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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 EQUITY INTEREST TRANSFER AGREEMENT**

#### **EQUITY INTEREST TRANSFER AGREEMENT**

On 13 November 2020, TG Tools (a wholly-owned subsidiary of the Company, as purchaser) entered into the Equity Interest Transfer Agreement, pursuant to which TG Tools would acquire the entire equity interest of Weijian Tools from Smart Rich and Qianjia Investment at the total consideration of RMB108,695,500 (equivalent to approximately HK\$127,151,547).

The consideration will be satisfied in cash by internal resources of TG Tools. The consideration was arrived at after arm's length negotiations between the parties with reference to the appraised value of Weijian Tools (as at the Valuation Date) set out in the Valuation Report prepared by the Valuer commissioned by TG Tools.

#### **LISTING RULES IMPLICATIONS**

As Mr. Zhu Zefeng, a substantial shareholder of the Company, is the 100% owner of Smart Rich, the entering into of the Equity Interest Transfer Agreement with and the acquisition of 75% equity interest of Weijian Tools from Smart Rich thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the acquisition of the 25% equity interest of Weijian Tools from Qianjia Investment will be completed simultaneously with the acquisition of the 75% equity interest of Weijian Tools from Smart Rich, the acquisition of the entire issued share capital of Weijian Tools by TG Tools shall be aggregated. Further, such Transfer shall be aggregated with the Previous Asset Transfer which involved the acquisition of certain asset interest of Weijian Tools by TG Tech (a subsidiary of the Company) as announced on 4 December 2019 in accordance with Rules 14A.81 of the Listing Rules. In accordance with Rule 14A.76 of the Listing Rules, as the respective highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the acquisition of Smart Rich's 75% equity interest in Weijian Tools, the Transfer and the Transfer (aggregated with the Previous Asset Transfer) are more than 0.1% but less than 5%, the Transfer is only subject to the 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 13 November 2020, TG Tools, a wholly-owned subsidiary of the Company entered into the Equity Interest Transfer Agreement, pursuant to which TG Tools would acquire the entire equity interest of Weijian Tools from Smart Rich and Qianjia Investment at a total consideration of RMB108,695,500 (equivalent to approximately HK\$127,151,547).

## **THE EQUITY INTEREST TRANSFER AGREEMENT**

Date: 13 November 2020

### **Parties**

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

Vendors: Smart Rich and Qianjia Investment

Target: Weijian Tools

Weijian Tools is a company owned as to 75% by Smart Rich which is in turn wholly-owned by Mr. Zhu Zefeng, a substantial shareholder holding approximately 25.76% 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.

The remaining 25% interest of Weijian Tools is directly held by Qianjia Investment, a partnership established in the PRC and is owned as to 55.6% by Mr. Wu Weizhong (吳偉中) and 44.4% Mr. Wu Jianxing (吳建興) as of the date of this announcement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Wu Weizhong and Mr. Wu Jianxin are the ultimate beneficial owners of the remaining 25% interest of Weijian Tools and are third parties independent of the Company and the connected persons of the Company.

## Subject Matter

Smart Rich and Qianjia Investment agreed to transfer their entire respective 75% and 25% equity interest in Weijian Tools and TG Tools agreed to acquire such equity interests at a total consideration of RMB108,695,500 (equivalent to approximately HK\$127,151,547).

According to the Valuation Report, the book value and appraised value (as at Valuation Date) of Weijian Tools were approximately RMB64,952,400 (equivalent to approximately HK\$75,981,049) and RMB108,695,500 (equivalent to approximately HK\$127,151,547), respectively, representing an appreciation of approximately RMB43,743,100 (appreciation rate of 67.35%). This is mainly due to the increase in appraisal valuation on the land use rights and plants and buildings and equipment:

### *Land use rights*

The book value and appraised value of Weijian Tools' land use rights as of the Valuation Date are approximately RMB24,259,675.64 and RMB51,842,280.00, respectively, representing an appreciation of RMB27,582,604.36 (appreciation rate of 113.70%). The land use rights are located in the Economic Development Area, Jurong City, Jiangsu Province (江蘇省句容市經濟開發區) and were acquired by Weijian Tools 4 to 6 years ago. In providing the valuation of the land use rights, the Valuer has considered various factors including traffic conditions, infrastructures, useful life and the development of such land. As the supply of available land in the vicinity is rather limited, the value of the land use rights has shown a significant appreciation over the period of time since their acquisitions.

