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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)

**Placing of Existing Shares and Subscription of New Shares
under the General Mandate**

Placing Agent



PLACING AND SUBSCRIPTION

On 18 April 2012, (i) the Vendor, the Controlling Shareholder, the Company and the Placing Agent entered into the Placing Agreement with the Company pursuant to which the Vendor has appointed the Placing Agent and the Placing Agent has conditionally agreed to act as agent for the Vendor, on a best efforts basis, to procure Placees to purchase up to 125,000,000 Placing Shares held by the Vendor at the Placing Price of HK\$1.87 per Share; and (ii) the Vendor and the Company entered into the Subscription Agreement pursuant to which the Vendor conditionally agreed to subscribe for up to 125,000,000 Subscription Shares, at the Subscription Price of HK\$1.87 per Share, which is equivalent to the Placing Price.

As at the date of this announcement, the authorised share capital of the Company is

US\$10,000,000 divided into 4,000,000,000 Shares of which 1,678,000,000 Shares are in issue. There are Share Options carrying subscription rights to subscribe for 19,880,000 Shares outstanding pursuant to Share Option Scheme of the Company and there are Warrants carrying subscription rights to subscribe for 128,000,000 Shares.

The 125,000,000 Placing Shares represent (i) approximately 7.45% of the existing issued share capital of the Company as at the date of this announcement; (ii) approximately 6.93% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company from the date of this announcement to the completion of the Subscription save for the issue of the Subscription Shares); and (iii) approximately 6.41% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Option Shares and Shares issuable under the Warrants (assuming there are no other allotments and issue of Shares and no options under the Share Option Scheme are granted or exercised and no further warrants created and granted).

The Placing is unconditional but the Placing Agent reserves the right to terminate the Placing in case of the occurrence of certain force majeure event. Completion of the Subscription is conditional on certain conditions precedent as more particularly set out in the Subscription Agreement.

The net proceeds of the Subscription will be approximately HK\$223.75 million and are intended to be applied towards the titanium production facilities of the Group and as general working capital of the Group.

General Mandate

The Subscription Shares will be issued under the General Mandate granted to the Directors at the AGM and the issue of the Subscription Shares will not be subject to the approval by the Shareholders.

Application will be made to the Stock Exchange for the listing of, and permission to deal, in the Subscription Shares.

Warning

Pursuant to the termination provisions contained in the Placing Agreement in respect of the Placing Shares, the Placing Agent has the right in certain circumstances to terminate the obligations of the Placing Agent pursuant to the Placing at any time prior to 12:00 noon on the Closing Date. Completion of the Subscription is subject to a number of conditions mentioned herein. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

On 18 April 2012, the Company entered into the Placing Agreement in respect of the placement of up to 125,000,000 Shares and the Subscription Agreement in respect of the issue of up to 125,000,000 Shares.

THE PLACING AGREEMENT

Date

18 April 2012

Parties

- (a) the Vendor (as the vendor of the Placing Shares);
- (b) the Controlling Shareholder;
- (c) the Company; and
- (d) the Placing Agent (as the Placing Agent of the Vendor).

As at the date of this announcement, the Vendor is a substantial shareholder (as defined in the Listing Rules) of the Company, holding 840,000,000 Shares which represents approximately 50.06% of the issued ordinary share capital of the Company. The Controlling Shareholder, an executive Director of the Company, is interested in 880,732,000 issued Shares which represents approximately 52.49% of the issued ordinary share capital of the Company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate owner is a third party independent of the Company and is not a connected person (as defined in the Listing Rules) of the Company.

The Placing

At the request of the Company, the Vendor has appointed the Placing Agent and the Placing Agent has conditionally agreed to act as agent for the Vendor to procure Placees, on a best efforts basis, to purchase up to 125,000,000 Placing Shares held by the Vendor at the Placing Price of HK\$1.87 per Share.

Placees

The Placees and their ultimate beneficial owners will not be connected persons of the Company. It is also expected that the Placing Shares will be placed to not less than six Placees which are professional, institutional and/or other investors. The Company currently anticipates that none of the Placees will become a substantial shareholder of the Company upon completion of the Placing.

