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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)

PROPOSED SUBSCRIPTION OF UNLISTED 2012 WARRANTS UNDER GENERAL MANDATE

The Directors are pleased to announce that on 28 December 2010 (after trading hours), the Warrant Placing Agreement was entered into between the Company and the Placing Agent whereby the Company appointed the Placing Agent as its sole placing agent during the Placing Period to procure not less than six and not more than ten Placées to subscribe for up to 42,000,000 Warrants, on a best efforts basis, at the Placing Price of HK\$0.02 per Warrant. The Company will make further announcement once the number of Warrants placed by the Placing Agent is confirmed.

As at the date of this announcement, the Company has a total of 419,500,000 Shares in issue. Assuming there is no further issue or repurchase of the Shares, upon the full exercise of the subscription rights attaching to the Warrants, an aggregate of up to 42,000,000 Shares will be issued, which represent approximately 10.01% of the existing issued share capital of the Company and approximately 9.10% of the issued share capital as enlarged by the issue of the Shares to be issued upon exercise in full of the subscription rights attached to the Warrants.

No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges. The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Shares to be issued upon exercise of subscription rights attached to the Warrants on the Stock Exchange.

The net proceeds from the Warrant Placing will be approximately HK\$550,000, which will be used as general working capital of the Group. Any additional proceeds from the issue of the Shares upon the exercise of the subscription rights attaching to the Warrants in future of up to a maximum amount of approximately HK\$168 million will be applied as general working capital and as funds for future development of the Group. Assuming the subscription rights attaching to the Warrants are exercised in full, the total net funds to be raised, including the funds raised by the subscription of the Warrant, would amount to approximately HK\$168.5 million.

The Shares to be issued upon exercise of the subscription rights attaching to the Warrants will be issued under the General Mandate.

The Directors are pleased to announce that on 28 December 2010 (after trading hours), the Warrant Placing Agreement was entered into between the Company and the Placing Agent whereby the Company appointed the Placing Agent as its sole placing agent during the Placing Period to procure not less than six and not more than ten Places to subscribe for up to 42,000,000 Warrants, on a best efforts basis, at the Placing Price of HK\$0.02 per Warrant. The Company will make further announcement once the number of Warrants placed by the Placing Agent is confirmed.

THE WARRANT PLACING AGREEMENT

Below is a summary of the principal terms of the Warrant Placing Agreement:

Date

28 December 2010 (after trading hours).

Parties

- (a) The Company; and
- (b) The Placing Agent.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Places

The Warrants will be placed with not less than six and not more than ten Places, which will be professional, institutional or other professional investors independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) and subject to any objection (if any) the Stock Exchange may have to any particular person being a Placee.

Condition

Completion of the Warrant Placing is subject to the fulfilment of the condition that the Listing Committee having granted (either unconditionally or subject only to conditions to which the Company and Placing Agent do not reasonably object) listing of and permission to deal in the

new Shares to be issued upon exercise of subscription rights attaching to the Warrants and such permission and listing not subsequently being revoked or withdrawn prior to Completion.

In the event that the above condition is not fulfilled on or before 28 February 2011 (or such later date as the Company and the Placing Agent may agree), the Warrant Placing Agreement and all rights and obligations thereunder will cease and determine and neither of the parties to the Warrant Placing Agreement will have any claim against the other in relation thereto save for antecedent breaches.

Placing commission

The Placing Agent will receive a placing commission of five per cent. (5%) on the aggregate Placing Price in respect of such number of Warrants successfully placed by the Placing Agent pursuant to the Placing Agreement. The placing commission was determined after arm's length negotiation between the Company and the Placing Agent. The Directors (including the independent non-executive Directors) are of the view that the placing commission is fair and reasonable.

Completion

Completion shall take place no later than four Business Days following the fulfilment of the condition above or such other date as the Company and the Placing Agent may agree.