### *Plants and buildings and equipment*

The book value and appraised value of Weijian Tools' plants and buildings as of the Valuation Date are approximately RMB21,814,194.12 and RMB31,896,693.00, respectively, representing an appreciation of RMB10,082,498.88 (appreciation rate of 46.22%). The book value and appraised value of Weijian Tools' equipment (which mainly comprises of machinery equipment and electronic equipment) as of the Valuation Date are approximately RMB17,990,254.02 and RMB21,294,671.00, respectively, representing an appreciation of RMB3,304,416.98 (appreciation rate of 18.37%).

Both of the Financial Report and the Valuation Report adopted a straight-line depreciation method over the estimated useful lives of the plants and buildings and equipment. The appreciation is mainly due to a longer useful lives adopted by the Valuation Report compared with that of the Financial Report. The Valuation Report adopted a useful live of 50 to 60 years for plants and buildings based on the requirements promulgated by the Ministry of Constructions of the PRC whereas the Financial Report adopted the useful live of 20 years. The Valuation Report adopted useful lives of 12 years and 8 years for machinery equipment and electronic equipment, respectively; whereas the Financial Report adopted useful lives of 10 years and 5 years for machinery equipment and electronic equipment, respectively.

## **Consideration**

The consideration was determined with reference to Weijian Tool's appraised net asset value of RMB108,695,500.

Given capital contribution of HK\$6.4856 million (equivalent to RMB5.9242 million as at the Valuation Date) has not yet been paid up by Qianjia Investment in respect of its equity interest in Weijian Tools, the aggregate consideration of the Transfer shall be apportioned in accordance with their respective proportions of the actual capital contribution made by the Vendors, the breakdown of which are as follows:

1. the consideration for the transfer of Smart Rich's equity interest (fully paid) in Weijian Tools shall be RMB90,554,221 (equivalent to approximately HK\$105,929,954); and
2. the consideration for the transfer of Qianjia Investment's equity interest (partly paid) in Weijian Tools shall be RMB18,141,279 (equivalent to approximately HK\$21,221,593).

TG Tools shall be responsible for the Qianjia Investment's unpaid capital contribution of HK\$6.4856 million.

## **Payment Terms**

The consideration shall be payable in two instalments conditional upon the fulfilment of certain deliverables in each transaction phrase as specified below:

### *First Instalment*

Payable within thirty (30) business days upon the fulfilment of the following conditions precedent:

1. the truthfulness, accuracy, completeness of the representations and warranties provided under the Equity Interest Transfer Agreement remain unchanged and there are no misleading statements contained therein from the date of the Equity Interest Transfer Agreement till the actual payment date of this first instalment;
2. the delivery of all duly executed transaction documents in relation to the Transfer (including but not limited to the Equity Interest Transfer Agreement, amended articles of association of Weijian Tools and the Weijian Tools' shareholders' resolutions approving the Transfer) by the Vendors; and

3. the Vendors having obtained and/or procured Weijian Tools to obtain all the necessary approvals, consents or waivers required for the Transfer (including but not limited to the approval by Weijian Tool's shareholders; the resignations of all current directors of Weijian Tools are completed, establishment of the position of executive Directors which shall be assumed by the person nominated by TG Tools; the delivery of the duly signed resolutions by the Vendors to TG Tools on or before the Completion in respect of the approval on the establishment of the position of executive Directors and the appointments of such executive Directors; the resignation of the current general managers of Weijian Tools and the appointments of the new general managers nominated by TG Tools are completed; and the waivers granted by Weijian Tools' shareholders of any rights that may exist under any applicable PRC laws, articles of association, agreements or contracts in relation to the Transfer).

