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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)

CONTINUING CONNECTED TRANSACTIONS

The Framework Supply Agreement

The Company is pleased to announce that, on 16 April 2018,

- (i) TG Tech, an indirect owned subsidiary of the Company and Weijian Tools entered into the Framework Titanium Coil Supply Agreement, pursuant to which TG Tech agreed to supply and Weijian Tools agreed to purchase titanium coil in 2018; and
- (ii) TG Tools, an indirect wholly-owned subsidiary of the Company and Weijian Tools entered into the Framework HSS Coil Supply Agreement pursuant to which TG Tools agreed to supply and Weijian Tools agreed to purchase HSS coil in 2018.

Implications under the Listing Rules

As Mr. Zhu Zefeng is a substantial shareholder of the Company and Weijian Tools, being owned as to 75% by Mr. Zhu Zefeng, is an associate of Mr. Zhu Zefeng, Weijian Tools is a connected person of the Company under the Listing Rules and the Framework Supply Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 17 November 2017, Mr. Zhu Zefeng became a substantial shareholder of the Company and the transactions (i) between TG Tech and Weijian Tools and (ii) between TG Tools and Weijian Tools since 17 November 2017 therefore have

been aggregated for the purpose of classification of connected transactions pursuant to Rule 14A.81 of the Listing Rules but fell under the de minimis threshold of Rule 14A.76(1) and are exempted from reporting and announcement requirements.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Proposed Annual Caps (when aggregated with the actual amount of transactions from 17 November 2017) exceed 0.1% but not 5%, the Framework Supply Agreements and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.76(2)(a) of the Listing Rules.

The Company is pleased to announce that, on 16 April 2018,

- (i) TG Tech, an indirect owned subsidiary of the Company and Weijian Tools entered into the Framework Titanium Coil Supply Agreement, pursuant to which TG Tech agreed to supply and Weijian Tools agreed to purchase titanium coil in 2018; and
- (ii) TG Tools, an indirect wholly-owned subsidiary of the Company and Weijian Tools entered into the Framework HSS Coil Supply Agreement pursuant to which TG Tools agreed to supply and Weijian Tools agreed to purchase HSS coil in 2018.

Weijian Tools is a company owned as to 75% by Mr. Zhu Zefeng, a substantial shareholder of the Company. Mr. Zhu Zefeng is a substantial shareholder holding approximately 25.85% of the issued share capital of the Company and the chief investment officer of the Company.

THE FRAMEWORK SUPPLY AGREEMENTS

Date	16 April 2018	16 April 2018
Parties	(i) TG Tech, as supplier; and (ii) Weijian Tools, as purchaser	(i) TG Tools, as supplier; and (ii) Weijian Tools, as purchaser
Term	For the year 2018	For the year of 2018
Nature of transaction	TG Tech agreed to supply and Weijian Tools agreed to purchase approximately 300 tons of titanium coil	TG Tools agreed to supply and Weijian Tools agreed to purchase approximately 600 tons of HSS coil

Proposed Annual Cap	RMB26,000,000 ⁽¹⁾	RMB50,000,000 ⁽¹⁾
	<p>⁽¹⁾ In the event the transaction value is anticipated to exceed the relevant Proposed Annual Cap, the parties will enter into a supplemental agreement on the revised annual cap and the Company will comply with the relevant requirements under the Listing Rules.</p>	
Pricing	<p>The purchase price will be determined at the time of the particular purchase with reference to (i) the cost of production; (ii) the expected gross profit margin of the relevant product at the time of a particular transaction; and (iii) the selling price of the relevant product to other customers of the Group.</p> <p>Coil products are sold in different product specifications and the Group has set and will set gross profit margins and thus selling prices having regards to the technology employed in the production and the prevailing market price, competitiveness and elasticity of the demand of the relevant products. For the avoidance of doubt, unless there is drastic fluctuation in market price, the gross profit margins to be adopted in respect of the Framework Supply Agreements shall follow those applicable to independent purchasers of the most recent month.</p> <p>The sales departments will monitor the prices of relevant products, and will conduct monthly reviews of the gross profit margin and selling price in order to ensure that the transactions under the Framework Supply Agreements are conducted on normal commercial terms.</p> <p>Weijian Tools agreed to allow the auditors of the Company to review books and records on the transactions to ensure the continuing connected transactions are completely and accurately recorded and the conduct of the transactions in accordance with the terms of the Framework Supply Agreements.</p>	
Payment arrangement	<p>Purchase prices shall become payable within 60 days of delivery of the purchase (i) in cash by electronic transfer in immediately available funds to the relevant designated bank account, or (ii) by banker's acceptance.</p>	

THE PROPOSED ANNUAL CAPS

The Proposed Titanium Coil Annual Cap and the Proposed HSS Coil Annual Cap for 2018 are RMB26,000,000 and RMB50,000,000, respectively.

In determining the Proposed Annual Caps, the parties took into account the following factors:

- (i) approximately RMB11 million worth of purchases transacted in 2017 (of which RMB 1.69 million were transacted as connected transactions after 17 November 2018); and
- (ii) the estimate and projection of anticipated transactions of Weijian Tools with its customers; and
- (iii) the Group's relevant operation and production capacity.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK SUPPLY AGREEMENTS

The Company believes that the cooperation with Weijian Tools pursuant to the Framework Supply Agreements will enable the Group to expand its customer base, and to maximise the utilisation rate of the production capacity.

