

## HISTORY AND DEVELOPMENT

The Group's business operations can be traced back to October 1984, when the Villagers' Committee of Danyang Houxiang Town Qianxiang Village 丹陽縣後巷鎮前巷村\* (**"Qianxiang Village"**) founded 丹陽縣後巷電視天線廠 (Danyang Houxiang Television Antenna Factory), which was engaged in the production of television antennae, and in March 1989 its name was changed to 丹陽市天線廠 (Danyang Antenna Factory). Due to the softening demand experienced by the antennae industry during the 1980's, Qianxiang Village founded 丹陽市機械工具廠 (Danyang Machining Tools Factory) in 1987 to enter the business of HSS cutting tools production. Throughout that time, Mr Zhu was the chief manager and legal representative of Danyang Houxiang Television Antenna Factory, Danyang Antenna Factory and Danyang Machining Tools Factory. According to 《村莊和集鎮規劃建設管理條例》(中華人民共和國國務院令第116號) (Regulations on the Administration of Village and Town Planning and Construction (Order No.116 of the State Council of the People's Republic of China)), a "village" is a living habitat of a group of villagers and is a hub which is engaged in various production activities. It is not a legal entity of any type and does not have any beneficial owner at all material times. Neither is it a collectively owned enterprise. All assets of a village are collectively owned by its villagers. Villagers' Committee of Qianxiang Village has been authorised to manage and administer the collectively owned properties and assets of the Qianxiang Village, including to enter into contract to dispose of any collectively owned major assets upon obtaining approval at the Villagers Representative Meeting.

The Group began producing HSS in 1992 as a way to secure HSS supply in order to satisfy the internal demand necessitated by its HSS cutting tools production business. In May 1993, Danyang Antenna Factory and Danyang Machining Tools Factory merged to form 江蘇天工實業總公司 (Jiangsu Tiangong Enterprises Corp.) with Mr. Zhu as managing director and legal representative.

On 7 July 1997, 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) (the predecessor of TG Tools) was established as a joint-stock company under PRC laws with the registered capital of RMB32 million and 江蘇天工實業總公司 (Jiangsu Tiangong Enterprises Corp., the predecessor of TG Group) holding a 67.5% of its equity interest. The other shareholders at that time were (1) 江蘇大海集團股份有限公司 (Jiangsu Dahai Group Company Limited) which was engaged in the trading of electronics and colour television parts, (2) 江蘇丹工實業總公司 (Jiangsu Dangong Industrial Company) which was engaged in sales of metal cutting tools, steel ginning, steel stamp and other metal products, (3) 丹陽晶谷米機集團公司 (Danyang Jinggu Rice Mill Group Company) which was engaged in manufacturing and sales of foods and oil machineries and spare parts), (4) 江蘇豐裕工具有限公司 (Jiangsu Fengyu Tool Company Limited) which was engaged in manufacturing of tools, measuring tools, cutting tools and (5) 江蘇天工實業總公司工會 (the Labour Union of Jiangsu Tiangong Enterprises Corp.). They held 120,000 shares, 100,000 shares, 100,000 shares, 100,000 shares and 9,980,000 shares respectively representing 0.375%, 0.3125%, 0.3125%, 0.3125% and 31.1875% of the registered capital of 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited), respectively, and the respective interests held by them were based on their share of capital contribution. These minority shareholders were controlled, to the best knowledge of the Directors, by Independent Third Parties at the relevant times.

江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) was engaged in the businesses of HSS and HSS cutting tools production and sales. The interest of 江蘇天工實業總公司 (Jiangsu Tiangong Enterprises Corp.) in 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) was subsequently increased to 82.97% on

10 August 1999 when 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) increased its registered capital of RMB29,050,000 by way of contribution solely from 江蘇天工實業總公司 (Jiangsu Tiangong Enterprises Corp.). As a result, the registered capital of 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) was increased to RMB61,050,000 and the interests of 江蘇大海集團股份有限公司 (Jiangsu Dahai Group Company Limited), 江蘇丹工實業總公司 (Jiangsu Dangong Industrial Company Limited), 丹陽晶谷米機集團公司 (Danyang Jinggu Rice Mill Group Co.), 江蘇豐裕工具有限公司 (Jiangsu Fengyu Tool Company Limited) and 江蘇天工實業總公司工會 (the Labour Union of Jiangsu Tiangong Enterprises Corp.) in the Group were reduced to 0.2%, 0.16%, 0.16% 0.16% and 16.35%, respectively. Since then, 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) has become the main entity through which the Group operates its HSS and HSS cutting tools businesses.

