued share capital of the Company.

Pursuant to the Rule 14A.37 of the Listing Rules, the Stock Exchange has granted the Company a waiver from the requirement to hold a general meeting to approve the Subscription Agreement and the transactions contemplated thereunder, subject to the condition that the Company discloses the details of waiver by way of an announcement. Accordingly, the Company published an announcement on the details of the waiver on 23 March 2017.

Prof. Hua Min, Mr. Chen Xuedong, Mr. Cheuk Wa Pang and Mr. Lu Daming, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on (i) whether the terms of the Subscription Agreement are fair and reasonable; (ii) whether the Subscription is on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) whether the Subscription is in the interests of the Company and the Independent Shareholders as a whole. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR 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. In the last two years, Donvex Capital Limited has not acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company for any transaction.

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 Subscription Agreement and the transactions 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board contained in the Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

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 been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associates, nor have we considered the taxation implication on the Group or the qualifying Shareholders as a result of the Subscription Agreement and the transactions contemplated thereunder.

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 of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and the transactions contemplated thereunder 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 purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE SUBSCRIPTION

1. Background information on the Group

1.1 Principal business and information on the Group

The Group is a leading metals processing service provider in the PRC, principally engaged in processing, distribution and sale of stainless steel and carbon steel products. The Group has established seven processing centers strategically located in different cities in China, providing full range processing services on stainless steel, carbon steel and other metallic materials.

1.2 Historical financial information

Set out below is a summary of the financial results of the Group for the years ended 31 December 2015 and 2016 as extracted from the Company's annual results announcement for the year ended 31 December 2016 (the "2016 Annual Results").

| | For the year ended | |
|----------------------------|---------------------------|------------------|
| | 31 December | |
| | 2016 | 2015 |
| | | (Restated) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(Audited)</i> | <i>(Audited)</i> |
| Revenue | 20,518,140 | 18,043,138 |
| Gross Profit | 1,071,531 | 126,111 |
| Profit/(loss) for the year | 406,587 | (251,036) |
| | As at 31 December | |
| | 2016 | 2015 |
| | | (Restated) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(Audited)</i> | <i>(Audited)</i> |
| Cash and cash equivalents | 53,085 | 207,007 |
| Net assets | 2,413,847 | 2,043,199 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (i) For the financial year ended 31 December 2016

According to the 2016 Annual Results, the revenue of the Group increased from approximately RMB18,043.1 million for the year ended 31 December 2015 (the “FY2015”) to approximately RMB20,518.1 million for the year ended 31 December 2016 (the “FY2016”), mainly due to the growth in the sales volume of stainless steel and carbon steel business of the Group. As a result, the gross profit recorded by the Group increased from approximately RMB126.1 million for FY2015 to approximately RMB1,071 million for FY2016. Accordingly, a net profit of approximately RMB406.6 million for FY2016 was recorded, as compared to a net loss of approximately RMB251.0 million for FY2015.

- (ii) As at 31 December 2016

The Group had net assets of approximately RMB2,413.8 million as at 31 December 2016, which was slightly higher than approximately RMB2,043.2 million as at 31 December 2015. The cash and cash equivalents contributed approximately RMB53.1 million as at 31 December 2016 as compared to approximately RMB207.0 million as at 31 December 2015, representing a decrease of approximately 74.4%. As advised by the management of the Company, the decrease was mainly due to the expenses in inventories and fixed assets by the Company for FY2016.

2. Market Outlook

As disclosed by the International Stainless Steel Forum (the “ISSF”), the global production of stainless steel reached approximately 44.9 million tons during the year of 2016, of which the China market contributed approximately 24.9 million tons, representing more than a half of the total. Also, the production in China during 2016 demonstrated an increase of approximately 15.7% as compared to the corresponding period in 2015. With reference to the forecast of the stainless steel market by ISSF, the global production of stainless steel will remain the upward trend and increase by approximately 8% to 10% in 2017, as a result of the increased demand derived from various industries.