Termination

If at any time on or prior to 12 : 00 noon on the Completion Date, (a) there develops, occurs or comes into force any new law or regulation or any change in existing laws or regulations, any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; any significant change (whether or not permanent) in local, national or international market conditions; any material litigation or clam being instigated against any member of the Group; or (b) any breach (which is material in the reasonable opinion of the Placing Agent) of any of the warranties and undertakings of the Company set out in the Warrant Placing Agreement comes to the knowledge of the Placing Agent or there has been a breach (which is material in the reasonable opinion of the Placing Agent) of any other provision of the Warrant Placing Agreement; or (c) there is any adverse change in the condition (financial or otherwise) of the Company or the Group which in the reasonable opinion of the Placing Agent is material in the context of the Placing, then and in any such case, the Placing Agent may terminate the Warrant Placing Agreement without liability to the Company by giving notice in writing to the Company.

PRINCIPAL TERMS OF THE WARRANTS

Number of Warrants

Pursuant to the Warrant Placing Agreements, the Company agreed to create and issue upto 42,000,000 Warrants.

The Warrants will rank pari passu in all respects among themselves.

Placing Price

The Placing Price is HK\$0.02 per Warrant. The net placing price per Warrant, after deduction of all relevant expenses, is approximately HK\$0.013 per Warrant.

Number of Shares issuable

As at the date of this announcement, the Company has a total of 419,500,000 Shares in issue. Assuming there is no further issue or repurchase of the Shares, upon the full exercise of the subscription rights attaching to the Warrants, 42,000,000 new Shares will be issued, which represent approximately 10.01% of the existing issued share capital of the Company and approximately 9.10% of the issued share capital as enlarged by the issue of the Shares under the Warrants.

Subscription Price

Each Warrant carries the right to subscribe for one Share at the Subscription Price of HK\$4.00 per Share.

The Subscription Price of HK\$4.00 represents:

- (i) a premium of approximately 9.89% to the closing price of HK\$3.64 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 8.87% to the average of the closing prices of Shares as quoted on the Stock Exchange for the last five consecutive trading days preceding the Last Trading Day of approximately HK\$3.674;
- (iii) a premium of approximately 9.44% to the average of the closing prices of Shares as quoted on the Stock Exchange for the last ten consecutive trading days preceding the Last Trading Day of approximately HK\$3.655; and
- (iv) a discount of approximately 13.29% to the net asset value per Share of approximately RMB3.95 (approximately HK\$4.532) as at 30 June 2010 (based on the latest unaudited net assets of the Group as of 30 June 2010 published on the Stock Exchange's website and the number of issued Shares as at the date of this announcement).

The Subscription Price is subject to normal adjustments in the events of, inter alia, share consolidation, subdivision, capital distribution, issue of Shares by way of capitalisation of profits or reserves, offer of new Shares for subscription by way of rights or options or warrants to subscribe for new Shares, issue of securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, purchase of Shares, of or by the Company and such adjustments will be certified by the auditors of the Company or an approved merchant bank. The number of Shares to be issued under the Warrants shall not be altered save when there is a consolidation or subdivision of the Shares.

Both the Placing Price and the Subscription Price are determined after arm's length negotiations between the Company and the Placing Agent, taking into account the recent trading prices of the Shares. The Board is of the opinion that the Placing Price and the Subscription Price are fair and reasonable and in the best interest of the Company.

Exercise Period

The subscription rights attaching to the Warrants can be exercised at any time during a period of two years commencing from the date of issue of the Warrants.

Listing

No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Shares to be issued under the Warrants on the Stock Exchange.

Ranking of the Shares

The Shares to be issued upon exercising of the subscription rights to the Warrants, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Shares as at the date of issue.

Transferability

The Subscription Rights are transferable as representing the rights to subscribe in integral multiples of one board lot of Shares for the purpose of dealings therein from time to time on the Stock Exchange provided that no transfer of the Warrants to connected persons (as defined in the Listing Rules) of the Company shall be allowed without the prior approval of the Company and the Stock Exchange.