On 18 March 2003, Mr. Zhu acquired a 0.2% equity interest in 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) from 江蘇大海集團股份有限公司 (Jiangsu Dahai Group Company Limited) at a consideration of RMB 120,000 which was determined with reference to its original capital contribution. On the same day, 江蘇晶谷米機有限公司 (Jiangsu Jinggu Rice Mill Company Limited) acquired a 0.16% equity interest in 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) from 丹陽晶谷米機集團公司 (Danyang Jinggu Rice Mill Group Company) without payment and 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory) acquired a 16.35% equity interest in 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Company Limited) from 江蘇天工實業總公司工會 (the Labour Union of Jiangsu Tiangong Enterprises Corp.) at a consideration of RMB 9,980,000 which was determined with reference to its original capital contribution. On 16 August 2006, TG Group acquired a total of 16.83% equity interest in 江蘇天工工具股份有限公司 (Jiangsu Tiangong Tools Joint-Stock Co. Ltd.) from 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory), 江蘇晶谷米機有限公司 (Jiangsu Jinggu Rice Mill Company Limited), 江蘇丹工實業總公司 (Jiangsu Dangong Industrial Company) and 江蘇豐裕工具有限公司 (Jiangsu Fengyu Tool Company Limited) at an aggregate consideration of RMB10,280,000 which was determined with reference to their respective original capital contribution. After this equity transfer, TG Tools was converted from a joint-stock company to a limited liability company, and its name was changed to its current name of 江蘇天工工具有限公司 (Jiangsu Tiangong Tools Company Limited) with TG Group and Mr Zhu holding 99.8% and 0.2% of its equity interests respectively.

On 30 May 2003, Mr. Zhu acquired 26% of TG Group from the Villagers' Committee of the Qianxiang Village with effect from 6 January 2003. Prior to such acquisition, the Villagers' Committee had sought guidance from the Danyang Houxiang Town Local Government which confirmed by way of (i) 關於江蘇天工實業集團資產產權及股權結構的批復 (Reply Concerning the Delimitation of the Property Rights of Assets and the Shareholding Structure of Jiangsu Tiangong Industry Group (Hou Zheng Fa [2002] No. 53)) and (ii) 關於江蘇天工實業集團公司產權界定的補充批復 (Supplemental Reply Concerning the Delimitation of the Property Rights of Assets of Jiangsu Tiangong Industry Group Company) (Hou Zheng Fa [2003] No. 28)), that the disposal of interest in TG Group shall be by way of a sale and purchase at such terms as the Villagers' Committee of the Qianxiang Village may determine.

On 25 June 2003, Mr. Zhu and Madam Yu further acquired from the Villagers' Committee of the Qianxiang Village approximately 63% and 11% of TG Group, respectively. Subsequent to the acquisitions, TG Group became wholly-owned by Mr. Zhu and Madam Yu on 25 June 2003. The consideration paid by Madam Yu for the approximately 11% interest in TG Group was RMB11,133,874 and had been paid in full in cash. The consideration payable by Mr. Zhu for the approximately 26% and 63% interest in TG Group were RMB 29,169,608 and RMB63,766,735, respectively. The above mentioned considerations were arrived at with reference to valuation of the assets of TG Group at the relevant time.