Besides, as stated in the 13th Five-Year Plan (“十三五”規劃) (the “Plan”) issued by the National Development and Reform Commission, a number of projects, including the nationwide railway construction and infrastructure construction, hydropower and nuclear power transmission, and the improved industrial manufacturing, will be launched during 2016 to 2020. As such, those massive projects to be carried out in China will result in a foreseeable increase in the consumption of raw materials for the construction, including the stainless steels and carbon steels.

3. Reasons for the Subscription and use of proceeds

According to the Letter of the Board, the Group is principally engaged in processing, distribution and sales of stainless steel and carbon steel products, and the Subscriber is principally in the trading of steel materials. Having considered that, among other things, the entering into the Subscription Agreement with the Subscriber would strengthen the comprehensive strategic business relationship with the Subscriber and Taiyuan Steel, including the long-term cooperation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The net proceeds of the Subscription will be approximately HK\$362.2 million after deducting relevant expenses incurred in relation to the Subscription. The Company intends to apply (i) approximately HK\$156.0 million for the development of the processing center of the Group in Jingjiang, the PRC (“**Processing Centre**”) including purchases of equipment and construction works; and (ii) approximately HK\$206.2 million as working capital for Jiangsu Daming Metal Products Co., Ltd, an indirect wholly-owned subsidiary of the Company principally engaged in processing, distribution and sales of stainless steel products in the PRC.

With reference to our discussion with the management of the Company and the information in respect of the use of proceeds, we have taken into consideration of the following:

Being the major components of the Processing Centre, Daming Heavy Industry and Daming Metal Technology are two factories of the Company, located in Jingjiang, the PRC. According to the 2016 Interim Report, Daming Heavy Industry is mainly engaged in manufacturing of parts of machinery equipment, large structural parts and pressurized containers, and Daming Metal Technology mainly provides the processing services of carbon steel products.

In view of the forecast stated in the section headed “Market Outlook”, the Company confirmed to devote more resources in deepening (i) the processing service of carbon steels and (ii) the manufacturing of machinery equipment to their customers to meet the potential demand. It is expected that there will be a rapid growth in the sales volume for the Group in the coming years. Therefore, the development of the Processing Centre will provide the Group with the ability to improve the production capacity of Daming Heavy Industry and Daming Metal Technology. Besides, the Directors believe that the upgrade of the Processing Centre will also improve the operating efficiency of the steels processing and the production quality of the machinery equipment for Daming Metal Technology and Daming Heavy Industry respectively.

Besides, as advised by the management of the Company, we understand the working capital from the Subscription will be utilized (i) for the day-to-day operation expenses including settlement of accounts payables, payment of staff salaries, utilities charges; and (ii) to increase the cash balances level. As stated in the above section headed “Historical Financial Information”, the cash and cash equivalent of the Group as at 31 December 2016 declined by approximately RMB153.9 million or 74.4% to approximately RMB53.1 million, as compared to the corresponding period of 2015. In this regard, the Board considers that it is necessary to enhance the cash balances of the Group as a precautionary measure to ensure its regular operation.

In view of the above, the Directors (including all the independent non-executive Directors) considers that the Subscription will enable the Group to (i) capture the opportunity to further develop and expand its existing business; and (ii) improve its financial position, and we concur with the Directors that terms of the Subscription are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4. Other fund raising alternatives

In addition to the Subscription, the Board has also considered the alternatives available to raise funds for the Group as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.1 Debt financing

According to the 2016 Annual Results, as at 31 December 2016, the borrowings of the Group amounted to approximately RMB2,060.9 million, representing an increase of approximately RMB295.8 million as compared to approximately RMB1,765.1 as at 31 December 2015. Besides, the finance costs incurred for the Group was approximately 119.3 million for FY2016. In this regard, the Directors consider that the debt financing may further increase financial costs for the Group as a result of the additional interest burden.

4.2 Placement of new shares to independent investors

Given the thin trading volume of the Shares during the Review Period as discussed under the section under “Trading liquidity of the Shares”, the Directors consider that it may be difficult for the placing agent to seek independent third parties to subscribe new shares without a large discount as compared with the Subscription.