Placing Shares

As at the date of this announcement, the authorised share capital of the Company is US\$10,000,000 divided into 4,000,000,000 Shares of which 1,678,000,000 Shares are in issue. There are Share Options carrying subscription rights to subscribe for 19,880,000 Shares outstanding pursuant to Share Option Scheme of the Company and there are Warrants carrying subscription rights to subscribe for 128,000,000 Shares.

The 125,000,000 Placing Shares represent (i) approximately 7.45% of the existing issued share capital of the Company as at the date of this announcement; (ii) approximately 6.93% of the issued share capital of the Company as enlarged by the allotment and issue of the

Subscription Shares (assuming that there is no change in the issued share capital of the Company from the date of this announcement to the completion of the Subscription save for the issue of the Subscription Shares); and (iii) approximately 6.41% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Option Shares and Shares issuable under the Warrants (assuming there are no other allotments and issue of Shares and no options under the Share Option Scheme are granted or exercised and no further warrants created and granted).

Rights of the Placing Shares

The Placing Shares will be sold free from all Encumbrances together with all rights attaching to them and rank *pari passu* with all other issued Shares in all respects as at the date of the Placing Agreement.

The Placing Price

The Placing Price is HK\$1.87 per Share.

The Placing Price represents:

- (i) a discount of approximately 9.66% to the closing price of HK\$2.07 per Share as quoted on the Stock Exchange on the date of the Placing Agreement;
- (ii) a discount of approximately 8.15% to the average of the closing prices of approximately HK\$2.04 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 6.36% to the average of the closing prices of approximately HK\$2.00 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

The Placing Price was negotiated on an arm's length basis between the Company, the Vendor and the Placing Agent and was determined with reference to the prevailing market price of the Shares and the recent trading volume of the Shares.

Non-Disposal Undertaking

In order to induce the Placing Agent to enter into the Placing Agreement and in consideration of the obligations of the Placing Agent thereunder, the Company undertakes that it will not and will procure that none of its subsidiaries will, and the Controlling Shareholder undertakes to procure that no member of the Group will, issue or agree to allot or issue any Shares (other than pursuant to (i) options outstanding under the Share Option Scheme or (ii) any scrip dividend scheme or (iii) the Subscription Agreement or (iv) the Warrants) or other securities or grant or agree to grant any options (other than options granted pursuant to the Share Option Scheme), warrants or other rights to subscribe for shares or other securities or to repurchase any securities of the Company, for the period commencing from the date of the Placing Agreement and ending three months from the Closing Date unless with the prior written consent of the Placing Agent.

Completion of the Placing

The Placing is unconditional and is expected to be completed on or before the Closing Date.

Nevertheless, the Placing Agent may after consultation with the Vendor (to the extent that the same is reasonably practicable) terminate the Placing without liability to the Vendor, the Controlling Shareholder or the Company by giving notice in writing to the Vendor if at any time on or prior to 12:00 noon on the Closing Date:

- (A) in the reasonable opinion of the Placing Agent there shall have been since the date of the Placing Agreement such a change in national or international financial, political or economic conditions or taxation or exchange controls as would be likely to prejudice materially the consummation of the Placing; or
- (B) any material breach of any of the representations and warranties contained in the Placing Agreement or any event has occurred or any matter has arisen on or after the date of the Placing Agreement and prior to the Closing Date which would render any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Vendor, the Company or the Controlling Shareholder of any other provision of the Placing Agreement; or
- (C) there is any adverse change in the financial position of the Company which in the reasonable opinion of the Placing Agent is material in the context of the Placing.

Given the above mentioned right of the Placing Agent to terminate the obligations of the Placing Agent and that completion of the Subscription is subject to a number of conditions mentioned below, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

Date

18 April 2012

Parties

- (a) the Vendor (as the subscriber of the Subscription Shares); and
- (b) the Company (as the issuer).

The Subscription

The Vendor has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue up to 125,000,000 Subscription Shares.

The Subscription Price

The Subscription Price is HK\$1.87 per Share, which is the same as the Placing Price.

The Subscription Price of the Subscription Shares will be paid to the Company in full on application.

Number of Subscription Shares

The Vendor will subscribe for and the Company will allot and issue a total of up to 125,000,000 new Shares with an aggregate nominal value of US\$312,500.