At the Villagers Representative Meeting of the Qianxiang Village held on 28 May 2006, the disposals in respect of the entire interests in TG Group by the Villagers' Committee were confirmed and the considerations payable by Mr. Zhu were waived in view of his substantial contribution to TG Group since 1984 in guiding TG Group's significant growth from a small enterprise to its then scale under his leadership and the contribution to social welfare of Qianxiang Village made by TG Group under the supervision of Mr. Zhu. The Danyang People's Government has confirmed that the transfer of the entire interests in TG Group to Mr. Zhu and Madam Yu were in compliance with the relevant laws and regulations and that the waiver of consideration payable by Mr. Zhu by the Villagers Representative Meeting was legal and valid.

The Company has been advised by its PRC legal adviser that pursuant to the relevant PRC laws and regulations, the Villagers' Committee of Qianxiang Village, on behalf of all the villagers of Qianxiang Village, manages the collectively owned land, other assets and the finance of the village. In the course of its management, the Villagers' Committee of Qianxiang Village established TG Group's predecessor, in the form of a collectively owned enterprise. The Villagers' Committee of Qianxiang Village has power, upon receiving the approval of Villagers Representative Meeting, to deal with its interests in TG Group's predecessor and dispose of its 26% interest to Mr. Zhu. With the confirmation of the Villagers Representative Meeting of Qianxiang Village held on 28 May 2006 in respect of the disposals and the waivers of consideration, the above equity transfers in respect of TG Group and the waiver of Mr. Zhu's obligation to pay his considerations in relation thereto were in full compliance with the applicable PRC laws and regulations and were legally valid, no other approvals were required for the transactions, no conditions or other obligations were attached to the waiver and that under no circumstances would the waiver be withdrawn. As at the Latest Practicable Date, no objection has been received by TG Group, Mr. Zhu, Madam Yu and the Villagers' Committee of Qianxiang Village from any party in relation to the transfer of equity interests in TG Group from the Villagers' Committee of Qianxiang Village to Mr. Zhu and Madam Yu. The PRC legal adviser has advised that under no circumstances could the resolutions at the Villagers Representative Meetings of Qianxiang Village be revoked.

TG Aihe was registered on 5 December 2003 under PRC laws as a limited liability company and was held by TG Group as to 40% and Erasteel S.A., a French producer of high speed steel, being an Independent Third Party, as to 60%. On 20 November 2005, Erasteel waived a part of its rights and obligations to further invest in TG Aihe, and therefore TG Group contributed the required capitals. As a result, TG Group's equity interests in TG Aihe increased from 40% to 75%. On the same day, Erasteel transferred its 25% interests in TG Aihe to Asia HSS, which was owned by an Independent Third Party. On 13 March 2007, TG Tools acquired 75% interests in TG Aihe from TG Group, at a consideration of RMB100,000,000 determined with reference to a valuation of TG Aihe and CTCL acquired the remaining 25% interests in TG Aihe from Asia HSS, at a consideration of US\$10,000,000. From then on TG Aihe became a subsidiary of the Company. TG Aihe commenced die steel production in 2005 and now is the main entity through which the Group operates its die steel production and sales business.

Tianfa Forging was registered on 11 October 2000 under PRC laws as a limited liability company, and was held by TG Tools as to 75% and BEFA Trade & Industries Service GmbH as to 25%. BEFA Trade & Industries Service GmbH is an Independent Third Party engaged in trading. Tianfa Forging is engaged in precision forging and sales of HSS. On 9 November 2005, BEFA Trade & Industries Service GmbH transferred its 25% equity interest in Tianfa Forging to Dr. Rong Yang, an Independent Third Party who subsequently transferred all his interest in Tianfa Forging to Takwai Development (H.K.) Limited, a trading company

incorporated in Hong Kong and which was held, to the best knowledge of the Director, by an Independent Third Party.

Tianji Packaging was registered on 13 May 2002 under PRC laws as a limited liability company, and was held by TG Group as to 75% and 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory) as to 25%. 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory) was engaged in the manufacturing of metal and plastic products, tools and cutting tools, and was then held by the People's Government of Houxiang Town. Tianji Packaging is engaged in the manufacture and sales of packaging materials.