Voting rights of the Warrants

The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being the holders of the Warrants. The holder(s) of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

GENERAL MANDATE TO ISSUE THE SHARES UNDER THE WARRANTS

As set out in the announcement of the Company dated 26 November 2010, part of the General Mandate has been earmarked for the proposed issued of not more than 50,000,000 new Shares for the purpose of the listing of Taiwan depository receipts on the Taiwan Stock Exchange. Nevertheless, as the approval by the relevant authorities of the TDR Issue have yet to be obtained and in view of the timing of the Warrant Placing, the Directors have considered that as the General Mandate has not been utilised, it would be more appropriate that the Warrant Placing will be issued under the General Mandate and is not subject to any Shareholders' approval. The new Shares to be issued under the TDR Issue will be subject to a special mandate or the renewal of the general mandate to be approved by the Shareholders at a general meeting to be convened. Further announcement on the TDR Issue will be made in due course.

REASONS FOR THE ISSUE OF WARRANTS AND USE OF PROCEEDS

The Group is principally engaged in the production and sales of HSS, HSS cutting tools and die steel.

Assuming all the Warrants are successfully placed out, the net proceeds from the Warrants will be approximately HK\$550,000, which will be used as general working capital of the Group. Any additional proceeds from the issue of the Shares upon the exercise of the subscription rights attaching to the Warrants in future of up to a maximum amount of approximately HK\$168 million will be applied as general working capital and as funds for future development of the Group. Assuming the subscription rights attaching to the Warrants are exercised in full, the total net funds to be raised, including the funds raised by the subscription of the Warrant, would amount to approximately HK\$168.5 million.

The Directors also consider that the Warrant Placing Agreements was entered into on normal commercial terms after arm's length negotiations between the Company and the Placing Agent and that the terms of the Warrant Placing Agreements (including the Placing Price and the Subscription Price of the Warrants) are fair and reasonable so far as the interests of the Company and its Shareholders as a whole are concerned. The Directors also consider that the issue of the Warrants to the Placees would attract the desirous funding for business development and would provide the Group with an opportunity to raise further funds when the Subscribers exercises the subscription rights attaching to the Warrants.

SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 419,500,000 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the full exercise of the subscription rights attaching to the Warrants (assuming that there will be no further changes in the issued share capital of the Company prior to such exercise) and (iii) immediately after the full exercise of the subscription rights attaching to the Warrants (assuming that save for up to 50,000,000 new Shares are to be issued for the purpose of listing of the Taiwan depository receipts on the Taiwan Stock Exchange, there will be no further changes in the issued share capital of the Company prior to such exercise), and are as follows:

Shareholder	As at the date of this announcement		Immediately before completion of the TDR Issue assuming full exercise of Warrants		Immediately after completion of the TDR Issue assuming full exercise of Warrants	
	<i>Approximate % of issued share capital of the Company</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Approximate % of issued share capital of the Company</i>
	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>
Tiangong Holdings Company Limited	210,000,000	50.06	210,000,000	45.50	210,000,000	41.05
PineBridge Global Emerging Markets Partners II, L.P.	20,067,000	4.78	20,067,000	4.35	16,567,000	3.24
PineBridge Asia Partners II, L.P.	28,518,000	6.80	28,518,000	6.18	23,518,000	4.60
American International Assurance Company (Bermuda) Limited	8,547,000	2.04	8,547,000	1.85	7,047,000	1.38
Other Shareholders	152,368,000	36.32	152,368,000	33.02	152,368,000	29.79
Holders of Warrants	—	—	42,000,000	9.10	42,000,000	8.21
Holders of TDRs	—	—	—	—	60,000,000	11.73
Total	419,500,000	100.00	461,500,000	100.00	511,500,000	100.00

Save as set out above, as at the date of this announcement, the Company has no outstanding convertible securities or options which are convertible into Shares.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

As mentioned in the announcement of the Company dated 26 November 2010, in respect of the Taiwan depository receipts proposed to be issued by the depository bank in Taiwan, pursuant to the proposed issue of not more than 80 million units of Taiwan depository receipts (comprising not more than 50 million new Shares to be allotted and issued by the Company and not more than 10 million existing Shares to be transferred by the certain existing Shareholders as underlying securities), was approved by the Board. The Board intends to use the net proceeds from the TDR Issue for repayment of bank loans.