The 125,000,000 Subscription Shares represent (i) approximately 7.45% of the existing issued share capital of the Company as at the date of this announcement; (ii) approximately 6.93% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company from the date of this announcement to the completion of the Subscription save for the issue of the Subscription Shares); and (iii) approximately 6.41% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Option Shares and the Warrants (assuming there are no other allotments and issue of Shares and no options under the Share Option Scheme are granted or exercised and no further warrants created and granted).

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with the issued Shares as at the date of allotment of the Subscription Shares.

Conditions of the Subscription

Completion of the Subscription is conditional on:

- (1) completion of the Placing pursuant to the Placing Agreement; and
- (2) the Listing Committee of the Stock Exchange's agreeing to grant a listing of and permission to deal in the Subscription Shares.

The Subscription Agreement does not provide for either party to waive any of the above conditions.

Completion

The completion of the Subscription is expected to take place on or before 2 May 2012, which is within 14 days from the date of the Placing Agreement and the Subscription Agreement (or such later date as may be agreed by the Vendor and the Company). If the Subscription is not completed within 14 days from the date of the Placing Agreement and the Subscription Agreement and unless it is waived by the Stock Exchange, it will constitute a connected transaction under the Listing Rules and is subject to compliance with the requirements under Chapter 14A of the Listing Rules, including the issue of a separate announcement and approval of the independent Shareholders.

GENERAL MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The issue of the Subscription Shares will not be subject to the approval by the Shareholders and the Subscription Shares will be issued under the General Mandate granted to the Directors at the AGM. Pursuant to the General Mandate, the total number of new Shares that the Company is authorised to issue is 335,600,000 Shares, representing 20% of the issued nominal capital of the Company as at the date of the AGM.

Since the date of the AGM and up to the date of this announcement, no new Shares have been allotted and issued by the Company under the General Mandate.

APPLICATION FOR LISTING

Application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement, (ii) immediately after the Placing but before the Subscription, (iii) immediately after completion of the Placing and the Subscription but before the exercise of the Share Options and Warrants and (iv) immediately after completion of the Placing and the Subscription and the exercise of the Share Options and Warrants in full (assuming there are no other allotments and issue of Shares and no options under the Share Option Scheme are granted or exercised and no further warrants created and granted):

	Immediately before the Placing and the Subscription		Immediately after the Placing but before the Subscription		Immediately after the Placing and the Subscription but before any exercise of the Share Options and Warrants		Immediately after the Placing and the Subscription and exercise of the Share Options and Warrants in full	
	Shares	%	Shares	%	Shares	%	Shares	%
Substantial Shareholder								
Vendor	840,000,000	50.06	715,000,000	42.61	840,000,000	46.59	840,000,000	43.06
Vendor's associates	40,732,000	2.43	40,732,000	2.43	40,732,000	2.26	40,732,000	2.09
The Controlling Shareholder	-	-	-	-	-	-	400,000	0.02
Vendor and associates	880,732,000	52.49	755,732,000	45.04	880,732,000	48.85	881,132,000	45.17
Other Executive Directors								
Zhu Zhihe	-	-	-	-	-	-	400,000	0.02
Wu Suojun	-	-	-	-	-	-	400,000	0.02
Yan Ronghua	-	-	-	-	-	-	320,000	0.02
Public								
Public shareholders	797,268,000	47.51	797,268,000	47.51	797,268,000	44.22	797,268,000	40.87
Placees	-	-	125,000,000	7.45	125,000,000	6.93	125,000,000	6.41
Other Option holders	-	-	-	-	-	-	18,360,000	0.94
Warrant holders	-	-	-	-	-	-	128,000,000	6.56
Total	<u>1,678,000,000</u>	<u>100</u>	<u>1,678,000,000</u>	<u>100</u>	<u>1,803,000,000</u>	<u>100</u>	<u>1,950,880,000</u>	<u>100</u>

Notes:

1. Mr. Zhu Xiaokun is a controlling shareholder of the Vendor and the Vendor's associate.

2. The aggregate of the percentage figures in the above table may not add up to 100% due to rounding of the percentage figures to two decimal places.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months before the date of this announcement.