Mr. Zhu Zefeng was appointed the Chief Investment Officer of the Company in January 2017. The businesses conducted by Weijian Tools have been explored by Mr. Zhu Zefeng and reported to the Board. However, the Group's required return on related capital investment was not sustainable by the current market scales of titanium and high speed steel wire. As such, the businesses conducted by Weijian Tools are considered complementary to the businesses of the Group.

The transactions contemplated under the Framework Supply Agreements are in the usual and ordinary course of business of the Group. The Directors (including the independent non-executive Directors) consider that (i) the Framework Titanium Coil Supply Agreement and the related proposed annual cap of RMB26,000,000 and (ii) (i) the Framework HSS Coil Supply Agreement and the related proposed annual cap of RMB50,000,000 are based on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Mr. Zhu Zefeng is the son of Mr. Zhu Xiaokun, the chairman and an executive director of the Company. Nevertheless, none of the Directors has or is deemed to have any material interest, direct or indirect, in the resolutions approving the entry into each of the Framework Supply Agreements and each of the Proposed Annual Caps and therefore none of the Directors were required to abstain from voting on the relevant resolution in relation to entry into the Framework Supply Agreements and the Proposed Annual Caps.

LISTING RULES IMPLICATIONS

As Mr. Zhu Zefeng is a substantial shareholder of the Company and Weijian Tools, being

owned as to 75% by Mr. Zhu Zefeng, is an associate of Mr. Zhu Zefeng, Weijian Tools is a connected person of the Company under the Listing Rules and the Framework Supply Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 17 November 2017, Mr. Zhu Zefeng became a substantial shareholder of the Company and the transactions (i) between TG Tech and Weijian Tools and (ii) between TG Tools and Weijian Tools therefore have been aggregated for the purpose of classification of connected transactions pursuant to Rule 14A.81 of the Listing Rules but fell under the de minimis threshold of Rule 14A.76(1) and are exempted from reporting and announcement requirements.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Proposed Annual Caps (when aggregated with the actual amount of transactions since 17 November 2017) exceed 0.1% but not 5%, the Framework Supply Agreements and the transactions contemplated thereunder is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.76(2)(a) of the Listing Rules.

GENERAL

The principal activities of the Group is research and development, production and sales of die steel, high speed steel, cutting tools and titanium alloy.

The principal activities of TG Tech is research and development, manufacture and sale of titanium-related products.

The principal activities of TG Tools is research and development, manufacture and sale of high speed steel and cutting tools.

The principal activities of Weijian Tools is research and development, manufacture and sale of bi-metal wire and related products.

DEFINITIONS

In this announcement, unless the context otherwise requires, the capitalised terms shall have the meanings as set out below:

Company Tiangong International Company Limited 天工國際有限公司*, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange

Connected person(s) has the meaning ascribed to it under the Listing Rules

Director(s)	director(s) of the Company
Framework HSS Coil Supply Agreement	the framework supply agreement entered into between TG Tools and Weijian Tools on 16 April 2018 in relation to the supply of the High Speed Steel coil
Framework Supply Agreements	the Framework HSS Coil Supply Agreement and the Framework Titanium Coil Supply Agreement
Framework Titanium Coil Supply Agreement	the framework supply agreement entered into between TG Tech and Weijian Tools on 16 April 2018 in relation to the supply of the industrial titanium coil
Group	the Company and its subsidiaries
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
PRC	the People's Republic of China and for the purpose of this announcement, excludes Taiwan, Hong Kong and Macao Special Administrative Region of the PRC
Proposed Annual Caps	the Proposed HSS Coil Annual Cap and the Proposed Titanium Coil Annual Cap
Proposed HSS Coil Annual Cap	the proposed maximum annual amount of the consideration under the Framework HSS Coil Supply Agreement payable by Weijian Tools to TG Tools for the year 2018
Proposed Titanium Coil Annual Cap	the proposed maximum annual amount of the consideration under the Framework Titanium Coil Supply Agreement payable by Weijian Tools to TG Tech for the year 2018
Stock Exchange	The Stock Exchange of Hong Kong Limited
Substantial shareholder	has the meaning ascribed to it under the Listing Rules
TG Tech	江蘇天工科技股份有限公司 (Jiangsu Tiangong Technology Co., Ltd.#), a company established in the PRC with limited liability

TG Tools	江苏天工工具有限公司 (Jiangsu Tiangong Tools Co., Ltd.#), a company established in the PRC with limited liability
Weijian Tools	江蘇偉建工具科技有限公司 (Jiangsu Weijian Tools Technology Co., Ltd.#), a company established in the PRC with limited liability
RMB	the legal currency of the PRC
USD	the legal currency of the United States of America
%	per cent.

** for identification purpose only, Chinese name is not the official name of the Company*

for identification purpose only, English name is not the official name of the entity

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

Hong Kong, 16 April 2018

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

Executive Directors: ZHU Xiaokun, WU Suojun, YAN Ronghua and JIANG Guangqing

Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and WANG Xuesong