4.3 Other form of equity financing

Although a rights issue or open offer would give an opportunity for all Shareholders to participate in the subscription of new Shares to be issued by the Company, the Directors consider that a rights issue or open offer, either by independent third parties or the subscriber, may not be feasible to raise fund based on the following:

- (i) it may involve (a) a relatively longer timeframe as there are numerous steps which usually takes two to three months; and (b) higher costs, including but not limited to underwriting commission and legal fee, than the Subscription; and
- (ii) a rights issue or open offer provides the option but not the obligation for the shareholders to take up the offer shares. Given the low trading volume of the Shares, shareholders may not be encouraged in participating in a rights issue or open offer.

Therefore, although both rights issue and open offer would allow Shareholders to maintain their pro-rata shareholdings in the Company, it will be time-consuming and costly and may not be in the best interests of the Company and Shareholders as a whole.

Taking into account the above, we concur with the Directors’ view that equity financing by way of the Subscription is a proper option over the other alternative fund-raising methods as stated above.

5. Principal terms of the Subscription Agreement

5.1 Subscription Shares

On 20 March 2017, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 103,750,000 new Shares at the total Subscription Price of HK\$363,125,000 (being HK\$3.50 for each Subscription Share).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Subscription Shares represent (i) approximately 9.09% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 8.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares immediately, assuming that there will be no change in the issued share capital of the Company (other than the issue of the Subscription Shares) between the Latest Practicable Date and the Completion. The aggregate nominal value of the Subscription Shares is HK\$10,375,000.

The Subscription Shares, when issued and fully paid up, shall rank *pari passu* among themselves and with all of the Shares in issue as at the Completion Date.

5.2 *Subscription Price*

The total Subscription Price payable by the Subscriber to the Company for the Subscription Shares shall be HK\$363,125,000 (being HK\$3.50 per Subscription Share). The Subscription Price of HK\$3.50 per Subscription Share was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the recent trading performance of the Shares.

The Subscription Price of HK\$3.50 per Subscription Share represents:

- (i) a discount of approximately 10.03% to the closing price of HK\$3.89 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a discount of approximately 5.91% to the average closing price of HK\$3.72 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the date of the Subscription Agreement; and
- (iii) a discount of approximately 7.16% to the closing price of HK\$3.77 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

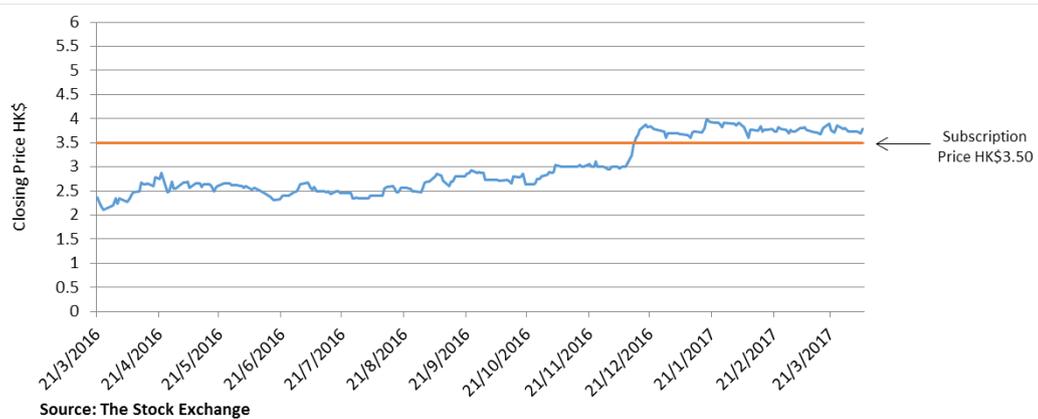
As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the financial conditions of the Company, the prevailing market prices of the Shares and recent market conditions.

To assess the fairness and reasonableness of the Subscription Price, we have compared the Subscription Price with reference to (a) the recent price performance of the Shares; (b) the trading liquidity of the Shares; and (c) the market comparable analysis, as set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Assessment on the Subscription Price*

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading price of the Shares for the period from 21 March 2016, being the 12-month period prior to the date of the Subscription Agreement, up to the Latest Practicable Date (the “**Review Period**”).