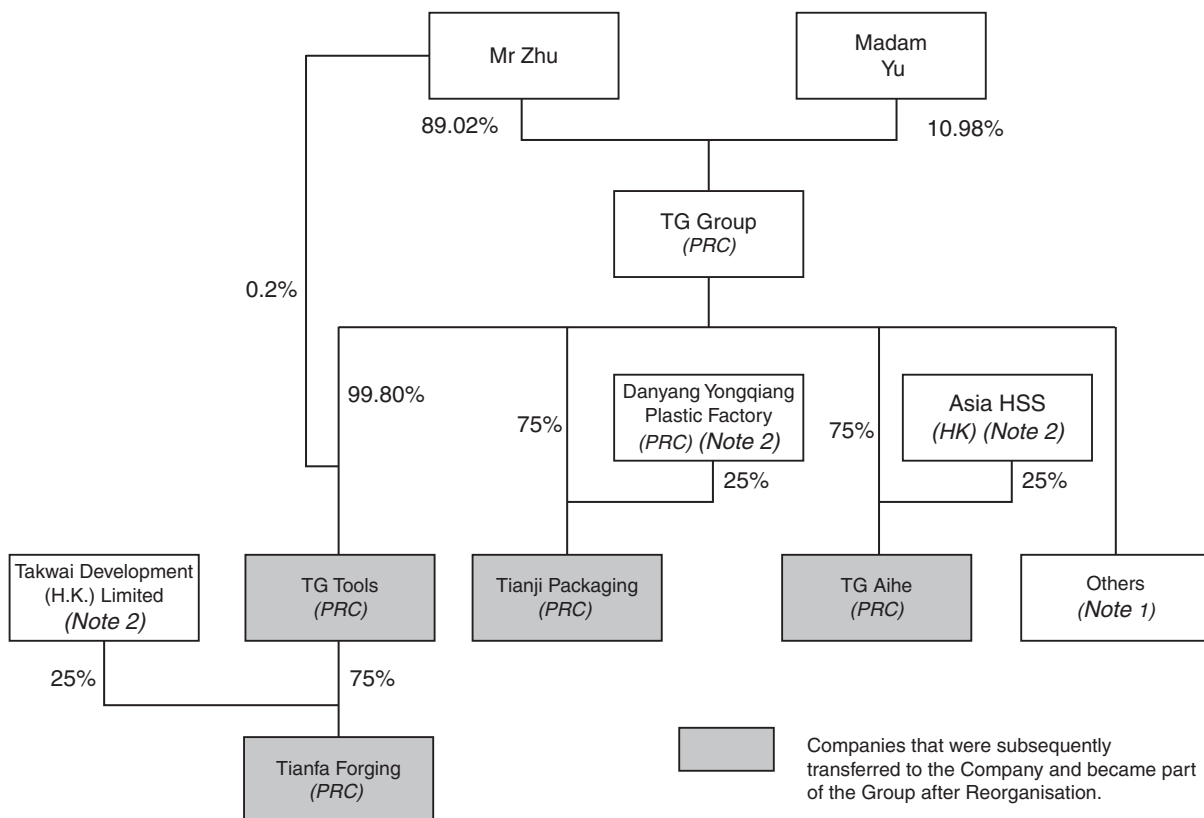
### **Relationship between the Group and Qianxiang Village**

Pursuant to an undertaking given by TG Group on 31 March 2007, TG Group undertook to provide not less than RMB3.0 million per year as economic support to Qianxiang Village in the next 15 years with effect from 2006 while Mr. Zhu assumed a joint responsibility for payment in the event of default of TG Group. The undertaking and the assumption of joint responsibility were given by TG Group and assumed by Mr. Zhu in their respective personal capacities and are not related to the Company in any respect. Save as disclosed above and apart from being one of the villagers, Mr. Zhu does not have any other relationship with Qianxiang Village, nor does the Group have any existing or future business relationship with Qianxiang Village.

