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 to be taken, you should consult your licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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Tiangong International Company Limited

天工國際有限公司

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 826)

(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED ISSUANCE AND PLACING OF NEW TG TECH SHARES BY TG TECH, A NON-WHOLLY OWNED SUBSIDIARY OF THE COMPANY;

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



A notice of the EGM of the Company, which will be held at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong at 10:00 a.m. (registration will begin at 9:30 a.m.) on Monday, 11 July 2016 is set out on pages EGM-1 to EGM-2 of this circular.

Shareholders who intend to appoint a proxy to attend the EGM and vote on the resolutions as set out in the notice of the EGM are required to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, in person or by post but in any event not less than 24 hours before the time stipulated for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending, and voting at the EGM or any adjourned meeting if you so wish.

* For identification purpose only

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DEFINITIONS

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

"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"close associate"	has the meaning ascribed to it under the Listing Rules
"Company"	Tiangong International Company Limited, a limited company incorporated in the Cayman Islands, the Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Danyang Tianfa"	Danyang Tianfa Forging Company Limited (丹陽天發精鍛有限 公司), a sino-foreign equity joint venture established in the PRC and an indirect wholly owned subsidiary of the Company
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at
	10:00 a.m. (registration will begin at 9:30 a.m.) on Monday, 11 July 2016 at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong for approving, among others, the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors
"Group"	July 2016 at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong for approving, among others, the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech
"Group" "Hong Kong"	July 2016 at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong for approving, among others, the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors
-	July 2016 at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong for approving, among others, the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors the Company and its subsidiaries

DEFINITIONS

"Independent Financial	Messis Capital Limited, the independent financial adviser,
Adviser"	licensed to conduct Type 1 (dealings in securities) and Type 6
	(advising on corporate finance) regulated activities under the
	SFO, appointed by the Company to advise the Independent
	Board Committee and the Independent Shareholders in respect
	of the Proposed Placing, the Nanjing Steel Subscription
	Agreement and the Subscription Agreements entered into with
	the TG Tech Directors

- "Independent Shareholders" Shareholders other than all connected persons (if any) who are interested or involved in the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors and the Subscriptions
- "Latest Practicable 20 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
- "Listing Rules" the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
- "Management Mr. Chen Jie and Mr. Zhu Linfei, each of whom is a management member of TG Tech and a target subscriber under the Proposed Placing
- "Nanjing Steel" Nanjing Steel Company Limited (南京鋼鐵股份有限公司), a company established in the PRC and a substantial shareholder of TG Tech as at the Latest Practicable Date
- "Nanjing Steel the conditional subscription agreement entered into between Subscription Agreement" the conditional subscription Agreement on 6 June 2016 in respect of the subscription for 35,000,000 new TG Tech Shares
- "NEEQ System" the National Equities Exchange and Quotations System
- "PRC" the People's Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Regions and Taiwan
- "Previous Issue" the non-public issuance and placing of 40,000,000 new TG Tech Shares by TG Tech to Nanjing Steel for the total proceeds of RMB49,600,000 and completed on 29 April 2016
- "Proposed Placing" the proposed non-public issuance and placing of 65,000,000 new TG Tech Shares by TG Tech to eight target subscribers, and the total proceeds to be raised therefrom shall be RMB80,600,000

DEFINITIONS

"DMD "	Doministic the lowful evenency of the DDC
"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)"	shares in the share capital of the Company, with a par value of US\$0.0025 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the conditional subscription agreement entered into between TG Tech and each of the TG Tech Directors and Management Members on 6 June 2016 in respect of the subscription for an aggregate of 30,000,000 new TG Tech Shares
"Subscriptions"	the proposed subscriptions of 65,000,000 new TG Tech Shares by Nanjing Steel, the TG Tech Directors and the Management Members for a total consideration of RMB80,600,000 pursuant to the Nanjing Steel Subscription Agreement and the Subscription Agreements
"TG Tech"	Jiangsu Tiangong Technology Company Limited (江蘇天工科技股份有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company, the shares of which are quoted on the NEEQ System
"TG Tech Directors"	Mr. Zhu Xiaokun, Mr. Jiang Rongjun, Ms. Yang Zhao, Mr. Xu Shaoqi and Mr. Wang Gang, each of whom is a director of TG Tech and a target subscriber under the Proposed Placing
"TG Tech Shares"	shares of TG Tech, which are quoted on the NEEQ System
"Tiangong Tools"	Jiangsu Tiangong Tools Company Limited (江蘇天工工具有限公司), a wholly foreign-owned enterprise established in the PRC and an indirect wholly owned subsidiary of the Company
"US\$"	United States dollars, the lawful currency of the United States of America
"°0⁄0"	per cent



Tiangong International Company Limited

天工國際有限公司^{*}

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

Executive Directors:

Mr. ZHU Xiaokun (Chairman) Mr. WU Suojun (Chief Executive Officer) Mr. YAN Ronghua Mr. JIANG Guangqing

Independent non-executive Directors:

Mr. GAO Xiang Mr. LEE Cheuk Yin, Dannis Mr. YIN Shuming

Registered Office in the Cayman Islands: P.O. Box 309

G.T. Ugland House South Church Street, George Town Grand Cayman, Cayman Islands

Registered office in Hong Kong:

Unit 1303, 13/F, Jubilee Centre 18 Fenwick Street, Wanchai Hong Kong

Principal place of business:

Danbei Town Danyang City Jiangsu Province The PRC

23 June 2016

To the Shareholders

Dear Sirs,

(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED ISSUANCE AND PLACING OF NEW TG TECH SHARES BY TG TECH, A NON-WHOLLY OWNED SUBSIDIARY OF THE COMPANY;

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 6 June 2016 in respect of, among others, the Proposed Placing and the Subscriptions.

On 6 June 2016, the Board announced that the board of directors of TG Tech, a nonwholly owned subsidiary of the Company, approved the Proposed Placing, pursuant to which TG Tech shall issue 65,000,000 new TG Tech Shares to eight target subscribers including Nanjing Steel, Mr. Zhu Xiaokun, Mr. Jiang Rongjun, Ms. Yang Zhao, Mr. Xu Shaoqi, Mr. Wang Gang, Mr. Chen Jie and Mr. Zhu Linfei at the subscription price of RMB1.24 per TG Tech Share. The total proceeds to be raised from the Proposed Placing shall be RMB80,600,000.

As part of the Proposed Placing, on 6 June 2016, TG Tech (as issuer) entered into (1) the Nanjing Steel Subscription Agreement with Nanjing Steel and Mr. Zhu Xiaokun and Ms. Yu Yumei (as warrantors), pursuant to which, Nanjing Steel has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue 35,000,000 new TG Tech Shares for a total consideration of RMB43,400,000 at the subscription price of RMB1.24 per TG Tech Share; and (2) a Subscription Agreement with each of the TG Tech Directors and the Management Members, pursuant to which, each of the TG Tech Directors and the Management Members has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue an aggregate of 30,000,000 new TG Tech Shares for a total consideration of RMB37,200,000 at the subscription price of RMB1.24 per TG Tech Share. Each of the Nanjing Steel Subscription Agreement and the Subscription Agreements is not inter-conditional.

The purpose of this circular is to provide Shareholders with (i) details of the Proposed Placing; (ii) details of the Subscriptions; (iii) the letter of advice from the Independent Financial Adviser; (iv) the recommendation from the Independent Board Committee; and (v) the notice of the EGM.

Mr. Zhu Xiaokun, an executive Director and one of the TG Tech Directors, and his associates, who control or are entitled to exercise control over the voting rights of their approximate 37.09% shareholding in the Company, the TG Tech Directors and Nanjing Steel and their respective associates will abstain from voting in respect of (i) the resolution in relation to the non-public issuance of TG Tech Shares; (ii) the resolution in relation to the Nanjing Steel Subscription Agreement; and (iii) the resolutions in relation to the shareholders' meeting of TG Tech to the extent that the party has interests in the relevant resolutions. For the shareholding of Mr. Zhu Xiaokun and his associates in the Company, please refer to "Appendix I-General Information" to this circular.

II. PROPOSAL IN RELATION TO THE PROPOSED ISSUANCE AND PLACING OF NEW TG TECH SHARES

1. Class of Shares to be issued

The shares to be issued under the Proposed Placing are TG Tech Shares.

2. Method of issuance

All new TG Tech Shares under the Proposed Placing will be offered to target subscribers by way of non-public issuance.

3. Target subscribers

The new TG Tech Shares under the Proposed Placing is proposed to be issued to eight target subscribers including Nanjing Steel, Mr. Zhu Xiaokun, Mr. Jiang Rongjun, Ms. Yang Zhao, Mr. Xu Shaoqi, Mr. Wang Gang, Mr. Chen Jie and Mr. Zhu Linfei. On 6 June 2016, each of the target subscribers entered into a conditional subscription agreement with TG Tech.

The table below sets forth the details of the target subscribers and the number of new TG Tech Shares to be subscribed for by each of them:

Name of target subscriber	Number of TG Tech Shares to be subscribed for by the target subscriber	Proposed subscription price (RMB)	Background information of the target subscriber
Nanjing Steel	35,000,000	43,400,000	A company established in the PRC and a substantial shareholder of TG Tech holding approximately 11.76% of the issued TG Tech Shares as at the Latest Practicable Date
Mr. Zhu Xiaokun	10,000,000	12,400,000	A director of TG Tech and the Company
Mr. Jiang Rongjun	5,000,000	6,200,000	A director of TG Tech
Ms. Yang Zhao	3,000,000	3,720,000	A director of TG Tech
Mr. Xu Shaoqi	3,000,000	3,720,000	A director of TG Tech
Mr. Wang Gang	3,000,000	3,720,000	A director of TG Tech
Mr. Chen Jie	3,000,000	3,720,000	The deputy general manager of TG Tech
Mr. Zhu Linfei	3,000,000	3,720,000	The manager of the sales department of TG Tech
Total	65,000,000	80,600,000	

The target subscribers for the Proposed Placing are determined by the board of directors of TG Tech and shall be approved by the shareholders of TG Tech. Among the target subscribers, Mr. Chen Jie is the deputy general manager of TG Tech responsible for production planning and supervision, quality control and enhancement and Mr. Zhu Linfei is the manager of the sales department of TG Tech responsible for business development and customer relationship management. Both Mr. Chen Jie and Mr. Zhu Linfei report to Mr. Jiang Rongjun, the general manager of TG Tech, for

duty. As each of Mr. Chen Jie and Mr. Zhu Linfei is not responsible under the immediate authority of the Board for the conduct of the business of the Company, they are not chief executives of the Company and therefore are not connected persons of the Company under the Listing Rules.

