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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)

CONNECTED TRANSACTION
ACQUISITION OF FIXED ASSETS AND INVENTORIES IN
RELATION TO TITANIUM WIRE PRODUCTION
AND
TENANCY AGREEMENT

ASSETS TRANSFER AGREEMENT

On 4 December 2019, TG Tech (a subsidiary of the Company), as purchaser, entered into the Assets Transfer Agreement, pursuant to which TG Tech would acquire the Titanium Assets from Weijian Tools for a consideration of RMB21,529,730.20 (equivalent to approximately HK\$23.99 million). The consideration will be satisfied in cash by internal resources of TG Tech. The consideration was arrived at after arm's length negotiations between the parties with reference to value of the Titanium Assets set out in the Valuation Report prepared by the Valuer commissioned by TG Tech net of the value of the inventories sold by Weijian Tools in between the Valuation Date and signing date of the Assets Transfer Agreement.

TENANCY AGREEMENT

On 4 December 2019, TG Tech and Weijian Tools entered into the Tenancy Agreement in respect of the lease of the Premises for a term commencing from 4 December 2019 to 30 November 2020.

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 Assets Transfer Agreement, Tenancy Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The lease term of the Tenancy Agreement is of 12 months or less and the Tenancy Agreement does not contain any purchase options, the Group has elected to apply the recognition exemption under IFRS 16 and will not recognise the Tenancy as a right-of-use asset. Instead, the Group recognises the lease payments associated with the Tenancy Agreement on a straight-line basis over the lease term which is approximately RMB672,361.80 in total and does not constitute a discloseable transaction under Chapter 14 of the Listing Rules.

As the highest of all applicable percentage ratios in respect of the Acquisition and Tenancy, on an aggregated basis, is more than 0.1% but less than 5%, the Acquisition and Tenancy are subject to announcement requirements but exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

The board of Directors is pleased to announce that on 4 December 2019, TG Tech and Weijian Tools entered into the Assets Transfer Agreement, pursuant to which Weijian Tools agreed to transfer the Titanium Assets to TG Tech at a consideration of RMB21,529,730.20.

ASSETS TRANSFER AGREEMENT

Parties

Purchaser: TG Tech, an indirectly-owned subsidiary of the Company

Vendor: Weijian Tools

Weijian Tools is a company owned as to 75% by Mr. Zhu Zefeng, a substantial shareholder holding approximately 24.04% of the issued share capital of the Company and the chief investment officer of the Company. Mr. Zhu Zefeng, is the son of Mr. Zhu, the chairman, an executive Director and a substantial shareholder of the Company and a connected person of the Company.

Subject Matter

Pursuant to the Assets Transfer Agreement, Weijian Tools agreed to transfer and TG Tech agreed to acquire the Titanium Assets, which comprises of certain fixed assets and inventories in relation to the production of titanium wire.

According to the Valuation Report, the book value and appraised value (as at Valuation Date) of the Titanium Assets under the Assets Transfer Agreement were approximately RMB18.80 million and RMB22.42 million, respectively.

The aggregated original acquisition cost of the Titanium Assets paid by the Weijian Tools was approximately RMB19.26 million.

Consideration and payment terms

The consideration was determined with reference to the appraised value of the Titanium Asset provided by the Valuer as of Valuation Date (which is RMB22.42 million (inclusive of the 13% value-added-tax) (equivalent to approximately HK\$24.98 million)) net of the value of the inventories sold by Weijian Tools in between the Valuation Date and signing date of the Assets Transfer Agreement (which is RMB894,862.37 (equivalent to approximately HK\$996,917)).

The consideration, RMB 21,529,730.20 (inclusive of the 13% value-added-tax) (equivalent to approximately HK\$23.99 million), shall be payable by TG Tech in one lump sum via bank transfer within 30 days after the transfer of the Titanium Assets by Weijian Tools to TG Tech and will be satisfied in cash by internal resources of TG Tech.

Completion

Weijian Tools shall deliver the Titanium Assets together with the related ownership documents such as rights certificates and invoices to TG Tech on the Effective Date.

TERMINATION OF CONTINUING CONNECTED TRANSACTIONS

The current framework supply agreement entered into between TG Tech and Weijian Tools on 29 April 2019 in relation to the supply of the titanium coil will be terminated upon the signing of the Assets Transfer Agreement while the supply of other products under framework supply agreement will remain unaffected. For further details please refer to the Company's announcement dated 29 April 2019.

TENANCY AGREEMENT

On 4 December 2019, TG Tech and Weijian Tools entered into the Tenancy Agreement in respect of the Premises and the principal terms of which are set out below:

Parties:	TG Tech as tenant Weijian Tools as landlord
Premises:	Part of the factory located at No. 88-8, extension section of Huayang West Road in Jurong Economic Development District (句容市經濟開發區華陽西路延伸段 88-8號)
Gross Floor Area	Approximately 5,093.65 square meter
Term:	4 December 2019 to 30 November 2020
Rent:	RMB 56,030.15 per month (exclusive of value-added-tax and utility charges such as water, electricity, gas and telecommunication charges) payable within 10 days after the value-added-tax invoice issued by Weijian Tools on each month.
Use of Premises:	For industrial purpose

REASONS AND BENEFIT FOR ENTERING INTO THE ASSETS TRANSFER AGREEMENT AND THE TENANCY AGREEMENT

Assets Transfer Agreement

The titanium-alloy segment has been a growing segment among the Group's products. In the first half of 2019, the overall sales volume of titanium-alloy products increased by 22.4% and the average selling price also increased by 10.8%.