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## GROUP STRUCTURE

The chart below illustrates the beneficial shareholdings and subsidiaries of TG Group immediately prior to the Reorganisation:



### Notes:

- (1) The business of TG Group (after Reorganisation) is not related to the production or sales of HSS, HSS cutting tools or die steel, nor would it conflict or compete with the businesses of the Group. Accordingly, it is not suitable for inclusion in the Group under the Reorganisation.
- (2) 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory), Asia HSS and Takwai Development (H.K.) Limited are all Independent Third Parties.

## REORGANISATION AND AIG PARTIES INVESTMENT

In contemplation of the strategic investment by the AIG Parties in the Group, TG Group has undergone the Reorganisation to the effect that the businesses of HSS, HSS cutting tools or die steel production were transferred, directly or indirectly, to the Company. Further details of the Reorganisation are set out in Appendix VI to this prospectus.

### Offshore reorganisation

#### *Incorporation of offshore entities*

In order to facilitate offshore investment, THCL was established by Mr. Zhu and Madam Yu on 14 August 2006 under BVI laws as an investment holding company of the Company. THCL is owned by Mr. Zhu as to 89.02% and Madam Yu as to the remaining 10.98%.



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The Company was established on 14 August 2006 under Cayman Islands laws as an exempt company and a wholly-owned subsidiary of THCL, and CTCL was established on 14 August 2006 under BVI laws as a wholly-owned subsidiary of the Company.

### *Offshore investment*

Pursuant to the conditional redeemable exchangeable bonds subscription agreement dated 28 August 2006 entered into between THCL, the AIG Parties, Mr. Zhu and Madam Yu, the AIG Parties invested in aggregate US\$30 million in the Group by way of subscription to the Redeemable Exchangeable Bonds issued by THCL on 8 September 2006 on the closing date of the subscription agreement. The proceeds of the subscription was injected into the Company as a capital contribution and subsequently was applied as to US\$20 million in the acquisition of 99.8% and a 0.2% of the equity interests of TG Tools from TG Group and Mr. Zhu, respectively and as to US\$10 million for the increase in the registered capital of TG Tools. The Redeemable Exchangeable Bonds were exchangeable for shares representing 30% of the ordinary issued share capital of the Company held by THCL at any time before the maturity date, which is 7 September 2009 (subject to extension). The bonds are also subject to mandatory and automatic exchange upon the Company successfully undertaking a Qualifying IPO. On 14 June 2007, each of the AIG Parties served an irrevocable notice to THCL to exchange in aggregate, with immediate effect, the principal amount of the Redeemable Exchangeable Bonds of US\$30 million for 15,000 shares of US\$1.00 each, representing 30% of the issued share capital of 50,000 shares of US\$1.00 each of the Company as at the date of exchange, at the initial exchange price of US\$2,000 per share. Upon completion of the exchange on the same date, THCL and the AIG Parties held 70% and 30% of the issued share capital of the Company, respectively. Pursuant to the shareholders resolutions of the Company passed on 7 July 2007, such 15,000 shares and 35,000 shares of US\$1.00 each held by the AIG Parties and THCL, respectively, were subdivided into 1,500,000 Shares and 3,500,000 Shares of US\$0.01 each. Upon the Capitalisation Issue, THCL and the AIG Parties will hold 210,000,000 Shares and 90,000,000 Shares representing 70% and 30% of the issued share capital of the Company immediately before Listing, respectively. After the sale of Shares pursuant to the Global Offering and immediately upon Listing, the AIG Parties will hold in aggregate 60,000,000 Shares (representing 15% of the issued share capital of the Company, assuming Over-allotment Option has not been exercised). As such, the effective exchange price is equivalent to approximately US\$0.33 or approximately HK\$2.61 per Share. This represents a discount ranging from approximately 51.7% to 59.0% to the expected range of the Offer Price of between HK\$5.40 and HK\$6.36 per Share. The discount to the Offer Price reflects the fact that such interests were illiquid at the time of investment and the potential onshore and offshore regulatory hurdles in proceeding to an initial public offering. The investment risk that the AIG Parties were subject to in making the investment in the Company back in August 2006 is entirely different from what the investing public may have to bear in the context of an initial public offering.