30% of the Smart Rich Consideration (equivalent to approximately RMB27,166,266 (equivalent to approximately HK\$31,778,986)) and 30% of Qianjia Investment Consideration (equivalent to approximately RMB5,442,384 (equivalent to approximately HK\$6,366,478)) shall be payable by TG Tools in one lump sum to the respective designated bank accounts of Smart Rich and Qianjia Investment.

#### *Second Instalment*

Payable within thirty (30) business days after Completion Date:

70% of the Smart Rich Consideration (equivalent to approximately RMB63,387,955 (equivalent to approximately HK\$74,150,968)) and 70% of Qianjia Investment Consideration (equivalent to approximately RMB12,698,895 (equivalent to approximately HK\$14,855,115)) shall be payable by TG Tools in one lump sum to the respective designated bank accounts of Smart Rich and Qianjia Investment; and

any tax payable by the Smart Rich to the relevant tax authorities in respect of the Transfer will be withheld by TG Tools (as purchaser) as required by the relevant PRC regulations.

The consideration of the Transfer will be funded by TG Tools' internal resources.

#### **Completion**

Within fifteen (15) business days of the payment of the first instalment, the Vendors shall procure Weijian Tools to complete the registration of changes, the registration of change of directors and the registration of change of general managers with relevant authorities and the amendments of Weijian Tools' articles of association in relation to the Transfer and provide TG Tools with documents certified by Weijian Tools, including but not limited to the revised articles of association, filings in relation to the registration of changes and the certificate of business registration.

## INFORMATION ON WEIJIAN TOOLS

Weijian Tools is principally engaged in the production and sales of high speed steel wire.

The key financial information of Weijian Tools is as follows (in RMB):

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
Turnover	60,344,000	70,102,600
Profit before taxation	7,660,100	3,212,000
Profit after taxation	6,871,900	2,713,700
	<b>As at 31 December 2019</b>	<b>As at 30 June 2020</b>
Total Assets	160,859,400	176,907,600
Net Assets	68,616,700	64,952,400

Weijian Tools was established with a total registered capital of HK\$65 million. Smart Rich and Qianjia Investment agreed to subscribe for registered capital of Weijian Tools at HK\$48.75 million (equivalent to 75% of equity interest of Weijian Tools) and HK\$16.25 million (equivalent to 25% of equity interest of Weijian Tools) respectively. As of the date of the Equity Interest Transfer Agreement, Smart Rich's capital contribution has been fully paid up and Qianjia Investment has made a capital contribution of HK\$9.7644 million.

## REASONS AND BENEFIT FOR ENTERING INTO THE EQUITY INTEREST TRANSFER AGREEMENT

The Company has a long established business relationship with Weijian Tools. Since 2015, the Company has been the supplier of certain raw materials to Weijian Tools. Throughout the years of business cooperation with Weijian Tools, the Directors have developed a good understanding of Weijian Tools' business. Further, in line with the Group's strategy of expanding through vertical integration, the Directors believe that the Transfer would create synergies between the Group and Weijian Tools by eliminating the competitions.

In view of the above, the Directors believe that the Transfer will further promote the growth of the Group's business and profitability 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 the Valuation Report prepared by the Valuer commissioned by TG Tools and capital contribution made by Smart Rich and Qianjia Investment at as the date of the Equity Interest Transfer Agreement. The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Equity Interest Transfer 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 a substantial shareholder of the Company and 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 Equity Interest Transfer Agreement and therefore, save for Mr. Zhu, none of the Directors were required to abstain from voting on the resolutions in relation to entry into the Equity Interest Transfer Agreement.

## **FINANCIAL EFFECT OF THE TRANSFER**

Upon the completion of the Transfer, Weijian Tools will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into and reflected in the financial statements of the Group accordingly.