As shown in the above chart, the Share price has been experiencing an upward trend since 18 March 2016. It is noted that, during the Review Period, the lowest closing price was HK\$2.11 per share on 24 March 2016 and the highest closing price was HK\$3.97 per Share on 19 January 2017, with an average daily closing price of the Shares of approximately HK\$2.98. In this regard, the Subscription Price of HK\$3.50 is (i) lower than the highest closing price of the Shares, representing a discount of approximately 11.84%; (ii) higher than the lowest closing price of the Shares, representing a premium of approximately 65.88%; and (iii) higher than the average of the closing price of the Shares, representing a premium of approximately 17.45%. Based on the review, it is noted that, during the Review Period, the Subscription Price (i) falls within the range of the daily closing price of the Shares; (ii) is close to the high end of the range of the daily closing price of the Shares; and (iii) is at a premium over the historical closing price for more than 75% of the trading days.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Trading liquidity of the Shares*

Regarding the trading liquidity of the Shares, for illustrative purpose, a table showing the average daily volume of the Shares per month and the total number of issued Shares as at the end of the month during the Review Period is stated as below:

| | Total trading volume of the Shares | Number of trading days | Average daily trading volume of the Shares | Number of issued Shares as at the end of the month/ period | Percentage of average daily trading volume to total number of issued Shares as at the end of month/ period |
|--|--|---------------------------|--|--|---|
| 2016 | | | | | |
| March (since 21 March) | 3,378,000 | 7 | 482,571 | 1,141,250,000 | 0.0% |
| April | 12,172,030 | 20 | 608,602 | 1,141,250,000 | 0.1% |
| May | 5,678,000 | 21 | 270,381 | 1,141,250,000 | 0.0% |
| June | 1,808,000 | 21 | 86,095 | 1,141,250,000 | 0.0% |
| July | 2,642,000 | 20 | 132,100 | 1,141,250,000 | 0.0% |
| August | 4,536,000 | 22 | 206,182 | 1,141,250,000 | 0.0% |
| September | 3,020,000 | 21 | 143,810 | 1,141,250,000 | 0.0% |
| October | 2,968,000 | 19 | 156,211 | 1,141,250,000 | 0.0% |
| November | 24,540,000 | 22 | 1,115,455 | 1,141,250,000 | 0.1% |
| December | 25,060,000 | 20 | 1,253,000 | 1,141,250,000 | 0.1% |
| 2017 | | | | | |
| January | 32,078,000 | 19 | 1,688,316 | 1,141,250,000 | 0.1% |
| February | 12,222,000 | 20 | 611,100 | 1,141,250,000 | 0.1% |
| March | 19,726,000 | 23 | 857,652 | 1,141,250,000 | 0.1% |
| April (up to the Latest Practicable Date) | 2,158,000 | 3 | 719,333 | 1,141,250,000 | 0.1% |

Source: The Stock Exchange

As illustrated from the table above, the average daily trading volume of the Shares was low. The lowest of the Group's average daily trading volume was approximately 86,095 Shares in June 2016 and the highest was approximately 1,688,316 Shares in January 2017. The average daily trading volume of the Shares falls in the range of approximately 0.00% to approximately 0.01%, which is only a tiny portion of the total issued shares at the end of each month since March 2016. As such, we consider that the trading volume of the Shares from 21 March 2016 to the last trading day was thin.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Market Comparable Analysis*

In order to assess the fairness and reasonableness of the terms of the Subscription, we compare the terms of the Subscription to the subscriptions conducted by other companies. We have identified an exhaustive list of thirteen subscription/placing of new shares transactions by/to a connected person in cash (the “**Comparables**”) (excluding the transactions involving (i) reverse takeovers; (ii) whitewash waiver application under The Codes on Takeovers and Mergers and Share Repurchases; and (iii) the companies under prolonged suspension), announced by other listed companies on the Stock Exchange during the twelve-month period immediately before the date of Subscription Agreement.