As security of the obligation to exchange, THCL pledged 30% of its holding in the Company in favour of the AIG Parties upon the issue of the Redeemable Exchangeable Bonds on 8 September 2006. The share pledge was released with effect from 14 June 2007 upon the exercise of the right to exercise under the Redeemable Exchangeable Bonds by the AIG Parties.

On 14 June 2007, THCL granted an option to the AIG Parties whereby in the event a Qualifying IPO does not occur for any reason on or before 8 September 2009, the AIG Parties shall have the right to transfer all the exchanged Shares they received from THCL pursuant to the exercise of the rights to exchange under the Redeemable Exchangeable Bonds to THCL on 14 June 2007 at a cash consideration which will be equal to the principal amount and

interest and all other amounts which the AIG Parties would be entitled to under the terms and conditions of the Redeemable Exchange Bonds as if the Redeemable Exchangeable Bonds were not exchanged and were held until 8 September 2009. Such option will expire on the date of the issue of a prospectus in connection with a Qualifying IPO. Both the AIG Parties and THCL have acknowledged and confirmed that the proposed listing of the Shares of the Company on the Main Board of the Stock Exchange as set out in this prospectus is a Qualifying IPO within the meaning of the terms and conditions of the Redeemable Exchangeable Bonds. On such basis, the put option arrangement will automatically expire and terminate on the date of the issue of this prospectus.

The AIG Parties are international institutional investors. The reason for the AIG Parties' investment was that the Company is the leading integrated HSS and HSS cutting tools manufacturer in an industry in which PRC players possess cost competitive advantages. The Directors believe that the AIG Parties' investment in the Group has been perceived favourably by its customers and suppliers, and has further strengthened the Group's bargaining power when dealing with customers and suppliers. In addition to this benefit, a portion of the proceeds from the AIG Parties' investment has been applied towards upgrading the Group's equipment, which has enabled the Group's operations to become less labour-intensive and to expand its production capacity. The Directors also believe that the expertise that the AIG Parties bring through their participation at the senior management level of the Group has also improved the overall management and internal control structure of the Group. In particular, after their investment, AIG Parties made regular site visits to the Group and review the Group's monthly financial reports to monitor the Group's financial results on a regular basis. Furthermore, the AIG Parties regularly discuss with the management about the Group's performance and operations and suggest improvements to further enhance the Group's overall corporate governance. Subsequent to the AIG Parties' investment, the Group has engaged an independent adviser to assess and improve the Group's internal controls system. The Group is under the process of implementing the suggestions from the independent adviser and the AIG Parties.

### ***Background details of the AIG Parties:***

- The AIG Asian Opportunity Fund II, L.P. ("**AOF II**") is an exempted limited partnership organised under the laws of the Cayman Islands established on February 3, 2004. Its registered address is M&C Corporate Services Limited, PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. Its general partner is controlled by American International Group, Inc., a public company.
- The American International Assurance Company (Bermuda) Limited ("**AIAB**") is an insurance company incorporated in Bermuda. Its registered address is American International Building, 29 Richmond Road, Pembroke, Bermuda HM 08, Bermuda. As at the Latest Practicable Date, AIAB's directors were Edmund Sze-Wing Tse (謝仕榮), Derek Kai-Ming Yung (容佳明), Lars Roland Bergquist, Stephen George Cubbon and Mark Andrew Wilson. AIAB is an indirect wholly-owned subsidiary of American International Group, Inc., a public company.
- The AIG Global Emerging Markets Fund II, L.P. ("**GEM II Fund**") is an exempted limited partnership organised under the laws of the Cayman Islands established on October 8, 2001. The GEM II Fund's registered address is at the offices of M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The general partner of the GEM II

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Fund is AIG GEM II G.P., L.P. (“**GEM II GP**”). The general partner of GEM II GP is AIG GEM II G.P., Co., a wholly-owned subsidiary of AIG Capital Partners, Inc., which is indirectly wholly-owned by American International Group, Inc. As of the current date, the Directors of AIG GEM II G.P., Co. are David K Yeung (楊昆華) and John Hornbostel.