TG Tech has selected the TG Tech Directors and the Management Members as the individual target subscribers to provide incentives to them to work towards realising the visions and goals of TG Tech and enhancing the value of TG Tech Shares and allowing them to share the resulting benefits with the shareholders of TG Tech. Accordingly, all of the existing directors of TG Tech were selected as the target subscribers as they are responsible for driving the operation direction of TG Tech. Since sales and manufacturing are considered as two important functions during the current growing stage of TG Tech's business cycle, Mr. Zhu Linfei who is responsible for overseeing the sales department and Mr. Chen Jie who is responsible for the production arm of TG Tech, are included as the target subscribers.

The Subscriptions contemplated under each of the Nanjing Steel Subscription Agreement and the Subscription Agreements are not inter-conditional with each other.

The Proposed Placing is a deemed disposal of the Company's interests in TG Tech. As the applicable percentage ratios of the Proposed Placing, aggregating the Previous Issue, under the Listing Rules exceed 5% but are less than 25%, the issuance and placing of the new TG Tech Shares to the target subscribers constitutes a discloseable transaction of the Company and are subject to the announcement requirement under the Listing Rules. Based on the number of TG Tech Shares to be subscribed for by each of the target subscribers listed in the table above, TG Tech will continue to be a subsidiary of the Company which will indirectly hold approximately 74.07% equity interests in TG Tech after the Subscriptions. Therefore, the Proposed Placing will not result in a change in control of TG Tech.

To the best knowledge, information and belief of the Directors, the target subscribers (other than Nanjing Steel and the TG Tech Directors) and their respective ultimate beneficial owners are not connected persons of the Company.

4. Subscription price and pricing principle

The subscription price for the Proposed Placing is RMB1.24 per TG Tech Share, which is determined after taking into consideration factors including the industry in which TG Tech is operating, business model, growth cycle, net asset value per TG Tech Share, earnings, the last traded market price of TG Tech Shares after its quotation on the NEEQ System, which was equivalent to the subscription price of the Previous Issue given TG Tech Shares were quoted on the NEEQ System on a negotiation basis (as opposed to the market marking mechanism), and communications with investors.

As at 31 December 2015, the audited net asset value of TG Tech was RMB372,006,751 and the audited net asset value per TG Tech Share was RMB1.24. The audited net profits of TG Tech for each of the two years ended on 31 December 2014 and 31 December 2015 were as follows:

	For the year ended 31 December 2014 (<i>RMB</i>)	For the year ended 31 December 2015 (RMB)
Net profits (before taxation)	14,233,051	18,351,974
Net profits (after taxation)	12,089,996	15,598,844

The net price to TG Tech of each new TG Tech Share to be issued under the Proposed Placing will be determined and disclosed upon completion of the Proposed Placing and the determination of the relevant expenses incurred or to be incurred in relation to the Proposed Placing in accordance with the requirements of the Listing Rules. It is expected that the net price of each new TG Tech Share would be not less than RMB1.22.

5. Number of TG Tech Shares to be issued

The number of new TG Tech Shares to be issued under the Proposed Placing will be 65,000,000 TG Tech Shares, among which Nanjing Steel proposed to subscribe for 35,000,000 new TG Tech Shares, the TG Tech Directors proposed to subscribe for an aggregate of 24,000,000 new TG Tech Shares and the Management Members proposed to subscribe for an aggregate of 6,000,000 new TG Tech Shares.

There will not be any ex-rights or ex-dividend event such as dividend distribution, bonus issue and capitalization of the capital reserve between the Latest Practicable Date and completion of the Subscriptions.

6. Method of subscription

All new TG Tech Shares to be issued under the Proposed Placing shall be subscribed for in cash.

7. **Pre-emptive rights**

The existing shareholders of TG Tech have undertaken not to exercise their preemptive rights to subscribe for the new TG Tech Shares to be issued in the Proposed Placing.

8. Use of proceeds

TG Tech is mainly devoted in rough machining of titanium, converting the raw material, sponge titanium into titanium processed material, such as titanium flat steel, titanium tube, titanium ingots and titanium rods which will then be sold to a manufacturing company in the industry for further processing. With its relatively strong position as a middle stream producer along the titanium and titanium alloy products supply chain, TG Tech is considering the possible formation of alliances with its suppliers and potential investment in its downstream contractors/customers to stimulate the demand of its products. The board of directors of TG Tech considered that the formation of alliances on the supply side could help to stabilise the price and supply of raw materials and the strategic investment in downstream enterprises would allow TG Tech to gather more information on the recent development and demand of the end products of titanium so as to enhance the research and development of TG Tech's products.

The total proceeds of the Proposed Placing will be RMB80,600,000, of which (1) approximately RMB30 million will be for research and development for new materials of high-quality, high-end titanium alloy, including but not limited to titanium wire for 3D printing and a co-developing project with Nanjing Steel on the development of a new composite material by the combination of titanium and steel; (2) approximately RMB40 million will be for TG Tech's plan for integration with upstream and downstream products suppliers/contractors/customers by way of alliance or investment; and (3) the remaining amount of approximately RMB10.6 million will be used for replenishment of TG Tech's working capital to procure raw materials and meet any cashflow requirements that may arise from the daily operations of TG Tech.

The preliminary stage planning for the research is expected to commence shortly after the completion of the Proposed Placing and TG Tech expects that the first research and development report will be available later this year or early 2017. Depending on the results of the research, TG Tech will advance to the development stage of the raw materials. In addition, TG Tech is in the course of shortlisting potential upstream suppliers and downstream contractors/customers and expects to carry out negotiations and due diligence as appropriate during the course of this year and expects to establish the first alliance with its suppliers in the course of 2017 and make its first investment in downstream contractors/customers by 2018.

9. Arrangement relating to the accumulated undistributed profits prior to the Proposed Placing

TG Tech has not implemented any distribution of dividends or conversion and increase of capital since its quotation on the NEEQ System. Upon completion of the Proposed Placing, holders of the new TG Tech Shares, together with all existing shareholders of TG Tech will be entitled to all undistributed profits of TG Tech prior to the completion of the Proposed Placing.

10. Applications for listing of the new TG Tech Shares

TG Tech will apply to National Equities Exchange and Quotations Co., Ltd.* for the listing of, and permission to deal in, the new TG Tech Shares pursuant to the Proposed Placing.

11. Conditions Precedent

The Proposed Placing is conditional upon, among other things, (i) consideration and approval by the Board and by the Shareholders at the EGM of all resolutions in respect of the Proposed Placing; (ii) consideration and approval by the shareholders of TG Tech of all resolutions in respect of the Proposed Placing and amendment of articles of association of TG Tech; and (iii) submitting to National Equities Exchange and Quotations Co., Ltd.* for filing.

12. Amendment of Articles of Association

As a result of the Proposed Placing, the articles of association of TG Tech will be amended to reflect the changes to its registered capital, its share capital structure and other relevant matters that need to be adjusted in relation to the Proposed Placing.

Date of completion	Fund raising activity	Subscription price	Net proceeds raised	Use of net proceeds
29 April 2016	Issuance of 40,000,000 new TG Tech Shares to Nanjing Steel	RMB1.24 per TG Tech Share	RMB49,320,000	 RMB11.3 million of the net proceeds was utilised by TG Tech in the procurement of material and utility expenses. The remaining amount of RMB38.02 million has not been utilised and will be used to increase the production capacity and the enhancement of research and development in high-quality heavyweight 8mm titanium wire coil.

13. Fund raising in the past twelve months

Save for the fund raising activity under the Previous Issue and the Proposed Placing as disclosed above, the Group has not conducted any other fund raising activities by way of issue of equity securities within the 12 months immediately prior to the Latest Practicable Date.

The Directors (including the independent non-executive Directors) consider that the terms of the Proposed Placing (including the subscription price) are on normal commercial terms and are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole.

Shareholders and potential investors should be aware that the Proposed Placing is subject to the conditions precedent set out above, and consequently the Proposed Placing may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

III. PROPOSED SUBSCRIPTION OF NEW TG TECH SHARES BY NANJING STEEL

1. New TG Tech Shares to be subscribed by Nanjing Steel

As part of the Proposed Placing, on 6 June 2016, TG Tech (as issuer) entered into the Nanjing Steel Subscription Agreement with Nanjing Steel and Mr. Zhu Xiaokun and Ms. Yu Yumei (as warrantors), pursuant to which, among other things, Nanjing Steel has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue 35,000,000 new TG Tech Shares for a total consideration of RMB43,400,000 at the subscription price of RMB1.24 per TG Tech Share. The Nanjing Steel Subscription Agreement is not inter-conditional with any of the Subscription Agreements.

Immediately upon completion of the subscription under the Nanjing Steel Subscription Agreement, assuming that the number of new TG Tech Shares issuable under the Proposed Placing is 65,000,000 TG Tech Shares, Nanjing Steel will hold in aggregate 75,000,000 TG Tech Shares, representing approximately 18.52% of the enlarged total issued TG Tech Shares.

2. Subscription price and payment method

The subscription price of the new TG Tech Shares to be issued to Nanjing Steel under the Nanjing Steel Subscription Agreement shall be RMB1.24 per TG Tech Share.

Within 10 business days of the satisfaction of all conditions precedent under the Nanjing Steel Subscription Agreement, Nanjing Steel shall pay the subscription price to TG Tech in one lump sum into the bank account designated by TG Tech. TG Tech shall issue a certificate of capital contribution to Nanjing Steel within 2 days after the day of receiving the payment.