We consider that the review period of twelve-month period prior to the date of Subscription Agreement is appropriate given the length of the period is a commonly adopted time span for the analysis which covers sufficient number of comparable companies to reflect the recent market practice in relation to the subscription price of other subscription transactions. However, in view of the differences between the listed issuers of the Comparables and the Group in respect of business nature, financial performance, financial position and fundraising requirements, we are of the view that the Comparables might not constitute an absolute close reference to the Subscription.

| Company Name | Stock Code | Date of initial announcement | Subscription Price (HK\$) | Premium/ (Discount) of issue price to the closing price on last trading day (%) | Premium/ (Discount) of issue price to the average closing price for last five consecutive trading days (%) |
|---|------------|------------------------------|------------------------------|---|--|
| National Arts Entertainment and Culture Group Limited | 8228 | 20/01/2017 | \$0.223 | (0.90) | 0.00 (Note) |
| C Cheng Holdings Limited | 1486 | 20/01/2017 | \$1.99 | (37.62) | (37.62) |
| China Oil Gangran Energy Group Holding Limited | 8132 | 4/01/2017 | \$0.10 | (12.17) | (9.01) |
| OP Financial Investments Limited | 1140 | 12/12/2016 | \$1.95 | (8.88) | (8.62) |
| Sinoref Holdings Limited | 1020 | 26/09/2016 | \$0.166 | (14.00) | (10.75) |
| Digital China Holdings Limited | 861 | 5/09/2016 | \$5.53 | (16.59) | (18.99) |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Company Name | Stock Code | Date of initial announcement | Subscription Price (HK\$) | Premium/ (Discount) of issue price to the closing price on last trading day (%) | Premium/ (Discount) of issue price to the average closing price for last five consecutive trading days (%) |
|---|------------|------------------------------|------------------------------|---|--|
| Luxey International (Holdings) Limited | 8041 | 18/07/2016 | \$0.10 | (45.95) | (45.53) |
| China Grand Pharmaceutical and Healthcare Holdings Limited | 512 | 13/07/2016 | \$1.40 | (1.41) | 0.00 (Note) |
| CPMC Holdings Limited | 906 | 22/05/2016 | \$2.60 | (21.00) | (20.00) |
| Suchuang Gas Corporation Limited | 1430 | 27/05/2016 | \$2.55 | 19.20 | 18.30 |
| New Times Energy Internaion Limited | 166 | 17/05/2016 | \$0.15 | (3.14) | (1.28) |
| China State Construction International Holdings Limited | 3311 | 11/05/2016 | \$11.14 | (2.11) | (1.42) |
| NetMind Financial Holdings Limited | 985 | 15/3/2016 | \$0.10 | 19.05 | 20.48 |
| Maximum | | | | 19.20 | 20.48 |
| Minimum | | | | (45.95) | (45.53) |
| Average | | | | (9.66) | (8.80) |
| The Company | | | \$3.50 | (10.03) | (5.91) |

Note: the subscription price is equivalent to the average closing price on last five consecutive trading days.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the above table, the premium/discount over/to the subscription prices of the Comparables ranges from a premium of approximately 19.20% to a discount of approximately 45.95% to the closing price on the last Trading Day, with the average of a discount of approximately 9.66%. Therefore, the discount of the Subscription Price to the closing price on the Last Trading Day of approximately 10.03% (i) is in close proximity to the average of the Comparables; and (ii) falls within the range of the premium/discount of the Comparables.

The premium/discount over/to the subscription prices of the Comparables range from a premium of approximately 20.48% to a discount of approximately 45.53% to the average closing price for the last five consecutive Trading Days, with the average of a discount of approximately 8.80%. Therefore, the discount of the Subscription Price to the average closing price on the last five consecutive Trading Days of approximately 5.91% (i) is slightly lower than the average of the Comparables; and (ii) falls within the range of the premium/discount of the Comparables.

Having considered that (i) the raising funds will be used to further develop the Company's business and improve its financial position as discussed in the above section headed "Reasons for the Subscription and use of proceeds"; (ii) the discount of the Subscription Price falls within the range of the Comparables and close to the average of Comparables; (iii) thin trading liquidity of the Shares in the past 12 months; and (iv) the Subscription is fair and reasonable for the Company comparing to other fundraising methods, we are of the view that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Potential dilution effect on the interests of the Independent Shareholders