### Onshore reorganisation

On 21 August 2006, TG Tools was injected into the Group by way of transfer of all of its equity interests by TG Group and Mr. Zhu to CTCL for US\$20 million. Through such transfer, the 75% interest in Tianfa Forging which has been held by TG Tools was also injected into the Group.

On 9 January 2007, TG Tools acquired a 75% equity interest in Tianji Packaging from TG Group for RMB1.5 million. On the same date, the remaining 25% equity interests of Tianji Packaging was transferred by 丹陽市永強塑料製品廠 (Danyang Yongqiang Plastic Factory) for RMB0.5 million to TG Tools.

On 13 March 2007, TG Tools acquired the 75% interest in TG Aihe held by TG Group for RMB100 million. On the same date, CTCL acquired the remaining 25% interest in TG Aihe from Asia HSS for US\$10 million. The said US\$10 million was obtained by way of a bank facility from BNP Paribas Hong Kong Branch pursuant to a commercial loan arrangement.

Post reorganisation, the Group holds all the necessary assets and resources in relation to its HSS, HSS cutting tools and die steel businesses.

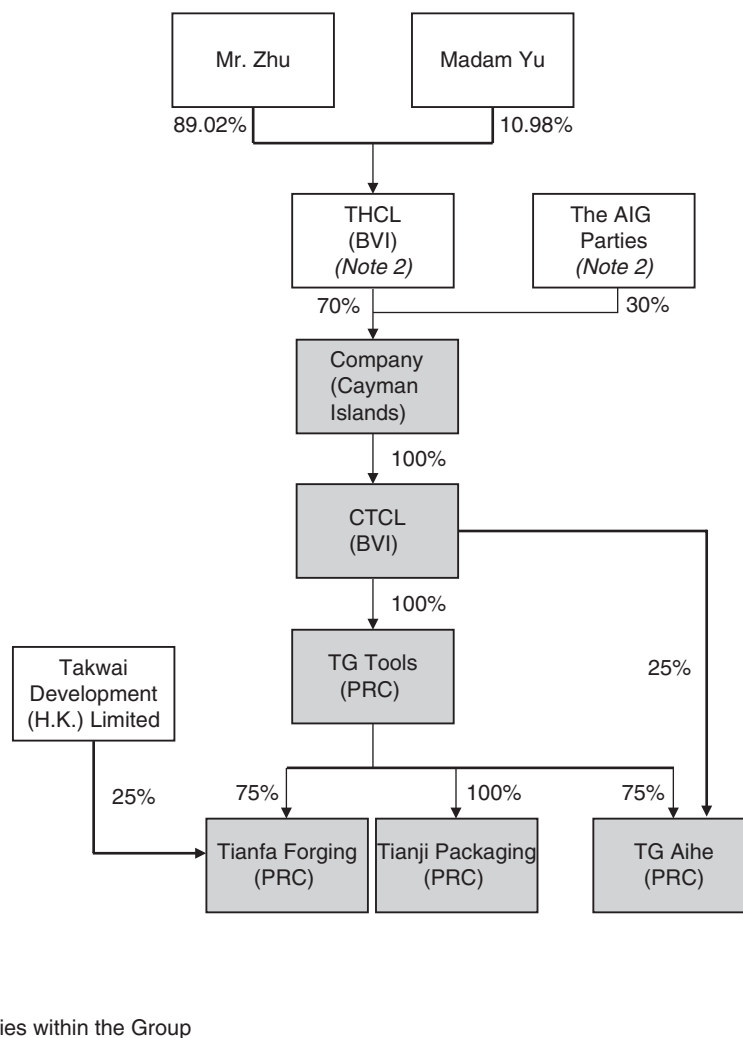
For further details and information on the Reorganisation and the Redeemable Exchangeable Bonds, please refer to the sections headed “Reorganisation” and “Summary of material contracts” respectively in Appendix VI to this prospectus.