3. Conditions precedent

The obligation of Nanjing Steel to pay the subscription price shall be subject to the satisfaction or waiver by Nanjing Steel of the following conditions:

- (a) the resolutions in relation to the following matters having been duly passed at the shareholders' meeting of TG Tech: (i) the Proposed Placing and the increase of the registered share capital of TG Tech; (ii) the subscription of new TG Tech Shares by Nanjing Steel at the subscription price under the Nanjing Steel Subscription Agreement; (iii) the Nanjing Steel Subscription Agreement; and (iv) (if any) other existing shareholders of TG Tech not exercising their pre-emptive rights to subscribe for new TG Tech Shares to be issued under the Proposed Placing;
- (b) the Independent Shareholders having duly passed a resolution at a general meeting in accordance with the Listing Rules approving the Proposed Placing, the Nanjing Steel Subscription Agreement and the transactions contemplated thereunder;
- (c) the representations and warranties provided by TG Tech, Mr. Zhu Xiaokun and Ms. Yu Yumei being true, accurate, complete and not misleading on the day of signing the Nanjing Steel Subscription Agreement and on completion of the subscription;
- (d) there being no material adverse change or event leading to the material adverse change to the operation, revenue, prospect, assets and financial condition of TG Tech between the day of signing of the Nanjing Steel Subscription Agreement and the day of payment of the subscription price;
- (e) there being no action or procedures pending or potentially undertaken by any PRC government department to restrict or prohibit the completion of the transaction under the Nanjing Steel Subscription Agreement or other related transactions, and no PRC government department with the jurisdiction having formulated any law, regulation or rules resulting in the completion of the Nanjing Steel Subscription Agreement being illegal; and
- (f) (if any) all consents, approvals, authorisations, orders, registrations, records or qualifications (save for the procedures for registration for industrial and commercial information changes in relation to the Proposed Placing) required to be issued by a third party or the government under the relevant laws and necessary for the purpose of the Proposed Placing having been duly obtained and remaining effective.

IV. PROPOSED SUBSCRIPTION OF NEW TG TECH SHARES BY TG TECH DIRECTORS AND MANAGEMENT MEMBERS

1. New TG Tech Shares to be subscribed by TG Tech Directors and Management Members

As part of the Proposed Placing, on 6 June 2016, TG Tech entered into a Subscription Agreement with each of the TG Tech Directors and the Management Members, pursuant to which, each of the TG Tech Directors and the Management Members has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue an aggregate of 30,000,000 new TG Tech Shares for a total consideration of RMB37,200,000 at the subscription price of RMB1.24 per TG Tech Share. Each of the Subscription Agreements is not inter-conditional with the Nanjing Steel Subscription Agreement or any of the other Subscription Agreements.

Immediately upon completion of the subscription under the Subscription Agreements, assuming that the number of new TG Tech Shares issuable under the Proposed Placing is 65,000,000 TG Tech Shares, the TG Tech Directors will hold in aggregate 24,000,000 TG Tech Shares, representing approximately 5.93% of the enlarged total issued TG Tech Shares and the Management Members will hold in aggregate 6,000,000 TG Tech Shares, representing approximately 1.48% of the enlarged total issued TG Tech Shares.

2. Subscription price and payment method

The subscription price of the new TG Tech Shares to be issued to the TG Tech Directors and the Management Members under the Subscription Agreements shall be RMB1.24 per TG Tech Share, which is the same as that under the Nanjing Steel Subscription Agreement.

Each of the TG Tech Directors and the Management Members shall pay the full subscription price according to the methods to be announced by TG Tech on the website of the NEEQ System. Upon receipt of the subscription price, TG Tech shall issue the new TG Tech Shares.

3. Conditions precedent

Each Subscription Agreement shall become effective after the following conditions are fulfilled:

- (a) approval by the board of directors of TG Tech and the shareholders of TG Tech;
- (b) each of Tiangong Tools and Danyang Tianfa having agreed not to exercise their respective pre-emptive rights to subscribe for the TG Tech Shares to be issued under the Proposed Placing; and

(c) (in the case of Subscription Agreements entered into with the TG Tech Directors) the Independent Shareholders having duly passed a resolution at a general meeting in accordance with the Listing Rules approving the Proposed Placing, the Subscription Agreements entered into with the TG Tech Directors and the transactions contemplated thereunder.

Upon becoming effective, each Subscription Agreement shall be submitted to National Equities Exchange and Quotations Co., Ltd.* for filing.

V. GENERAL INFORMATION ON THE GROUP AND THE PARTIES TO THE NANJING STEEL SUBSCRIPTION AGREEMENT

(a) The Group

The Group is principally engaged in the production and sales of high speed steel, high speed steel cutting tools, die steel and titanium alloy.

(b) TG Tech

TG Tech is mainly engaged in manufacturing, processing, researching and developing and sales of titanium alloy products from the raw material, sponge titanium.

(c) Nanjing Steel

Nanjing Steel is principally engaged in wholesale of general dangerous chemical products, inflammable materials, oxidant, poisonous products, corrosive substances, smelting and rolling of black metal, sale of steel rolling products and by-products, production of coke and by-products, investment in iron and steel industry and assets management, development and consultation services in relation to iron and steel technology, recycle of scrap metal and resources, import and export and distribution of various commodities and technology. To the best of the directors' knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owner of Nanjing Steel is not a connected person of the Company.

VI. IMPLICATIONS UNDER THE LISTING RULES

TG Tech is an indirect non-wholly owned subsidiary of the Company. As at the Latest Practicable Date, Nanjing Steel holds approximately 11.76% of the total issued TG Tech Shares and is a substantial shareholder of TG Tech. Each of the TG Tech Directors is a director of TG Tech and one of the TG Tech Directors is a Director of the Company. Hence, each of Nanjing Steel and the TG Tech Directors is a connected person of the Company. The issuance and placing of the new TG Tech Shares to Nanjing Steel and each of the TG Tech Directors pursuant to the Nanjing Steel Subscription Agreement and the Subscription Agreements constitute connected transactions of the Company and are subject to announcement, circular and Shareholders' approval requirements under the Listing Rules. The proposal relating to the Subscriptions, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors

will be subject to the approval by the Independent Shareholders at the EGM. The Proposed Placing is a deemed disposal of the Company's interests in TG Tech. As the applicable percentage ratios of the Proposed Placing, aggregating the Previous Issue, under the Listing Rules exceed 5% but are less than 25%, the issuance and placing of the new TG Tech Shares to the target subscribers constitutes a discloseable transaction of the Company and are subject to the announcement requirement under the Listing Rules. Mr. Zhu Xiaokun, one of the TG Tech Directors, the TG Tech Directors and Nanjing Steel and other connected persons of the Company who are interested in the Proposed Placing and their respective associates will abstain from voting in respect of the relevant resolutions at the EGM and the shareholders' meeting of TG Tech to the extent that the party has interests in the relevant resolutions.

Mr. Zhu Xiaokun, being an executive Director and one of the TG Tech Directors, has abstained from voting at the Board meeting of the Company in respect of the transactions contemplated under the Nanjing Steel Subscription Agreement and the Subscription Agreements and he and his associates will abstain from voting on the same at the EGM to the extent that he and his associates have interests in the relevant resolutions. Save as stated above, none of the Directors have a material interest in the Nanjing Steel Subscription Agreement and the Subscription Agreements and hence no other Director has abstained from voting on such resolution at the Board meeting of the Company.

The terms of the Nanjing Steel Subscription Agreement and the Subscription Agreements were determined after arm's length negotiations between the Company, TG Tech and the target subscribers. The Directors (including the independent non-executive Directors) consider that the terms of each of the Nanjing Steel Subscription Agreement and the Subscription Agreements (including the subscription price) are on normal commercial terms and are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole.

VII. EFFECT ON THE SHAREHOLDING STRUCTURE OF TG TECH

The shareholding structures of TG Tech (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Placing and the Subscriptions by the target subscribers are set out in the table below:

As at the Latest Practicable Date

Name of shareholder	Number of TG Tech Shares held	Approximate percentage of the issued TG Tech Shares
Tiangong Tools	270,000,000	79.41%
Nanjing Steel	40,000,000	11.76%
Danyang Tianfa	30,000,000	8.83%
Total	340,000,000	100%

Immediately after completion of the Proposed Placing and the Subscriptions by the target subscribers

Assuming that (1) a total of 65,000,000 TG Tech Shares to be issued under the Proposed Placing are being fully subscribed by the target subscribers; and (2) no other TG Tech Shares will be issued or transferred from the Latest Practicable Date until completion of the Proposed Placing and the Subscriptions:

Name of shareholder	Number of TG Tech Shares held	Approximate percentage of the issued TG Tech Shares
Tiangong Tools	270,000,000	66.67%
Nanjing Steel	75,000,000	18.52%
Danyang Tianfa	30,000,000	7.41%
Mr. Zhu Xiaokun	10,000,000	2.47%
Mr. Jiang Rongjun	5,000,000	1.23%
Ms. Yang Zhao	3,000,000	0.74%
Mr. Xu Shaoqi	3,000,000	0.74%
Mr. Wang Gang	3,000,000	0.74%
Mr. Chen Jie	3,000,000	0.74%
Mr. Zhu Linfei	3,000,000	0.74%
Total	405,000,000	100%

The Shareholders and potential investors should be aware that the Subscriptions are subject to the conditions precedent set out above, and consequently the Subscriptions may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

VIII. REASONS FOR AND BENEFITS OF THE PROPOSED PLACING AND SUBSCRIPTIONS

In order to accelerate the pace of innovation and transformation, extend the industrial chain of titanium products, continue to vigorously promote the efficient development of new titanium materials and improve the overall operating capacity and competitiveness, TG Tech decided to implement the Proposed Placing, which the Directors (including the independent non-executive Directors) considered in the interest of the Group.

The Board had considered various other means of fund raising which is on a pro-rata manner, such as rights issue and open offer. However, after due and careful consideration by the Board, the Board is of the view that the Proposed Placing by way of a non-public issuance of new TG Tech Shares is the most preferable method over others, as non-public issuance, as compared with rights issue and open offer, presents less uncertainties and risks given the current capital market situation and in terms of the PRC approval process. In addition, the Board expects that the non-public issuance will have less adverse effect on the

share price of the Company. Further, subscription by other investors in the non-public issuance demonstrates the recognition of the value of TG Tech and confidence such investors place in TG Tech which may help stabilize the share price of TG Tech.