The overall gross profit margin of titanium wire production reached a reasonable level of 18% in the first nine months of 2019. In addition, titanium wire has a higher added value. Its average selling price is about 40% higher than the Group's existing titanium products. In order for the Group to provide more comprehensive product coverage as a downstream extension in titanium segment, it is a suitable time to acquire the mature production line.

In view of the positive outlook, the Directors believe that the Acquisition will further enhance the Group's production capacity in titanium wire related products which will further promote the growth of the said business segment and is therefore in the interest of the Group and the shareholders of the Company as a whole.

The consideration was arrived at after arm's length negotiations between the parties with reference to Valuation Report of the Titanium Assets prepared by the Valuer commissioned by TG Tech net of the value of the inventories sold by Weijian Tools in between the

Valuation Date and the signing date of the Assets Transfer Agreement. The Titanium Assets were valued at RMB22.42 million by the Valuer as at Valuation Date. The value of the inventories sold by Weijian tools in between Valuation Date and the signing date of the Assets Transfer Agreement was RMB894,862.37.

Tenancy Agreement

Before the Acquisition, Weijian Tools has been using the Premises for the production of titanium wires for around 2 years. The Directors are of the view that it is beneficial for the Group to enter into the Tenancy Agreement as the location of the Premises is suitable to conduct the intended business activities (i.e. the production of titanium wire) and the Group will be able to avoid relocation costs by staying at such Premises.

The terms of the Tenancy Agreement are arrived at after arm's length negotiation and are on normal commercial terms. The rental of the Tenancy Agreement was determined with reference to the prevailing market rental of similar properties in the nearby locations. The rental of the Tenancy Agreement will be settled over the term on monthly instalments out of the internal financial resources of TG Tech.

Directors' view on the Assets Transfer Agreement and the Tenancy Agreement

The Directors (including independent non-executive Directors) are of the view that the transactions contemplated under the Assets Transfer Agreement and the Tenancy Agreement are on normal commercial terms, and the terms contained therein are fair and reasonable and in the best interests of the Company and its shareholders as a whole.

Mr. Zhu Zefeng is the son of Mr. Zhu, the chairman and an executive director of the Company. Save for Mr. Zhu, none of the Directors has or is deemed to have any material interest, direct or indirect, in the resolutions approving the entry into the Assets Transfer Agreement and the Tenancy Agreement and therefore none of the Directors were required to abstain from voting on the resolutions in relation to entry into the Assets Transfer Agreement and the Tenancy Agreement.

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 Assets Transfer Agreement, Tenancy Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The lease term of the Tenancy Agreement is of 12 months or less and the Tenancy Agreement does not contain any purchase options, the Group has elected to apply the recognition exemption under IFRS 16 and will not recognise the Tenancy as a right-of-use asset. Instead, the Group recognises the lease payments associated with the Tenancy Agreement on a straight-line basis over the lease term which is approximately RMB672,361.80 in total and does not constitute a discloseable transaction under Chapter

14 of the Listing Rules.

As the highest of all applicable percentage ratios in respect of the Acquisition and Tenancy, on an aggregated basis, is more than 0.1% but less than 5%, the Acquisition and Tenancy are subject to announcement requirements but exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

GENERAL

The Company is an investment holding company and its subsidiaries are engaged in the manufacturing and sales of die steel, high speed steel, cutting tools, titanium alloy and powder metallurgy products and the trading of general carbon steel products which were not within the Group's production scope.

TG Tech is engaged in the production and sales of high speed steel flat wire and titanium-alloy wire.

Weijian Tools is engaged in the production and sales of titanium-alloy products such as titanium tubes, titanium rods and titanium plates.

DEFINITION

Terms used in the announcement shall have the following meanings:

“Acquisition”	the acquisition of the Titanium Assets as contemplated under the Assets Transfer Agreement
“Assets Transfer Agreement”	the assets transfer agreement dated 4 December 2019, entered into between TG Tech, as the purchaser, and Weijian Tools, as the vendor
“Company”	Tiangong International Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Effective Date”	the effective date of the Assets Transfer Agreement, being the date on which the Assets Transfer Agreement is approved by board of directors of TG Tech
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“IFRS 16”	International Financial Reporting Standard 16 “Leases” issued by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Zhu”	Mr. Zhu Xiaokun, the Chairman, an executive Director and a substantial shareholder of the Company
“PRC”	the People's Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region and Taiwan
“Premises”	part of No. 88-8, extension section of Huayang West Road in Jurong Economic Development District with a gross floor area of approximately 5,093.65 square meter
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	a tenancy agreement entered into on 4 December 2019 between TG Tech as tenant and Weijian Tools as landlord in respect of the Premises, and “Tenancy” means tenancy thereunder
“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
“Titanium Assets”	the certain fixed assets and inventories in relation to the production of titanium wire
“Valuation Date”	31 October 2019
“Valuation Report”	the valuation report prepared by the Valuer in respect of the Titanium Assets for the purpose of the Acquisition
“Valuer”	北京中同華資產評估有限公司 (Beijing China Alliance Appraisal Co., Ltd.*)
“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

Note: For information purpose only, the translation of RMB to HK\$ in this announcement is based at the rate of RMB0.89763 to HK\$1.00.

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

Hong Kong, 4 December 2019

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

** For identification purpose*