Assuming there being no other changes in the issued share capital of the Company between the date of the Subscription Agreement and Completion, the effect of the Completion on the shareholding structure of the Company will be as follows:

| Shareholders | At the Latest Practicable Date | | Immediately after Completion | |
|---|--------------------------------|-----------------------|------------------------------|-----------------------|
| | <i>No. of Shares</i> | <i>Approximate %</i> | <i>No. of Shares</i> | <i>Approximate %</i> |
| Substantial Shareholder | | | | |
| Ally Good Group Limited (<i>Note 1</i>) | 773,423,000 | 67.770% | 773,423,000 | 62.122% |
| Directors | | | | |
| Zou Xiaoping (<i>Note 2</i>) | 5,026,000 | 0.440% | 5,026,000 | 0.404% |
| Zhang Feng (<i>Note 3</i>) | 1,624,000 | 0.142% | 1,624,000 | 0.130% |
| Fukui Tsutomu (<i>Note 4</i>) | 942,000 | 0.083% | 942,000 | 0.076% |
| Tang Zhonghai (<i>Note 5</i>) | 480,000 | 0.042% | 480,000 | 0.039% |
| Zhou Keming | 26,000 | 0.002% | 26,000 | 0.002% |
| Xu Xia | 24,000 | 0.002% | 24,000 | 0.002% |
| Subscriber | | | 103,750,000 | 8.333% |
| Public Shareholders | <u>359,705,000</u> | <u>31.519%</u> | <u>359,705,000</u> | <u>28.892%</u> |
| Total | <u><u>1,141,250,000</u></u> | <u><u>100.00%</u></u> | <u><u>1,245,000,000</u></u> | <u><u>100.00%</u></u> |

Note:

- As at the date of this Circular, Ally Good Group Limited is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia, both being Directors; and Mr. Zhou Keming is the spouse of Ms. Xu Xia, who is a Director.
- 26,000 Shares are held by Mr. Zou Xiaoping (“**Mr. Zou**”), a Director of the Company and 5,000,000 Shares are held by Ms. Li Jun, spouse of Mr. Zou.
- In addition to the 1,624,000 Shares held by Mr. Zhang Feng as at the date of this announcement, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 400,000 underlying Shares.
- 76,000 Shares are held by Dr. Fukui Tsutomu (“**Dr. Fukui**”), a Director of the Company and 866,000 Shares are held by Ms. Fukui Mizuho, spouse of Dr. Fukui. In addition to the 942,000 Shares held by Dr. Fukui and his spouse as at the date of this announcement, Dr. Fukui is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 500,000 underlying Shares.
- In addition to the 480,000 Shares held by Mr. Tang Zhonghai as at the date of this announcement, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 600,000 underlying Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above, upon Completion, 103,750,000 new Shares will be allotted and issued, representing approximately 9.09% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 8.33% of the issued share capital of the Company as enlarged by the issuance of the allotment and issue of the Subscription Shares. Assuming that the Company does not issue and/or repurchase any Shares from the Latest Practicable Date up to Completion, the aggregate shareholding of the public Shareholders will decrease from approximately 31.519% as at the Latest Practicable Date to approximately 28.892% upon Completion, representing a potential dilution in public shareholding of approximately 8.334%.

Having taken into account that (i) the reason for and benefit of the Subscription as set out in the section headed “Reasons for the Subscription and use of proceeds” above; and (ii) the Subscription Price is considered to be fair and reasonable as discussed in this letter above, we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is justifiable and acceptable.

7. Financial effect of the Subscription

7.1 Working capital

As at 31 December 2016, the cash balance of the Group amounted to approximately RMB53.1 million. According to the 2016 Interim Report, the current assets and current liabilities of the Group were approximately RMB4,229.1 million and RMB4,421.3 million respectively as at 31 December 2016, resulting in a current ratio (defined as current assets divided by current liabilities) of approximately 0.96 times.

Given that the Subscription will provide the new working capital of approximately HK\$206.2 million to the Group upon Completion, it is expected that both the cash position and the net current assets position of the Group will be enhanced immediately upon Completion.