Given Nanjing Steel's deep processing technology to process titanium alloy slab into the titanium flat sheet, the investment by Nanjing Steel in TG Tech will enable TG Tech to secure an immediate application of such technology for TG Tech's downstream production without incurring substantial investment costs and time. In addition, with the respective competitive advantages on the production technology of titanium and steel alloy, TG Tech and Nanjing Steel are planning to cooperate for the development of a new composite material with anti-corrosive features by a combination of titanium and steel, which could be widely applied in marine industry, subject to completion of the Proposed Placing. The Board considered that TG Tech and Nanjing Steel could develop an ongoing strategic partnership in the new material industry chain by utilising their comprehensive advantage on product development and sales network, which will allow TG Tech to stabilize the production of and expand the application stratum of its products and enhance its research and development level. Therefore, the Board (including the independent non-executive Directors) considered that the Proposed Placing is in the best interests of TG Tech and its investors as a whole.

The proposed issuance of new TG Tech Shares to the TG Tech Directors and the Management Members is also considered as giving incentive to the management of TG Tech to work towards enhancing the value of TG Tech and its shares.

IX. EGM

A notice of the EGM of the Company, which will be held at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong at 10:00 a.m. (registration will begin at 9:30 a.m.) on Monday, 11 July 2016 is set out on pages EGM-1 to EGM-2 of this circular.

For details regarding resolutions to be proposed at the EGM for consideration and approval as well as appointment of proxies and other matters, please refer to the notice of the EGM of the Company.

Shareholders who intend to appoint a proxy to attend the EGM and vote on the resolutions as set out in the notice of the EGM are required to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, in person or by post but in any event not less than 24 hours before the time stipulated for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending, and voting at, the EGM or at any adjourned meeting if you so wish.

X. VOTING BY WAY OF POLL

In accordance with the requirements of the Listing Rules, the resolutions set out in the notice of the EGM will be voted on by way of poll. On a poll, votes may be given either personally or by proxy. Voting results will be uploaded to the website of the Company at www.tggj.cn and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk upon the conclusion of the EGM.

A corporation being a member of the Company shall be deemed for the purpose of the articles of association of the Company to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

XI. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the resolutions as set out in the notice of the EGM are in the interests of the Company and its Shareholders as a whole, and therefore recommend all Shareholders to vote in favour of the above proposed resolutions.

Messis 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 Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and Proposed Placing. Messis Capital Limited is of the view that the terms of the the Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and Proposed Placing are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Messis Capital Limited therefore recommends the Independent Board Committee to advise the Independent Shareholders and recommends the Independent Shareholders to vote in favour of the resolutions in respect of the Subscriptions, the Nanjing Steel Subscription Agreements entered into with the TG Tech Directors and Proposed Placing to be proposed at the EGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 to 20 of this circular and the letter of advice from the Independent Financial Adviser set out on pages 21 to 42 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions approving the Subscriptions and the Proposed Placing.

> By Order of the Board Tiangong International Company Limited ZHU Xiaokun Chairman

* For identification purpose only



Tiangong International Company Limited

天工國際有限公司*

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 826)

(Stock Code: 826)

23 June 2016

To the Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS: SUBSCRIPTION OF NEW TG TECH SHARES BY NANJING STEEL AND THE TG TECH DIRECTORS

We refer to the circular despatched to the Shareholders of Tiangong International Company Limited (the "**Company**") on 23 June 2016 (the "**Circular**"), of which this letter forms a part. Unless otherwise indicated, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders on the terms of the Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and the Proposed Placing in accordance with the relevant requirements of Chapter 14A of the Hong Kong Listing Rules.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 18 of the Circular and the letter from the Independent Financial Adviser as set out on pages 21 to 42 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the advice given by the Independent Financial Adviser, we are of the opinion that the Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and the Proposed Placing are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

> Yours faithfully, For and on behalf of the Independent Board Committee of **Tiangong International Company Limited GAO Xiang, LEE Cheuk Yin, Dannis and YIN Shuming** *Independent Non-executive Directors*

* For identification purpose only

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



23 June 2016

To: The Independent Board Committee and the Independent Shareholders of Tiangong International Company Limited

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ISSUANCE AND PLACING OF NEW TG TECH SHARES BY TG TECH, A NON-WHOLLY OWNED SUBSIDIARY OF THE COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Placing, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company (the "Circular") to the Shareholders dated 23 June 2016, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 6 June 2016, the Board announced that the board of directors of TG Tech, a nonwholly owned subsidiary of the Company, approved the Proposed Placing, pursuant to which TG Tech shall issue 65,000,000 new TG Tech Shares to eight target subscribers including Nanjing Steel, the TG Tech Directors and the Management Members at the subscription price of RMB1.24 per TG Tech Shares. The total proceeds to be raised from the Proposed Placing shall be RMB80,600,000.

As part of the Proposed Placing, on 6 June 2016, TG Tech (as issuer) entered into (1) the Nanjing Steel Subscription Agreement with Nanjing Steel and Mr. Zhu Xiaokun and Ms. Yu Yumei (as warrantors), pursuant to which, Nanjing Steel has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue 35,000,000 new TG Tech Shares for a total consideration of RMB43,400,000 at the subscription price of RMB1.24 per TG Tech Share; and (2) the Subscription Agreements with each of the TG Tech Directors and the Management Members, pursuant to which, each of the TG Tech Directors and the Management Members has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue an aggregate of 30,000,000 new TG Tech Shares for a total consideration of RMB37,200,000 at the subscription price of RMB1.24 per TG Tech Share. Each of the Nanjing Steel Subscription Agreement and the Subscription Agreements is not inter-conditional.

The Proposed Placing is a deemed disposal of the Company's interests in TG Tech. As the applicable percentage ratios of the Proposed Placing, aggregating the Previous Issue, under the Listing Rules exceed 5% but are less than 25%, the issuance and placing of the new TG Tech Shares to the target subscribers constitutes a discloseable transaction of the Company and are subject to the announcement requirement under the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, Nanjing Steel holds approximately 11.76% of the total issued TG Tech Shares and is a substantial shareholder of TG Tech. Each of the TG Tech Directors is a director of TG Tech and one of the TG Tech Directors is a Director. Hence, each of Nanjing Steel and the TG Tech Directors is a connected person of the Company. The issuance and placing of the new TG Tech Shares to Nanjing Steel and each of the TG Tech Directors pursuant to the Nanjing Steel Subscription Agreement and the Subscription Agreement, circular and Shareholders' approval requirements under the Listing Rules. The proposal relating to the Subscriptions, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors will be subject to the approval by the Independent Shareholders at the EGM.

The EGM will be convened for the purpose of considering and if thought fit, approving the proposal relating to the Subscriptions, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors. The Company has established the Independent Board Committee which comprises all the independent nonexecutive Directors, namely Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Yin Shuming, to give recommendation to the Independent Shareholders on the terms of the Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and the Proposed Placing. We, Messis Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and to give our opinion in relation to whether the terms of the Subscriptions, the Nanjing Steel Subscription Agreement, the Subscription Agreements entered into with the TG Tech Directors and the Proposed Placing are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Other than this appointment as the Independent Financial Adviser in connection with the Proposed Placing, we have no relationships or interests with the Company, the Group, TG Tech, any party to the Proposed Placing and the Subscriptions or any of their respective associates, close associates or core connected persons and any other parties that could reasonably be regarded as relevant to our independence. We are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules and accordingly, we are considered eligible to give independent advice and recommendation in respect of the Proposed Placing and the Subscriptions.

BASIS OF OUR ADVICE AND RECOMMENDATIONS

In arriving at our recommendations, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and will continue to be so as at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to us by the Company, the Directors and the management of the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, TG Tech and any parties to the Proposed Placing and the Subscriptions.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Placing and the Subscriptions. Except for its inclusion in the Circular, this letter 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Placing and the Subscriptions, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Company was incorporated in the Cayman Islands and has its principal place of business at Danbei Town, Danyang City, Jiangsu Province, the PRC. The Group is principally engaged in the production and sales of high speed steel ("HSS"), HSS cutting tools, die steel ("DS") and titanium alloy.

Financial information of the Group

The table below sets out the audited key financial information of the Group for the two years ended 31 December 2014 and 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report"):

	For the year ended 31 December	
	2014	2015
	RMB'000	RMB'000
	(Audited)	(Audited)
Revenue	4,535,670	3,429,397
Gross profit	908,832	391,336
Net profit attributable to equity shareholders of the Company	463,466	72,623

Revenue of the Group amounted to approximately RMB3,429.4 million for the year ended 31 December 2015, representing a decrease of 24.4% as compared with approximately RMB4,535.7 million for the year ended 31 December 2014. The decrease was mainly due to the decline in the global average selling price in steel products. Among the Group's products, the traditional core segments of DS and HSS were more significantly affected. Gross profit of the Group decreased by 56.9% year-on-year to approximately RMB391.3 million for the year ended 31 December 2015 (2014: approximately RMB908.8 million) as a result of the significant decrease in average selling price in both domestic and overseas markets, especially the segments of DS and HSS. Net profit attributable to equity shareholders of the Company decreased by 84.3% from approximately RMB463.5 million for the year ended 31 December 2014 to approximately RMB72.6 million for the year ended 31 December 2015. The decrease was mainly attributed to (i) the decrease in demand due to the slowdown in China's economic growth during the year; (ii) the depreciation of Euro which affected the export revenue of the Group; and (iii) the decline in the global average selling price in steel products.

	As at		
	31 December		
	2014 2		
	RMB'000	RMB'000	
	(Audited)	(Audited)	
Total assets	8,364,837	8,383,972	
Total liabilities	4,435,016	4,507,685	
Equity attributable to owners of the			
Company	3,929,821	3,876,287	

Total assets of the Group amounted to approximately RMB8,384.0 million as at 31 December 2015, representing slight increase of 0.2% as compared with RMB8,364.8 million as at 31 December 2014. The Group's assets mainly consisted of property, plant and equipment, inventories and trade and other receivables. The Group's total liabilities amounted to approximately RMB4,507.7 million as at 31 December 2015, representing an increase of 1.6% as compared with RMB4,435.0 million as at 31 December 2014, mainly due to the increase in interest-bearing borrowings. Equity attributable to owners of the Company amounted to approximately RMB3,876.3 million and approximately RMB3,929.8 million as at 31 December 2015, respectively.