Save as disclosed, the Company has not conducted any fund raising activities in the past twelve months before the date of this announcement save for the application made.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 15.02(1) of the Listing Rules, the Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issue share capital of the Company at the time the Warrants are issued.

As at the date of this announcement, there are no equity securities of the Company with subscription rights outstanding and not yet exercised.

Assuming there is no further issue or repurchase of the Shares, upon the full exercise of the subscription rights attaching to the Warrants, 42,000,000 new Shares will be issued, which represent approximately 10.01% of the existing issued share capital of the Company and approximately 9.10% of the issued share capital as enlarged by the issue of the Shares under the Warrants.

Accordingly, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

DEFINITIONS

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

“AGM”	the annual general meeting of the Company held on 29 June 2010
“Board”	the board of Directors
“Business Day”	any day (excluding Saturdays, Sundays and public holidays) on which banks generally are open for business in Hong Kong throughout their normal business hours
“Company”	Tiangong International Company Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Warrant Placing

“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the resolution of the Shareholders passed at the AGM to allot, issue and deal with Shares and to make or grant offers, agreements and options which may require Shares to be issued, allotted or dealt with, which is subject to the limit of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Instrument”	the deed poll constituting the Warrants to be executed by the Company on Completion
“Last Trading Day”	28 December 2010, being the last trading day of the Shares on which the Warrant Placing Agreement was entered into
“Listing Committee”	the listing sub-committee of the board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Placees”	professional, institutional or other investors whom the Placing Agent and/or any of its agent(s) have procured to subscribe for any of the Warrants
“Placing Agent”	Partners Capital Securities Limited, a corporation licensed under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) to carry out type 1 (dealing in securities) regulated activity
“Placing Period”	the period commencing from the date of the Warrant Placing Agreement and terminating at 5:00 p.m. on the date which falls on the expiry of one month from the date of the Warrant Placing Agreement (or such other termination date as the Placing Agent may determine and notify the Company in writing)
“Placing Price”	HK\$0.02 per Warrant
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	an initial exercise price of HK\$4.00 per Share (subject to adjustment pursuant to the terms of the Instrument) at which holder(s) of the Warrants may subscribe for the Shares

“TDR Issue”	the proposed issue of not more than 80 million units of Taiwan depositary receipts by the depositary bank in Taiwan (comprising not more than 50 million new Shares to be allotted and issued by the Company and not more than 10 million existing Shares to be transferred by the vendors as underlying securities), subject to the approval by the relevant authorities and the adjustment (if any) by the Board and the underwriters thereto, as more particularly set out in the announcement of the Company dated 26 November 2010
“Warrant Placing”	the placing of the Warrants pursuant to the Warrant Placing Agreement
“Warrant Placing Agreement”	the conditional warrant placing agreement dated 28 December 2010 entered into between the Company and the Placing Agent in relation to the Warrant Placing
“Warrants”	upto 42,000,000 unlisted warrants in registered form and constituted by the Instrument, which are to be issued by the Company at the Placing Price, and each entitles the holder thereof to subscribe for one Share at the Subscription Price (subject to adjustment pursuant to the Instrument) at any time during a period of two years commencing from the date of issue of the Warrants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

For the purpose of this announcement, unless otherwise stated all amounts in RMB are translated into HK\$ at an exchange rate of RMB1: HK\$1.1473.

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

Hong Kong, 28 December 2010

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, ZHU Zhihe, YAN Ronghua and Wu Suojun

Non-executive Director: THONG Kwee Chee

Independent non-executive Directors: LI Zhengbang, GAO Xiang and LEE Cheuk Yin, Dannis

* *For identification purpose only*