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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 WARRANTS
UNDER GENERAL MANDATE**

The Directors are pleased to announce that on 14 July 2014 (after trading hours), the Warrant Subscription Agreement was entered into between the Company and the Subscriber whereby the Company has agreed to create and issue and the Subscriber has agreed to subscribe for 70,000,000 Warrants at the Purchase Price of HK\$0.02 per Warrant. Each Warrant will entitle holders to subscribe for one Share at a subscription price of RMB1.3593 (equivalent to approximately HK\$1.70 at a fixed exchange rate of HK\$1.2506) per Share, subject to adjustment, during a period of one year commencing from the date of Closing.

As at the date of this announcement, the Company has a total of 1,947,200,000 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 70,000,000 Shares will be issued, which represent approximately 3.59% of the existing issued share capital of the Company and approximately 3.47% 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. Assuming the subscription rights attached to the 40,000,000 February 2014 Warrants issued by the Company and the outstanding 12,082,000 options granted under the Company's share option scheme, which are now out of money, are exercised in full, the 70,000,000 Shares will represent approximately 3.38% 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, the February 2014 Warrants and the options.

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 Subscription will be approximately HK\$1,050,000, 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\$119,000,000 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\$120,050,000.

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 14 July 2014 (after trading hours), the Warrant Subscription Agreement was entered into between the Company and the Subscriber whereby the Company has agreed to create and issue and the Subscriber has agreed to subscribe for 70,000,000 Warrants at the Purchase Price of HK\$0.02 per Warrant.

THE WARRANT SUBSCRIPTION AGREEMENT

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

Date

14 July 2014 (after trading hours).

Parties

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

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

Condition

Obligations of the Subscriber and the Company of the Warrant Subscription are conditional upon the fulfillment of the condition that the Listing Committee having granted (either unconditionally or subject only to conditions to which the Company and the Subscriber does 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 within 14 days of the Subscription Agreement (or such later date as the Company and the Subscriber may agree), the Warrant Subscription Agreement and all rights and obligations thereunder will cease and none of the parties to the Warrant Subscription Agreement will have any claim against the other in relation thereto save for antecedent breaches.

Closing

Closing shall take place no later than five Business Days following the fulfillment of the condition above or such other date as the Company and the Subscriber may agree in writing.

PRINCIPAL TERMS OF THE WARRANTS

Number of Warrants

Pursuant to the Warrant Subscription Agreement, the Company agreed to create and issue 70,000,000 Warrants.

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

Purchase Price

The Purchase Price is HK\$0.02 per Warrant. The net Purchase Price per Warrant, after deduction of all relevant expenses, is approximately HK\$0.015 per Warrant.

Number of Shares Issuable

As at the date of this announcement, the Company has a total of 1,947,200,000 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, 70,000,000 new Shares will be issued, which represent approximately 3.59% of the existing issued share capital of the Company and approximately 3.47% of the issued share capital as enlarged by the issue of the Shares under the Warrants. Assuming the subscription rights attached to the 40,000,000 February 2014 Warrants issued by the Company and the outstanding 12,082,000 options granted under the Company's share option scheme, which are now out of money, are exercised in full, the 70,000,000 Shares will represent approximately 3.38% 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, the February 2014 Warrants and the options.

Subscription Price

Each Warrant carries the right to subscribe for one Share at the Subscription Price of RMB1.3593 (equivalent to approximately HK\$1.70 at a fixed exchange rate of HK\$1.2506)* per Share.

** The Subscription Price was denominated in RMB to avoid accounting issues given the books of the Group are denominated in RMB.*

The Subscription Price represents:

- (i) a premium of approximately 9.68% to the closing price of HK\$1.55 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of 18.38% 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\$1.436;
- (iii) a premium of approximately 21.86% 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\$1.395; and

- (iv) a discount of approximately 16.72% to the net asset value per Share of approximately RMB1.6323 (approximately HK\$2.0414) as at 31 December 2013 (based on the latest audited net assets of the Group as of 31 December 2013 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 Purchase Price and the Subscription Price are determined after arm's length negotiations between the Company and the Subscriber, taking into account the recent trading prices of the Shares. The Board is of the opinion that the Purchase 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 the one-year period commencing from the date of Closing.

Listing

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

The Company will make application to the Stock Exchange for the listing of, and permission to deal in, the new Shares to be allotted and issued upon exercise of the subscription rights of the Warrants.

Ranking of the Shares

The Shares to be allotted and 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

The Shares to be allotted and issued upon exercising of the subscription rights of the Warrants will be allotted and issued pursuant to the General Mandate granted to the Directors by a resolution of the Shareholders passed at the AGM, under which the Directors are authorized to issue Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM, which is equivalent to a maximum issue of additional 389,440,000 Shares.

Assuming there is no further issue or repurchase of the Shares and there is no adjustment to the Subscription Price, upon the full exercise of the subscription rights attaching to the 70,000,000 Warrants, 70,000,000 new Shares will be issued, which represent approximately 3.59% of aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM. The Instrument constituting the Warrants will provide that in the case of adjustment of the Subscription Price, no more than 84,000,000 new Shares will be issued upon exercise in full of the subscription rights attached to 70,000,000 Warrants, which represent approximately 4.31% of aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM.