On 3 June 2016, a profit warning announcement was made by the Company (the "**Profit Warning Announcement**") that, based on a preliminary assessment by the management of the Group on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2016, the Company expected to record a significant decline in the Group's profit for the six months ending 30 June 2016 (the "**Period**") as compared to the same period in 2015. The decline was primarily attributed to (i) the weak global economic growth during the Period, leading to the decrease in demand; and (ii) the relatively low average selling price of the Group's products after the negative impact on steel products during the year 2015, which has yet recovered to the average selling price level of the same period in 2015.

2. Background information of TG Tech

According to the 2015 Annual Report, TG Tech was incorporated in the PRC on 27 January 2010 with limited liability and an indirectly non wholly-owned subsidiary of the Company. TG Tech is mainly engaged in manufacturing, processing, researching and developing and sales of titanium alloy products from the raw material, sponge titanium.

On 28 August 2015, the Company proposed to spin-off TG Tech and TG Tech filed an application for listing of TG Tech Shares on the NEEQ System. TG Tech was officially quoted on the NEEQ System in December 2015. TG Tech conducted its first fund raising exercise in 2016 after the quotation of TG Tech Shares on the NEEQ System. On 7 March 2016, TG Tech entered into a subscription agreement with Nanjing Steel and the details of the Previous Issue is set out below:

Date of completion	Fund raising activity	Subscription price	Net proceeds raised	Use of net proceeds
29 April 2016	Issuance of 40,000,000 new TG Tech Shares to Nanjing Steel	RMB1.24 per TG Tech Share	RMB49,320,000	RMB11.3 million of the net proceeds was utilised by TG Tech in the procurement of material and utility expenses.
				The remaining amount of RMB38.02 million has not been utilised and will be used to increase the production capacity and the enhancement of research and development in high-quality heavyweight 8mm titanium wire coil.

Upon the completion of the Previous Issue, the equity interests held by the Company in TG Tech was diluted by approximately 11.76% from 100% to approximately 88.24% of the enlarged share capital of TG Tech. Save for the fund raising activity under the Previous Issue, TG Tech has not conducted any other fund raising activities by way of issue of equity securities within the 12 months immediately prior to the Latest Practicable Date.

Financial information of TG Tech

The table below sets out the audited key financial information of TG Tech for the two years ended 31 December 2014 and 31 December 2015 as prepared under the PRC GAAP and is extracted from TG Tech's annual report for the year ended 31 December 2015 (the "2015 TG Tech Annual Report"):

	For the year ended 31 December	
	2014	2015
	RMB'000	RMB'000
	(Audited)	(Audited)
Revenue	148,168	198,182
Gross profit	26,227	36,418
Net profit (after taxation)	12,090	15,599

As stated in the 2015 TG Tech Annual Report, the sales of titanium alloy products contributed to approximately 87.5% of TG Tech's revenue. Revenue of TG Tech was amounted to approximately RMB198.2 million for the year ended 31 December 2015, representing a significant increase of 33.8% as compared with approximately RMB148.2 million for the year ended 31 December 2014. The increase in revenue was mainly attributed to the increase in sales and market shares of the titanium alloy products. Gross profit of TG Tech increased by 38.9% year-on-year to approximately RMB36.4 million for the year ended 31 December 2015 (2014: approximately RMB26.2 million) as a result of the significant increase in revenue which offset the increase in cost of sales. Thus, net profit of TG Tech also increased by 29.0% from approximately RMB12.1 million for the year ended 31 December 2014 to approximately RMB15.6 million for the year ended 31 December 2015.

	As at 31 December	
	2014	2015
	RMB'000	RMB'000
	(Audited)	(Audited)
Total assets	419,850	450,428
Total liabilities	63,442	78,421
Net assets value	356,408	372,007

Total assets of TG Tech amounted to RMB450.4 million as at 31 December 2015, representing an increase of 7.3% as compared with RMB419.9 million as at 31 December 2014. As stated in 2015 TG Tech Annual Report, the increase was mainly attributed to the significant increase in cash and cash equivalents generated from operating activities with stable increase in revenue for the year ended 31 December 2015 and improvement in collectability over trade receivables. TG Tech recorded total liabilities value amounted to RMB78.4 million as at 31 December 2015, representing an increase of 23.6% as compared with RMB63.4 million as at 31 December 2014. The increase is mainly attributed to the increase in trade payables associated with the increase in cost of sales. The net assets value increased from RMB356.4 million as at 31 December 2014 to RMB372.0 million as at 31 December 2015, principally due to the net profit recorded by TG Tech for the year ended 31 December 2015.

3. Background information of Nanjing Steel, TG Tech Directors and the Management Members

As stated in the Letter from the Board, Nanjing Steel was established in the PRC and it is principally engaged in wholesale of general dangerous chemical products, inflammable materials, oxidant, poisonous products, corrosive substances, smelting and rolling of black metal, sale of steel rolling products and by-products, producton of coke and by-products, investment in iron and steel industry and assets management, development and consultation services in relation to iron and steel technology, recycle

of scrap metal and resources, import and export and distribution of various commodities and technology. It is a substantial shareholder of TG Tech holding approximately 11.76% of the issued TG Tech Shares as at the Latest Practicable Date.

The table below sets forth the background information of the TG Tech Directors and the Management Members:

Name of target subscriber	Background information of the target subscriber
Mr. Zhu Xiaokun	A director of TG Tech and the Company
Mr. Jiang Rongjun	A director of TG Tech
Ms. Yang Zhao	A director of TG Tech
Mr. Xu Shaoqi	A director of TG Tech
Mr. Wang Gang	A director of TG Tech
Mr. Chen Jie	The deputy general manager of TG Tech
Mr. Zhu Linfei	The manager of the sales department of TG Tech

The target subscribers for the Proposed Placing are determined by the board of directors of TG Tech and shall be approved by the shareholders of TG Tech. Among the target subscribers, Mr. Chen Jie is the deputy general manager of TG Tech responsible for production planning and supervision, quality control and enhancement and Mr. Zhu Linfei is the manager of the sales department of TG Tech responsible for business development and customer relationship management. Both Mr. Chen Jie and Mr. Zhu Linfei report to Mr. Jiang Rongjun, the general manager of TG Tech, for duty. As each of Mr. Chen Jie and Mr. Zhu Linfei is not responsible under the immediate authority of the Board for the conduct of the business of the Company, they are not chief executives of the Company and therefore are not connected persons of the Company under the Listing Rules.

TG Tech has selected the TG Tech Directors and the Management Members as the individual target subscribers to provide incentives to them to work towards realising the visions and goals of TG Tech and enhancing the value of TG Tech Shares and allowing them to share the resulting benefits with the shareholders of TG Tech. Accordingly, all of the existing directors of TG Tech were selected as the target subscribers as they are responsible for driving the operation direction of TG Tech. Since sales and manufacturing are considered as two important functions during the current growing stage of TG Tech's business cycle, Mr. Zhu Linfei who is responsible for overseeing the sales department and Mr. Chen Jie who is responsible for the production arm of TG Tech, are included as the target subscribers.

The Subscriptions contemplated under each of the Nanjing Steel Subscription Agreement and the Subscription Agreements are not inter-conditional with each other.

4. Reasons for and the benefits from the Proposed Placing and Subscriptions

As stated in the Letter from the Board, the Group is principally engaged in the production and sales of HSS, HSS cutting tools, DS and titanium alloy, where TG Tech is mainly engaged in manufacturing, processing, researching and developing and sales of titanium alloy products from the raw material, sponge titanium. In order to accelerate the pace of innovation and transformation, extend the industrial chain of titanium products, continue to vigorously promote the efficient development of new titanium materials and improve the overall operating capacity and competitiveness, TG Tech decided to implement the Proposed Placing.

As advised by the Directors, the Board had considered various other means of fund raising which is on a pro-rata manner, such as rights issue and open offer. However, after due and careful consideration by the Board, the Board is of the view that the Proposed Placing by way of a non-public issuance of new TG Tech Shares is the most preferable method over others, as non-public issuance, as compared with rights issue and open offer, presents less uncertainties and risks given the current capital market situation and in terms of the PRC approval process. In addition, the Board expects that the non-public issuance will have less adverse effect on the share price of the Company. Further, subscription by other investors in the non-public issuance demonstrates the recognition of the value of TG Tech and confidence such investors place in TG Tech which may help stabilize the share price of TG Tech.

Given Nanjing Steel's deep processing technology to process titanium alloy slab into the titanium flat sheet, the investment by Nanjing Steel in TG Tech will enable TG Tech to secure an immediate application of such technology for TG Tech's downstream production without incurring substantial investment costs and time. In addition, with the respective competitive advantages on the production technology of titanium and steel alloy, TG Tech and Nanjing Steel are planning to cooperate for the development of a new composite material with anti-corrosive features by a combination of titanium and steel, which could be widely applied in marine industry, subject to completion of the Proposed Placing. The Board considered that TG Tech and Nanjing Steel could develop an ongoing strategic partnership in the new material industry chain by utilising their comprehensive advantage on product development and sales network, which will allow TG Tech to stabilise the production of and expand the application stratum of its products and enhance its research and development level. Therefore, the Board considered that the Proposed Placing is in the best interests of TG Tech and its shareholders as a whole.

According to the 2015 Annual Report and Profit Warning Announcement, the Group's traditional core segments were affected by the decline in global average selling price in steel products and decrease in demand in domestic markets due to the slowdown on China's economic growth during the year ended 31 December 2015 and the five months ended 31 May 2016. As advised by the Directors, titanium alloy segment has been identified as a growth area among the Group's various business. The Group is confident that the extensive application of titanium alloy in various industries will drive up the demand of titanium alloy in the near future. With the quotation of TG

Tech on the NEEQ System, the Group is seeking for appropriate cooperation opportunities to expand the production capacity as well as the upstream and downstream product extension. At the same time, focus will be put on the research and development to advance the production process of titanium alloy pipes, flat sheets, plate and wire.

In addition, the proposed issuance of new TG Tech shares to the TG Tech Directors and the Management Members is also considered as giving incentive to the management of TG Tech to work towards enhancing the value of TG Tech and its shares.