None of the Warrants and the Share Options have been exercised. In case the Warrants are subscribed in full, the gross proceeds to be received by the Company will be HK\$128.00 million. It is intended that the proceeds of the Shares issued under the Warrants will be used as the Group's working capital and funds for future development of the Group.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors consider that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position, reduce the gearing level of the Company and broaden the capital base of the Group so as to facilitate its future development. The Directors consider that terms of the Placing Agreement and the Subscription Agreement are fair and reasonable, on normal and commercial terms and are in the interests of the Company and the Shareholders as a whole.

The gross proceeds of the Subscription will be HK\$233.75 million. The net proceeds (after deducting all applicable costs and expenses of the Subscription) of approximately HK\$223.75 million from the Subscription are intended to be applied towards the titanium production facilities of the Group and as general working capital purposes of the Group. The net price of each Subscription Share will be approximately HK\$1.79.

INFORMATION ON THE COMPANY, THE VENDOR AND THE PLACING AGENT

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

The Vendor is owned by Mr. Zhu Xiaokun, an executive director of the Company, and his spouse and is an investment holding company.

The Placing Agent is CLSA Limited.

WARNING

Pursuant to the termination provisions contained in the Placing Agreement in respect of the Placing Shares, the Placing Agent has the right in certain circumstances to terminate the obligations of the Placing Agent pursuant to the Placing at any time prior to 12:00 noon on the Closing Date. Completion of the Subscription is subject to a number of conditions mentioned herein. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the expressions below have the meanings assigned:

“AGM”	the annual general meeting of the Company held on 23 May 2011;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Tiangong International Company Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange (stock code 826);
“Controlling Shareholder”	Mr. Zhu Xiaokun, an executive Director of the Company;
“Closing Date”	not later than 23 April 2012 or such other date as the Vendor and the Placing Agent shall agree in writing;
“Directors”	directors of the Company;
“Encumbrance”	a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect;
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the AGM to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the AGM;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong for the time being;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Last Trading Day”	17 April 2012, being the trading date immediately prior to the date of the Placing Agreement and the Subscription Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Share Options”	the options granted by the Company to the directors of the Company and employees of the Group pursuant to the employee share option scheme adopted by the Company on 7 July 2007, holders of the granted options are entitled to subscribe for a total

	of 19,880,000 Shares at HK\$1.275 per Share (subject to adjustment);
“Option Shares”	an aggregate of 19,880,000 Shares, to be allotted and issued upon exercise of the Share Options;
“Placee(s)”	any professional, institutional and/or other investors independent of and not connected with the Vendor, the Company, the directors, substantial shareholders and chief executive (as those terms defined in the Listing Rules) of the Company, its subsidiaries and their respective connected persons (as defined in the Listing Rules) procured by the Placing Agent to purchase any of the Placing Shares pursuant to the Placing Agents' obligations under the Placing Agreement;
“Placing”	the placing of the Placing Shares by the Vendor through the Placing Agent pursuant to the terms of the Placing Agreement;
“Placing Agent”	CLSA Limited;
“Placing Agreement”	the placing agreement dated 18 April 2012 entered into among the Vendor, the Controlling Shareholder, the Company and the Placing Agent in relation to the Placing;
“Placing Price”	HK\$1.87 per Placing Share;
“Placing Shares(s)”	up to 125,000,000 existing Shares held by the Vendor;
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan;
“Share(s)”	ordinary share(s) of par value of US\$0.0025 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Share Option Scheme”	the employee share option scheme adopted by the Company on 7 July 2007 pursuant to which the Board may grant option shares up to 10% of the issued share capital of the Company as at the date of listing (as enlarged by the over-allotment option);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription for the Subscription Shares by the Vendor pursuant to the terms and conditions of the Subscription Agreement;
“Subscription Agreement”	the subscription agreement dated 18 April 2012 entered into among the Vendor and the Company in relation to the Subscription;

“Subscription Price”	HK\$1.87 per Subscription Share, which is equal to the Placing Price;
“Subscription Shares”	up to 125,000,000 new Shares;
“Vendor”	Tiangong Holdings Company Limited, a company incorporated in the British Virgin Islands, a substantial shareholder of the Company;
“Warrants”	the unlisted warrants created and granted by the Company on 26 January 2011 pursuant to which holders shall have the right to subscribe for 128,000,000 Shares at an initial exercise price of RMB0.845 per Share (subject to adjustment) within 2 years from the date of issue;
“%”	per cent.

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

Hong Kong, 18 April 2012

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

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

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

** For identification purpose only*