# HISTORY AND DEVELOPMENT

## GROUP STRUCTURE IMMEDIATELY BEFORE GLOBAL OFFERING

The Company's shareholding and operating subsidiaries immediately prior to the Global Offering are as illustrated in the following chart:



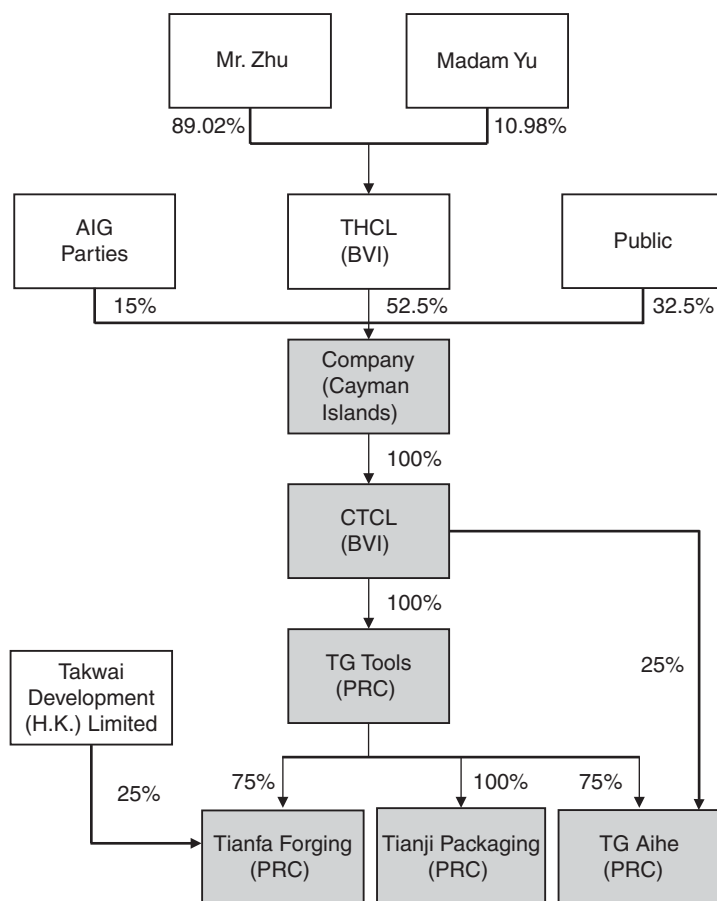
### Notes:

- (1) The Company has been advised by its PRC legal adviser that given the approval for the transfer of interests in TG Tools was granted before 8 September 2006 (ie., the effective date of 關於外國投資者併購境內企業的規定 (The Regulations for the Acquisition of Domestic Enterprises by Foreign Investors)), the Company is not subject to the approval of relevant PRC government authorities in respect of such share transfer. Nevertheless, the Company has complied with the requirements in respect of foreign exchange filing and registration.
- (2) The Redeemable Exchangeable Bonds were issued by THCL on 8 September 2006 pursuant to which the AIG Parties may require THCL to transfer Shares representing 30% of the issued share capital of the Company (subject to adjustment) to the AIG Parties in exchange of the Redeemable Exchangeable Bonds. On 14 June 2007, each of the AIG Parties served a notice of exchange to THCL requiring THCL to transfer in aggregate 15,000 shares of US\$1.00 each in the issued share capital of the Company to them in exchange of the Redeemable Exchangeable Bonds.

# HISTORY AND DEVELOPMENT

## GROUP STRUCTURE IMMEDIATELY AFTER GLOBAL OFFERING

Assuming the Over-allotment Option is not exercised, the Company's shareholding and operating subsidiaries immediately following the Global Offering are as illustrated in the following chart:



■ Companies within the Group

*Note:* In the event the Over-allotment Option is exercised in full, the AIG Parties' interests will be reduced to approximately 14.3%, THCL's interest will be reduced to approximately 50.06% and the public's interest will be increased to approximately 35.7%.