In the light of the above and as advised by the Directors that TG Tech intends to use the proceeds from the Proposed Placing for the replenishment of its working capital, which enables TG Tech to (i) strengthen its current research and development level; (ii) expand its markets; and (iii) increase its financial strength for further development, we concur with the view of the Directors that the Proposed Placing is in the interests of the Company and its Shareholders as a whole.

5. Terms of the Proposed Placing of new TG Tech Shares and proposed subscription of new TG Shares by Nanjing Steel, TG Tech Directors and Management Members

Set out below are the key terms of the Proposed Placing, Independent Shareholders are advised to refer to the Letter from the Board for the full details of the terms in relation to the Proposed Placing, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors.

Proposed issuance and placing of new TG Tech Shares

Class of Shares to be issued

As stated in the Letter from the Board, the shares to be issued under the Proposed Placing are TG Tech Shares.

Method of issuance

As stated in the Letter from the Board, all new TG Tech Shares under the Proposed Placing will be offered to target subscribers by way of non-public issuance.

Target subscribers

As stated in the Letter from the Board, the new TG Tech Shares under the Proposed Placing is proposed to be issued to eight target subscribers including Nanjing Steel, Mr. Zhu Xiaokun, Mr. Jiang Rongjun, Ms. Yang Zhao, Mr. Xu Shaoqi, Mr. Wang Gang, Mr. Chen Jie and Mr. Zhu Linfei. On 6 June 2016, each of the target subscribers entered into a conditional subscription agreement with TG Tech.

Name of target subscriber	Number of TG Tech Shares to be subscribed for by the target subscriber	Proposed subscription price (RMB)
Nanjing Steel	35,000,000	43,400,000
Mr. Zhu Xiaokun	10,000,000	12,400,000
Mr. Jiang Rongjun	5,000,000	6,200,000
Ms. Yang Zhao	3,000,000	3,720,000
Mr. Xu Shaoqi	3,000,000	3,720,000
Mr. Wang Gang	3,000,000	3,720,000
Mr. Chen Jie	3,000,000	3,720,000
Mr. Zhu Linfei	3,000,000	3,720,000
Total	65,000,000	80,600,000

The table below sets forth the details of the target subscribers and the number of new TG Tech Shares to be subscribed for by each of them:

Subscription price and pricing principle

As stated in the Letter from the Board, the subscription price for the Proposed Placing is RMB1.24 per TG Tech Share, which is determined after taking into consideration factors including the industry in which TG Tech is operating, business model, growth cycle, net asset value per TG Tech Share, earnings, the last traded market price of TG Tech Share after its quotation on the NEEQ System, which was equivalent to the subscription price of the Previous Issue given TG Tech Shares were quoted on the NEEQ System on a negotiation basis (as opposed to the market marking mechanism), and communications with investors.

The net price to TG Tech of each new TG Tech Share to be issued under the Proposed Placing will be determined and disclosed upon completion of the Proposed Placing and the determination of the relevant expenses incurred or to be incurred in relation to the Proposed Placing in accordance with the requirements of the Listing Rules. It is expected that the net price of each new TG Tech Share would be not less than RMB1.22.

Number of TG Tech Shares to be issued

The number of new TG Tech Shares to be issued under the Proposed Placing will be 65,000,000 TG Tech Shares, among which Nanjing Steel proposed to subscribe for 35,000,000 new TG Tech Shares, the TG Tech Directors proposed to

subscribe for an aggregate of 24,000,000 new TG Tech Shares and the Management Members proposed to subscribe for an aggregate of 6,000,000 new TG Tech Shares.

There will not be any ex-rights or ex-dividend event such as dividend distribution, bonus issue and capitalisation of the capital reserve between the Latest Practicable Date and completion of the Subscriptions.

Method of subscription

All new TG Tech Shares to be issued under the Proposed Placing shall be subscribed for in cash.

Pre-emptive rights

The existing shareholders of TG Tech have undertaken not to exercise their pre-emptive rights to subscribe for the new TG Tech Shares to be issued in the Proposed Placing.

Use of proceeds

As stated in the Letter from the Board, TG Tech is mainly devoted in rough machining of titanium, converting the raw material, sponge titanium into titanium processed material, such as titanium flat steel, titanium tube, titanium ingots and titanium rods which will then be sold to a manufacturing company in the industry for further processing. With its relatively strong position as a middle stream producer along the titanium and titanium alloy products supply chain, TG Tech is considering the possible formation of alliances with its suppliers and potential investment in its downstream contractors/customers to stimulate the demand of its products. The board of directors of TG Tech considered that the formation of alliances on the supply side could help to stablise the price and supply of raw materials and the strategic investment in downstream enterprises would allow TG Tech to gather more information on the recent development and demand of the end products of titanium so as to enhance the research and development of TG Tech's products.

The total proceeds of the Proposed Placing will be RMB80,600,000, of which (1) approximately RMB30 million will be for research and development for new materials of high-quality, high-end titanium alloy, including but not limited to titanium wire for 3D printing and a co-developing project with Nanjing Steel on the development of a new composite material by the combination of titanium and steel; (2) approximately RMB40 million will be for TG Tech's plan for integration with upstream and downstream products suppliers/contractors/customers by way of alliance or investment; and (3) the remaining amount of approximately RMB10.6 million will be used for replenishment of TG Tech's working capital to procure raw materials and meet any cashflow requirements that may arise from the daily operations of TG Tech.

The preliminary stage planning for the research is expected to commence shortly after the completion of the Proposed Placing and TG Tech expects that the first research and development report will be available later this year or early 2017. Depending on the results of the research, TG Tech will advance to the development stage of the raw materials. In addition, TG Tech is in the course of shortlisting potential upstream suppliers and downstream contractors/customers and expects to carry out negotiations and due diligence as appropriate during the course of this year and expects to establish the first alliance with its suppliers in the course of 2017 and make its first investment in downstream contractors/ customers by 2018.

In light of the above, in particular that the net proceeds from the Proposed Placing will be utilised for the development of the core business of TG Tech, we concur with the view of the Directors that the Proposed Placing is in the interests of the Company and the Shareholders a whole.

Arrangement relating to the accumulated undistributed profits prior to the Proposed Placing

TG Tech has not implemented any distribution of dividends or conversion and increase of capital since its quotation on the NEEQ System. Upon completion of the Proposed Placing, holders of the new TG Tech Shares, together with all existing Shareholders will be entitled to all undistributed profits of TG Tech prior to the completion of the Proposed Placing.

Applications for listing of the new TG Tech Shares

TG Tech will apply to National Equities Exchange and Quotations Co., Ltd.* for the listing of, and permission to deal in, the new TG Tech Shares pursuant to the Proposed Placing.

Conditions Precedent

According to the Letter from the Board, the Proposed Placing is conditional upon, among other things, (i) consideration and approval by the Board and by the Shareholders at the EGM of all resolutions in respect of the Proposed Placing; (ii) consideration and approval by the shareholders of TG Tech of all resolutions in respect of the Proposed Placing and amendment of articles of association of TG Tech; and (iii) submitting to National Equities Exchange and Quotations Co., Ltd.* for filing.

Amendment of Articles of Association

As a result of the Proposed Placing, the articles of association of TG Tech will be amended to reflect the changes to its registered capital, its share capital structure and other relevant matters that need to be adjusted in relation to the Proposed Placing.

Proposed subscription of new TG Tech Shares by Nanjing Steel

New TG Tech Shares to be subscribed by Nanjing Steel

As stated in the Letter from the Board, as part of the Proposed Placing, on 6 June 2016, TG Tech (as issuer) entered into the Nanjing Steel Subscription Agreement with Nanjing Steel and Mr. Zhu Xiaokun and Ms. Yu Yumei (as warrantors), pursuant to which, among other things, Nanjing Steel has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue 35,000,000 new TG Tech Shares for a total consideration of RMB43,400,000 at the subscription price of RMB1.24 per TG Tech Share. The Nanjing Steel Subscription Agreement is not inter-conditional with any of the Subscription Agreements.

Immediately upon completion of the subscription under the Nanjing Steel Subscription Agreement, assuming that the number of new TG Tech Shares issuable under the Proposed Placing is 65,000,000 TG Tech Shares, Nanjing Steel will hold in aggregate 75,000,000 TG Tech Shares, representing approximately 18.52% of the enlarged total issued TG Tech Shares.

Subscription price and payment method

With reference to the Letter from the Board, the subscription price of the new TG Tech Shares to be issued to Nanjing Steel under the Nanjing Steel Subscription Agreement shall be RMB1.24 per TG Tech Share.

Within 10 business days of the satisfaction of all conditions precedents under the Nanjing Steel Subscription Agreement, Nanjing Steel shall pay the subscription price to TG Tech in one lump sum into the bank account designated by TG Tech. TG Tech shall issue a certificate of capital contribution to Nanjing Steel within 2 days after the day of receiving the payment.

Conditions precedent

The obligation of Nanjing Steel to pay the subscription price shall be subject to the satisfaction or waiver by Nanjing Steel of the following conditions:

(a) the resolutions in relation to the following matters having been duly passed at the shareholders' meeting of TG Tech: (i) the Proposed Placing and the increase of the registered share capital of TG Tech; (ii) the subscription of new TG Tech Shares by Nanjing Steel at the subscription price under the Nanjing Steel Subscription Agreement; (iii) the Nanjing Steel Subscription Agreement; and (iv) (if any) other existing shareholders of TG Tech not exercising their pre-emptive rights to subscribe for new TG Tech Shares to be issued under the Proposed Listing;
- (b) the Independent Shareholders having duly passed a resolution at a general meeting in accordance with the Listing Rules approving the Proposed Placing, the Nanjing Steel Subscription Agreement and the transactions contemplated thereunder;
- (c) the representations and warranties provided by TG Tech, Mr. Zhu Xiaokun and Ms. Yu Yumei being true, accurate, complete and not misleading on the day of signing the Nanjing Steel Subscription Agreement and on completion of the subscription;
- (d) there being no material adverse change or event leading to the material adverse change to the operation, revenue, prospect, assets and financial condition of TG Tech between the day of signing of the Nanjing Steel Subscription Agreement and the day of payment of the subscription price;
- (e) there being no action, procedures pending or potentially undertaken by any PRC government department to restrict or prohibit the completion of the transaction under the Nanjing Steel Subscription Agreement or other related transactions, and no PRC government department with the jurisdiction having formulated any law, regulation or rules resulting in the completion of the Nanjing Steel Subscription Agreement being illegal; and
- (f) (if any) all consents, approvals, authorisations, orders, registrations, records or qualifications (save for the procedures for registration for industrial and commercial information changes in relation to the Proposed Placing) required to be issued by a third party or the government under the relevant laws and necessary for the purpose of the Proposed Placing having been duly obtained and remaining effective.