7.2 Gearing ratio

The gearing ratio of the Group is measured as bank borrowings and corporate bonds over the total assets of the Group. As advised by the Directors, it is expected that, upon the issue of the new shares under the Subscription, the Group’s total assets will increase by the amount of the net proceeds received thereunder while the Group’s liabilities will not be affected. Accordingly, it is expected that the gearing ratio of the Group would be improved immediately upon the issue of the Subscription Shares under the Subscription.

In view of above, we consider that the Subscription is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, including:

- (a) financial information of the Group including the current cash position and indebtedness;
- (b) the use of proceeds from the Subscription is in line with the principal business and future development plan of the Group;
- (c) the Subscription is the most viable fund raising method among other funding alternatives;
- (d) the Subscription Price to the Subscriber is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and
- (e) the possible dilution effect on the Independent Shareholders is acceptable,

we consider that the terms of the Subscription are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Vily Leung
Director

Ms. Vily Leung 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 8 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. DISCLOSURE OF INTERESTS

Directors and chief executives

As at the Latest Practicable Date, the interests of the Directors or chief executives of the Company in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Beneficial interests and long positions in Shares:

(i) Long position in the Shares and underlying Shares

| Name of Director | Nature of interests | Number of Shares/ underlying Shares held | % of issued share capital of the Company |
|-------------------|---------------------------------|--|--|
| Mr. Zhou Keming | Corporate and personal (Note 1) | 773,449,000 | 67.78% |
| Ms. Xu Xia | Corporate and personal (Note 1) | 773,447,000 | 67.78% |
| Mr. Zou Xiaoping | Personal and Family (Note 2) | 5,026,000 | 0.44% |
| Mr. Zhang Feng | Personal (Note 3) | 1,624,000 | 0.14% |
| Dr. Fukui Tsutomu | Personal and Family (Note 4) | 942,000 | 0.08% |
| Mr. Tang Zhonghai | Personal (Note 5) | 480,000 | 0.04% |

Notes:

- 773,423,000 Shares are held by Ally Good, which is owned as to 77.2% by Mr. Zhou Keming and 22.8% by Ms. Xu Xia. Mr. Zhou Keming and Ms. Xu Xia personally hold 26,000 Shares and 24,000 Shares of the Company, each representing 0.002% of the issued share capital of the Company respectively.

2. 26,000 Shares are held by Mr. Zou Xiaoping and 5,000,000 Shares are held by Ms. Li Jun, spouse of Mr. Zou Xiaoping.
3. In addition to the 1,624,000 Shares held by Mr. Zhang Feng as at the Latest Practicable Date, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 400,000 underlying Shares.
4. 76,000 Shares are held by Dr. Fukui Tsutomu and 866,000 Shares are held by Ms. Fukui Mizuho, spouse of Dr. Fukui Tsutomu. In addition to the 942,000 Shares held by Dr. Fukui Tsutomu and his spouse as at the Latest Practicable Date, Dr. Fukui Tsutomu is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 500,000 underlying Shares.
5. In addition to the 480,000 Shares held by Mr. Tang Zhonghai as at the Latest Practicable Date, he is also entitled to exercise the share options granted to him pursuant to the share option scheme of the Company in respect of 600,000 underlying Shares.

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

| Name of Director | Name of associated corporation <i>(Note 6)</i> | Nature of interests | Number of shares held | % of issued share capital of associated corporation |
|------------------|---|--------------------------|--------------------------|--|
| Mr. Zhou Keming | Ally Good | Personal <i>(Note 7)</i> | 1,000 | 100% |
| Ms. Xu Xia | Ally Good | Personal <i>(Note 7)</i> | 1,000 | 100% |

Notes:

6. Ally Good is interested in approximately 67.77% of the issued share capital of the Company.
7. 772 shares of Ally Good are held by Mr. Zhou Keming and 228 shares of Ally Good are held by Ms. Xu Xia. Ms. Xu Xia is the spouse of Mr. Zhou Keming.

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

Apart from the above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

3. SERVICE CONTRACTS

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

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective 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 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.

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 2015, the date to which the latest published audited financial statements of the Company were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the Subscription Agreement;
- (b) the letter from the Independent Board Committee as set out in this circular; and
- (c) the letter from the Independent Financial Adviser as set out in 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 of the Company in Hong Kong is situated at Suite 1007, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

11. LANGUAGE

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