## **LISTING RULES IMPLICATIONS**

As Mr. Zhu Zefeng, a substantial shareholder of the Company, is the 100% owner of Smart Rich, the entering into of the Equity Interest Transfer Agreement with and the acquisition of 75% equity interest of Weijian Tools from Smart Rich thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the acquisition of the 25% equity interest of Weijian Tools from Qianjia Investment will be completed simultaneously with the acquisition of the 75% equity interest of Weijian Tools from Smart Rich, the acquisition of the entire issued share capital of Weijian Tools by TG Tools shall be aggregated. Further, such Transfer shall be aggregated with the Previous Asset Transfer which involved the acquisition of certain asset interest of Weijian Tools by TG Tech (a subsidiary of the Company) as announced on 4 December 2019 in accordance with Rules 14A.81 of the Listing Rules. In accordance with Rule 14A.76 of the Listing Rules, as the respective highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the acquisition of Smart Rich's 75% equity interest in Weijian Tools, the Transfer and the Transfer (aggregated with the Previous Asset Transfer) are more than 0.1% but less than 5%, the Transfer is only subject to the announcement requirements but exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

## **INFORMATION ON THE COMPANY AND THE PARTIES TO THE EQUITY INTEREST TRANSFER AGREEMENT**

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 Tools is principally engaged in the manufacture and sale of die steel, high speed steel and cutting tools.

Smart Rich is an investment holding company.

Qianjia Investment is principally engaged in businesses of investment, consulting services, tool manufacturing, sales of metal materials, self-management and agency of import and export on certain kinds of commodities and technologies.

## DEFINITION

Terms used in the announcement shall have the following meanings:

“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
“Completion Date”	the date on which the registration of changes, the registration of change of directors and the registration of change of general managers with the relevant authorities and the amendments of Weijian Tools’ articles of association in relation to the Transfer are completed
“Director(s)”	the director(s) of the Company
“Equity Interest Transfer Agreement”	the equity interest transfer agreement dated 13 November 2020, entered into between TG Tools, as the purchaser, and Smart Rich and Weijian Tools, as the vendors
“Financial Report”	Weijian Tools’ financial statements for the half year period ended 1 January 2020 to 30 June 2020
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Mr. Zhu”	Mr. Zhu Xiaokun, the Chairman, an executive Director and a substantial shareholder of the Company
“PBOC”	The People’s Bank of China
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Previous Asset Transfer”	the transfer of Titanium Assets from Weijian Tools to TG Tech pursuant to the asset transfer agreement dated 4 December 2019
“Qianjia Investment”	Dangyang City Qianjia Investment Partnership* (丹陽市乾嘉投資合夥企業), a partnership established in the PRC and is owned as to 55.6% by Mr. Wu Weizhong (吳偉中) and 44.4% Mr. Wu Jianxing (吳建興) as of the date of this announcement

“Qianjia Investment Consideration”	RMB18,141,279, the consideration payable by TG Tools as purchaser to Qianjia Investment as vendor for its equity interest in Weijian Tools
“RMB”	Renminbi, the lawful currency of the PRC
“Smart Rich”	Smart Rich Industrial Limited (駿發實業有限公司), a company incorporated in Hong Kong with limited liability
“Smart Rich Consideration”	RMB90,554,221, the consideration payable by TG Tools as purchaser to Smart Rich as vendor for its equity interest in Weijian Tools
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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”	江蘇天工工具有限公司 (Jiangsu Tiangong Tools Co. Ltd*), a company established in the PRC with limited liability
“Titanium Assets”	Certain fixed assets and inventories in relation to the production of titanium wire
“Transfer”	the transfer of equity interests in Weijian Tools as contemplated under the Equity Interest Transfer Agreement
“Valuation Date”	30 June 2020
“Valuation Report”	the valuation report prepared by the Valuer in respect of Weijian Tools for the purpose of the Transfer dated 28 October 2020
“Valuer”	江蘇中恒信資產評估有限公司 (Jiangsu Zhonghengxin Assets Appraisal Co., Ltd.*), a valuer commissioned by TG Tools
“Vendors”	Smart Rich and Qianjia Investment
“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 RMB0.85485 to HK\$1.00.

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

Hong Kong, 13 November 2020

*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*