Proposed subscription of new TG Tech Shares by TG Tech Directors and Management Members

New TG Tech Shares to be subscribed by TG Tech Directors and Management Members

With reference to the Letter from the Board, as part of the Proposed Placing, on 6 June 2016, TG Tech entered into a Subscription Agreement with each of the TG Tech Directors and the Management Members, pursuant to which, each of the TG Tech Directors and Management Members has conditionally agreed to subscribe in cash for and TG Tech has conditionally agreed to allot and issue an aggregate of 30,000,000 new TG Tech Shares for a total consideration of RMB37,200,000 at the subscription price of RMB1.24 per TG Tech Share. Each of the Subscription Agreements is not inter-conditional with the Nanjing Steel Subscription Agreement or any of the other Subscription Agreements.

Immediately upon completion of the subscription under the Subscription Agreements, assuming that the number of new TG Tech Shares issuable under the Proposed Placing is 65,000,000 TG Tech Shares, the TG Tech Directors will hold in aggregate 24,000,000 TG Tech Shares, representing approximately 5.93% of the enlarged total issued TG Tech Shares and the Management Members will hold in aggregate 6,000,000 TG Tech Shares, representing approximately 1.48% of the enlarged total issued TG Tech Shares.

Subscription price and payment method

As stated in the Letter from the Board, the subscription price of the new TG Tech Shares to be issued to the TG Tech Directors and the Management Members under the Subscription Agreements shall be RMB1.24 per TG Tech Share, which is the same as that under the Nanjing Steel Subscription Agreement.

Each of the TG Tech Directors and the Management Members shall pay the full subscription price according to the methods to be announced by TG Tech on the website of the NEEQ System. Upon receipt of the subscription price, TG Tech shall issue the new TG Tech Shares.

Conditions precedent

Each Subscription Agreement shall become effective after the following conditions are fulfilled:

- (a) approval by the board of directors of TG Tech and the shareholders of TG Tech;
- (b) each of Tiangong Tools and Danyang Tianfa having agreed not to exercise their respective pre-emptive rights to subscribe for the TG Tech Shares to be issued under the Proposed Placing; and
- (c) (in the case of Subscription Agreements entered into with the TG Tech Directors) the Independent Shareholders having duly passed a resolution at a general meeting in accordance with the Listing Rules approving the Proposed Placing, the Subscription Agreement entered into with the TG Tech Directors and the transactions contemplated thereunder.

Upon becoming effective, each Subscription Agreement shall be submitted to National Equities Exchange and Quotations Co., Ltd.* for filing.

6. The subscription price of the Proposed Placing

As at 31 December 2015, the audited net asset value of TG Tech is RMB372,006,751 and the audited net asset value per TG Tech Share is RMB1.24 which is equivalent to the subscription price. The subscription price is the same as the Previous Issue, which was completed in April 2016. We also note that there was no

public trading of TG Tech Shares since its quotation of the NEEQ system in December 2015. Given there was no trading of TG Tech Shares on the NEEQ System, no reference can be made to the market price of TG Tech Shares in assessing the fairness and reasonableness of the subscription price of the Proposed Placing. Alternatively, we have conducted an analysis by comparing the price to earnings ratio (the "PE ratio") and price to book ratio (the "PB ratio") of a number of companies selected for our analysis. PE ratio analysis is a common valuation method for the assessment of the value of a business. In particular, it is used for valuating businesses with established and profitable history. Given that TG Tech recorded a stable net profit for the two year ended 31 December 2014 and 31 December 2015, we believe that the PE ratio analysis is an appropriate method to evaluate the fairness and reasonableness of the subscription price under the Proposed Placing. PB ratio analysis is another business valuation method for capital-intensive businesses or businesses with plenty of assets on the books. Given that the business nature of TG Tech is principally engaged in manufacturing, processing, researching and developing and sales of titanium alloy products from the raw material, sponge titanium, we also consider that the PB ratio analysis is another applicable valuation method for our analysis.

In selecting the samples for comparison purpose, we target those companies which (i) are in similar business nature of TG Tech and are principally engaged in the non-ferrous metal smelting and rolling processing industry (有色金屬冶煉和壓延加工業); (ii) are quoted on the NEEQ System; and (iii) are with operations principally in the Jiangsu Province. Under these criteria, we have identified 4 companies as the samples (the "**Comparables**") in this regard and we believe that the Comparables represent the latest available information in the market and the Comparables are exhaustive as far as we are aware and hence are fair and representative. We have compared the respective PE ratios and PB ratios of the Comparables with TG Tech, details of which are set out in the table below:

Company name (stock code)	Market capitalisation ¹ approximate RMB (million) (i)	Profit attributable to shareholders for the preceding financial year ² approximate RMB (million) (ii)	Equity attributable to owners for the preceding financial year ³ approximate RMB (million) (iii)	P/E ratio approximate times (iv) = (i)/(ii)	P/B ratio approximate times (v) = (i)/(iii)
Jiangsu Linlong New Materials Co. Ltd (NEEQ: 830945)	208	7	193	29.71	1.08
Nanjing Baotai Special Materials Co., Ltd (NEEQ:831004)	313	14	303	22.36	1.03
Shareate Tools Ltd (NEEQ: 834859)	400	27	170	14.81	2.35
Wuxi Beier Machinery Co., Ltd (NEEQ:831784)	110	3	37	36.67	2.97
Maximum				36.67	2.97
Minimum				14.81	1.03
Average				25.89	1.86
	Market capitalisation ⁴ approximate RMB (million) (i)	Profit attributable to shareholders for the preceding financial year ⁵ approximate RMB (million) (ii)	Equity attributable to owners for the preceding financial year ⁶ approximate RMB (million) (iii)	P/E ratio $approximate$ $times$ (iv) $= (i)/(ii)$	P/B ratio6 $approximate$ $times$ (v) $= (i)/(iii)$

16

502

31.38

1.00

502

TG Tech

Source: the website of the National Equities Exchange and Quotations System

- (1) The market capitalisation is calculated based on their respective closing price of the Comparables as stated in the website of the NEEQ System (http://www.neeq.com.cn) on the last trading day on or prior to 6 June 2016, being the date of the Nanjing Steel Subscription Agreement and the Subscription Agreements.
- (2) The profit attributable to shareholders of the Comparables for the preceding financial year are extracted from the respective latest annual reports published on the website of the NEEQ System (http://www.neeq.com.cn) prior to 6 June 2016.
- (3) The equity attributable to owners of the Comparables for the preceding financial year are extracted from the respective latest annual reports published on the website of the NEEQ System (http://www.neeq.com.cn) prior to 6 June 2016.
- (4) The market capitalisation of TG Tech is calculated based on the subscription price for the Proposed Placing of TG Tech times the total number of TG Tech Shares of 340,000,000 as at the date of the Nanjing Steel Subscription Agreement and the Subscription Agreements together with 65,000,000 new TG Tech Shares to be issued under the Proposed Placing.
- (5) The profit attributable to shareholders for the year ended 31 December 2015 and the equity attributable to the owners as at 31 December 2015 of TG Tech are extracted from the 2015 TG Tech Annual Report published on the website of the Stock Exchange.
- (6) The P/B ratio of TG Tech is calculated based on the sum of the equity attributable to owners as at 31 December 2015, the proceeds of the Previous Issue of RMB49.3 million in cash and the additional proceeds of the Proposed Placing of RMB80.6 million in cash.

As illustrated in the above table, the PE ratio of the Comparables ranges from approximately 14.81 times to 36.67 times with an average PE ratio of approximately 25.89 times. The PE ratio of TG Tech of approximately 31.38 times is hence higher than average and within the range of those of the Comparables. The PB ratio of the Comparables ranges from approximately 1.03 times to 2.97 times with an average PB ratio of approximately 1.86 times. Although the PB ratio of TG Tech of 1.00 times fall outside the range of the Comparables, having considered that (i) the PB ratio of TG Tech only slightly falls below the low end of the range of the Comparables; (ii) the subscription price represented the net assets value of TG Tech as at 31 December 2015, being its latest published audited financial statements; and (iii) the PE ratio of TG Tech falls within the range of the Comparables, we are of the view that the subscription price under the Proposed Placing is determined at a price comparable with the market.

Based on the above and having considered, in particular, (i) the subscription price of the Proposed Placing is equivalent to the net assets value per TG Tech Share as at 31 December 2015; (ii) the subscription price of the Proposed Placing is equivalent to that of the Previous Issue; and (iii) the PE ratio of TG Tech falls within the range of the Comparables, we concur with the view of the Directors that subscription price of the Proposed Placing is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the shareholders as a whole.

7. Possible financial effects of the Proposed Placing and Subscriptions

Net assets value

According to the 2015 Annual Report, the net assets value of the Group attributable to the owners of the Company was approximately RMB3,876.3 million as at 31 December 2015. Upon completion of the Proposed Placing and the Subscriptions, the total proceeds from the Proposed Placing are estimated to be approximately RMB80.6 million in cash, and it is expected to lead to an increase in the net assets attributable to the owners of the Company. Moreover, given the subscription price of the Proposed Placing is equivalent to the net assets value per TG Tech Share as at 31 December 2015, it is expected that there will be no material negative impact to the net assets value of TG Tech Share upon the completion of the Proposed Placing and the Subscriptions.

Gearing ratio

According to the 2015 Annual Report, the Group's adjusted net debt-toequity ratio, which is calculated based on adjusted net debt (defined as total interest-bearing borrowings plus unaccrued proposed dividends, less cash and cash equivalents) divided by adjusted capital (comprising all components of equity, less unaccrued proposed dividends) as at 31 December 2015, was 71.4%. Upon completion of the Proposed Placing and Subscriptions, the total assets of the Group will be enhanced by the addition of cash from the total proceeds of approximately RMB80.6 million, which is expected to lower the adjusted net debtto-equity ratio of the Group. As such, we are of the view that the Proposed Placing and the Subscriptions would have a positive impact on the gearing ratio of the Group.