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.

The net proceeds from the Warrants Subscription will be approximately HK\$1,050,000, 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\$119,000,000 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 Warrants, would amount to approximately HK\$120,050,000.

Given (1) under the current market situation, the February 2014 Warrants and the options granted are out of money, (2) the issue of Warrants will not cause immediate dilution on the shareholding of the Shareholders, (3) the aggregate of the Purchase Price and the Subscription Price is at a premium over the then market price of the Shares, (4) the Warrants (upon exercise of the subscription rights attaching thereto) will further enhance the capital and shareholders' base of the Company and (5) the Warrant Subscription Agreement was entered into on normal commercial terms after arm's length negotiations between the Company and the Subscriber, the Directors consider that the terms of the Warrant Subscription Agreement (including the Purchase Price and the Subscription Price) 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 Subscriber would attract the desirous funding for business development and would provide the Group with an opportunity to raise further funds when the holder of the Warrants exercises the subscription rights attaching to the Warrants.

SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 1,947,200,000 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; and (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) are as follows:

Shareholder	As at the date of this announcement		Immediately after the full exercise of the subscription rights attaching to the Warrants	
	No. of Shares	Approximate % of issued share capital of the	No. of Shares	Approximate % of issued share capital of the
Controlling Shareholders				
Tiangong Holdings Company Limited	725,624,000	37.26	725,624,000	35.97
Silver Power (HK) Ltd	<u>43,932,000</u>	<u>2.26</u>	<u>43,932,000</u>	<u>2.18</u>
	769,556,000	39.52	769,556,000	38.15
Public Shareholders				
Delta Lloyd Asset Management NV	156,313,800	8.03	156,313,800	7.75
Other Public Shareholders	1,021,330,200	52.45	1,021,330,200	50.63
Holders of Warrants	<u>-</u>	<u>-</u>	<u>70,000,000</u>	<u>3.47</u>
Total	<u>1,947,200,000</u>	<u>100.00</u>	<u>2,017,200,000</u>	<u>100.00</u>

The Company has created and issued 40,000,000 February 2014 Warrants with a subscription price of RMB2.07 (approximately HK\$2.65) in February 2014 which are currently out of money. The Shares to be allotted and issued upon exercise of the subscription rights attached to the February 2014 Warrants will be under the general mandate granted in 2013.

Save as set out above and 12,082,000 options granted pursuant to the Company's share option scheme, 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

Save for the issue of the 40,000,000 February 2014 Warrants with a subscription price of RMB2.07 (approximately HK\$2.65) per Share, which are currently out of money and the grant of options, the Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

The net proceed raised from the placing of the 40,000,000 February 2014 Warrants was HK\$500,000 and has been applied as general working capital of the Company.

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, save for the 40,000,000 February 2014 Warrants which entitled the holders thereof to subscribe for 40,000,000 Shares at a subscription price of RMB2.07 (approximately HK\$2.65) per Shares and the 12,082,000 options (of which 3,080,000 options entitled holders to subscribe for Shares at an exercise price of HK\$1.275 per Share and 9,002,000 options entitled holders to subscribe for Shares at an exercise price of HK\$2.50 per Share), 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, 70,000,000 new Shares will be issued, which represent approximately 3.59% of the existing issued share capital of the Company and approximately 3.47% of the issued share capital as enlarged by the issue of the Shares under the Warrants. Assuming the subscription rights attached to the 40,000,000 February 2014 Warrants issued by the Company and the outstanding 12,082,000 options granted under the Company's share option scheme, which are now out of money, are exercised in full, the 70,000,000 Shares will represent approximately 3.38% 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, the February 2014 Warrants and the options.

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

CAUTION

Completion of the Subscription is subject to fulfillment of the condition precedent in the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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 21 May 2014
“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
“Closing”	completion of the Warrant Subscription
“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 Closing
“Last Trading Day”	14 July 2014, being the last trading day of the Shares on which the Warrant Subscription 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
“Purchase Price”	HK\$0.02 per Warrant
“Share(s)”	ordinary share(s) of US\$0.0025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Kingwin Capital Group Limited 宏易資本集團有限公司, an investment company wholly owned by Mr. Wang Ping
“Subscription Price”	an initial exercise price of RMB1.3593 per Share (subject to adjustment pursuant to the terms of the Instrument) at which holder(s) of the Warrants may subscribe for the Shares
“Warrant Subscription”	the subscription of the Warrants by the Subscriber pursuant to the Warrant Subscription Agreement
“Warrant Subscription Agreement”	the conditional subscription agreement dated 14 July 2014 entered into between the Company and the Subscriber in relation to the Warrant Subscription

“ Warrant(s) ”	70,000,000 unlisted warrants in registered form and constituted by the Instrument, which are to be issued by the Company at the Purchase 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 one year commencing from the date of issue of the Warrants
“ HK\$ ”	Hong Kong dollars, the lawful currency of Hong Kong
“ RMB ”	Reminbi, the lawful currency of the People’s Republic of China
“ % ”	per cent.

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

Hong Kong, 14 July 2014

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

Executive Directors: ZHU Xiaokun, YAN Ronghua, Wu Suojun and Jiang Guangqing

Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and YIN Shuming

** For identification purpose only*