Given that the Proposed Placing and the Subscriptions are expected to have (i) a positive impact on the net assets value of the Group; and (ii) a positive impact on the net debt-to-equity ratio of the Group, we are of the view that the Proposed Placing and the Subscriptions are in the interests of the Company and the Shareholders as a whole.

8. Effect on the shareholding structure of TG Tech

The shareholding structures of TG Tech (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Placing and the Subscriptions by the target subscribers are set out in the table below:

As at the Latest Practicable Date

Name of shareholder	Number of TG Tech Shares	Approximate percentage of the issued TG Tech Shares
Tiangong Tools	270,000,000	79.41%
Nanjing Steel	40,000,000	11.76%
Danyang Tianfa	30,000,000	8.83%
Total	340,000,000	100%

Immediately after completion of the Proposed Placing and the Subscriptions by the target subscribers

According to the Letter from the Board, assuming that (1) a total of 65,000,000 TG Tech Shares to be issued under the Proposed Placing are being fully subscribed by the target subscribers; and (2) no other TG Tech Shares will be issued or transferred from the Latest Practicable Date until completion of the Proposed Placing and the Subscriptions:

Number of shareholder	Number of TG Tech Shares held	Approximate percentage of the issued TH Tech Shares
Tiangong Tools	270,000,000	66.67%
Nanjing Steel	75,000,000	18.52%
Danyang Tianfa	30,000,000	7.41%
Mr. Zhu Xiaokun	10,000,000	2.47%
Mr. Jiang Rongjun	5,000,000	1.23%
Ms. Yang Zhao	3,000,000	0.74%
Mr. Xu Shaoqi	3,000,000	0.74%
Mr. Wang Gang	3,000,000	0.74%
Mr. Chen Jie	3,000,000	0.74%
Mr. Zhu Linfei	3,000,000	0.74%
Total	405,000,000	100%

Immediately upon completion of the Proposed Placing and the Subscriptions, the Company's interest in TG Tech (indirectly held through Tiangong Tools and Danyang Tianfa) will be decrease from 88.24% to 74.07%. Having considered that (i) Tiangong Tools already has a majority control of TG Tech and will remain as the single largest shareholder of TG Tech; (ii) the potential benefits of the Proposed Placing and the Subscriptions as discussed in the above section headed "Reasons for and the benefits from the Proposed Placing and Subscriptions"; (iii) the subscription price of the Proposed Placing and the Subscriptions are expected to have an overall positive effect on the financial positions of the Group, we consider that the potential dilution of the Company's interests in TG Tech as a result of the Proposed Placing and the Subscriptions is acceptable.

RECOMMENDATIONS

Notwithstanding that the Proposed Placing and the Subscriptions is not in the ordinary and usual course of business of the Company, having considered the above principal factors and reasons, we are of the view that the Proposed Placing, the Subscriptions, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors (i) are in the interests of the Company and the Independent Shareholders as a whole; and (ii) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Placing, the Subscriptions, the Nanjing Steel Subscription Agreement and the Subscription Agreements entered into with the TG Tech Directors.

Yours faithfully, For and on behalf of Messis Capital Limited Vincent Cheung Executive Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and 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

(1) Interests of Directors and Chief Executives in the Securities of the Company and its associated corporations

(a) Interests in the Company

As at the Latest Practicable Date, the following Directors have interests in the Shares of the Company, further details of which are set out below:

Name	Nature of Interests	Number of Shares	Approximate % of interest in Shares held in the total issued Shares
Mr. Zhu Xiaokun (Notes 1 and 2)	Corporate interests Corporate interests Beneficial owner (Note 3)	772,556,000(L) 50,000,000(S) 900,000(L)	34.80% 2.25% 0.04%
			37.09%
Mr. Wu Suojun	Beneficial owner (Note 3)	1,267,000(L)	0.06%
Mr. Yan Ronghua	Beneficial owner (Note 3)	620,000(L)	0.03%
Mr. Jiang Guangqing	Beneficial owner (Note 3)	700,000(L)	0.03%

Notes:

As at the Latest Practicable Date,

- (1) Tiangong Holdings Company Limited ("THCL") held 778,624,000 Shares. THCL was held as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun, respectively. Mr. Zhu Xiaokun is deemed to be interested in the 778,624,000 Shares held by THCL.
- (2) Silver Power (HK) Limited, which was wholly-owned by Mr. Zhu Xiaokun, held 43,932,000 Shares.
- (3) Options granted under share option scheme of the Company adopted on 7 July 2007.
- (L) Represents long position.
- (S) Represents short position.

(b) Interests in the associated corporations of the Company

	Name of		Number of	
Name	associated corporation	Nature of Interests	ordinary shares	Approximate % of interest
Mr. Zhu Xiaokun	THCL	Beneficial owner Spousal interest (Note 1)	44,511(L) 5,489(L)	89.02% 10.98%
Mr. Zhu Xiaokun (Note 2)	TG Tech	Beneficial owner	10,000,000 (L)	2.94%

Note:

- (1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.
- (2) Mr. Zhu Xiaokun is interested in the TG Tech Shares to be subscribed under the Proposed Placing, which represented approximately 2.94% of the total issued TG Tech Shares as at the Latest Practicable Date.
- (L) Represents long position.

Save as disclosed above, as at the Latest Practicable Date, so far as the Company is aware, none of the Directors, chief executives or members of the senior management of the Company and their respective associates had any interests or short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any Director or chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required,

pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

(2) Directors' Positions in Other Companies

As at the Latest Practicable Date, save as disclosed below, none of the other Directors was also a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Division 2 and 3 of Part XV of SFO:

Name of Director	Position held in THCL
Mr. Zhu Xiaokun	Director

(3) CONSENT AND QUALIFICATION OF EXPERT

The Independent Financial Adviser has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter of advice dated 23 June 2016, and report and references to its name included in the form and context in which it appears.

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

Name Qualification

Messis Capital a corporation licensed to carry out Type 1 (dealing in securities) Limited and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the said expert 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, the above expert did not have any interest, directly or indirectly, in any assets which had been, since 31 December 2015, being the date on which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

(4) NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up.

(5) SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors of the Company had entered into any service contract with members of the Group (including contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

(6) COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors of the Company or their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Listing Rules.

(7) DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which had since 31 December 2015, being the date on which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant to the business of the Group.

(8) MATERIAL LITIGATION

As at the Latest Practicable Date, no litigation or claims that may have material adverse effect on the operating results were pending or threatened or made against the Group so far as the Directors are aware.

(9) MISCELLANEOUS

- (1) Mr. Lee Johnly acts as the company secretary of the Company. Mr. Lee, a certified public accountant, has been serving as the company secretary of the Company since November 2015.
- (2) The registered office of the Company is at P.O. Box 309, G.T. Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (3) The Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(10) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 11 July 2016:

- (i) the proposal of the Proposed Placing;
- (ii) the proposal of the Previous Issue;
- (iii) the Nanjing Steel Subscription Agreement;
- (iv) the Subscription Agreements;
- (v) the letter from the Board dated 23 June 2016, the text of which is set out on pages 4 to 18 of this circular;
- (vi) the letter of recommendation from the Independent Board Committee dated 23 June 2016, the text of which is set out on page 19 to 20 of this circular;
- (vii) the letter of advice from the Independent Financial Adviser dated 23 June 2016, the text of which is set out on pages 21 to 42 of this circular; and
- (viii) the written consent given by Independent Financial Adviser as referred to in the paragraph headed "Consent and Qualification of Expert" in Appendix I of this circular.



Tiangong International Company Limited

天工國際有限公司^{*}

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 826)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Tiangong International Company Limited (the "**Company**") will be held at Cliftons, Level 5, Hutchison House, 10 Harcourt Road, Central, Hong Kong at 10:00 a.m. on Monday, 11 July 2016 (registration will begin at 9:30 a.m.) for the purpose of considering and approving, if appropriate, the following resolutions (unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 23 June 2016):

ORDINARY RESOLUTIONS

- 1. To consider and approve the Proposed Placing of TG Tech (a copy of the proposal of the Proposed Placing has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification) (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution);
- 2. To consider, approve and confirm the Nanjing Steel Subscription Agreement dated 6 June 2016 entered into by TG Tech, Nanjing Steel, Mr. Zhu Xiaokun and Ms. Yu Yumei (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution);
- 3. To consider, approve and confirm the Subscription Agreement dated 6 June 2016 entered into by TG Tech and Mr. Zhu Xiaokun (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution);
- 4. To consider, approve and confirm the Subscription Agreement dated 6 June 2016 entered into by TG Tech and Mr. Jiang Rongjun (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution);

- 5. To consider, approve and confirm the Subscription Agreement dated 6 June 2016 entered into by TG Tech and Ms. Yang Zhao (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution);
- 6. To consider, approve and confirm the Subscription Agreement dated 6 June 2016 entered into by TG Tech and Mr. Xu Shaoqi (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution); and
- 7. To consider, approve and confirm the Subscription Agreement dated 6 June 2016 entered into by TG Tech and Mr. Wang Gang (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification), the terms thereof and all transactions contemplated thereunder (terms defined in the circular of the Company dated 23 June 2016 having the same meanings when used in this resolution).

By Order of the Board Tiangong International Company Limited ZHU Xiaokun Chairman

Hong Kong, 23 June 2016

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Registered office in the Cayman Islands: P.O. Box 309 G.T. Ugland House South Church Street, George Town Grand Cayman, Cayman Islands

Registered office in Hong Kong: Unit 1303, 13/F, Jubilee Centre 18 Fenwick Street, Wanchai Hong Kong

Principal place of business: Danbei Town Danyang City Jiangsu Province The PRC

* For identification purpose only

Notes:

- 1. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a member of the Company.
- 2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any), must be deposited at the Company's branch 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 less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

As at the date of this notice, the Directors are:

Executive Directors: ZHU Xiaokun, WU Suojin, YAN Ronghua and JIANG Guangqing Independent Non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and YIN Shumin