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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 19 August 2022, TG Precision (a wholly-owned subsidiary of the Company, as purchaser) entered into the Equity Interest Transfer Agreement, pursuant to which TG Precision would acquire the entire equity interest of Tianguan from Smart Rich at a total consideration of RMB276,000,000 (equivalent to approximately HK\$318.1 million).

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

LISTING RULES IMPLICATIONS

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

In accordance with Rule 14A.76 of the Listing Rules, as the highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Transfer is more than 0.1% but less than 5%, the Transfer is only subject to announcement requirements but exempt from independent shareholders' approval pursuant to Rule 14A.76(2)(a) of the Listing Rules.

The board of Directors is pleased to announce that on 19 August 2022, TG Precision, a wholly-owned subsidiary of the Company entered into the Equity Interest Transfer Agreement, pursuant to which TG Precision would acquire the entire equity interest of Tianguan from Smart Rich at a total consideration of RMB276,000,000 (equivalent to approximately HK\$318.1 million).

THE EQUITY INTEREST TRANSFER AGREEMENT

Date: 19 August 2022

Parties

Purchaser/Transferee: TG Precision, an indirectly wholly-owned subsidiary of the Company

Vendor/Transferor: Smart Rich

Smart Rich is wholly-owned by Mr. Zhu Zefeng, a substantial shareholder holding approximately 24.23% of the issued share capital of the Company and the chief executive officer of the Company and the chief investment officer of the Group. Mr. Zhu Zefeng, is the son of Mr. Zhu, the chairman, an executive Director and a substantial shareholder of the Company.

The Transfer

Smart Rich agreed to transfer its entire 100% equity interest in Tianguan and TG Precision agreed to acquire such equity interests at a total consideration of RMB276,000,000 (equivalent to approximately HK\$318.1 million).

According to the Valuation Report, the book value and appraised value (as at the Valuation Date) of Tianguan were approximately RMB112,675,200 (equivalent to approximately HK\$129.9 million) and RMB276,000,000 (equivalent to approximately HK\$318.1 million), respectively.

Consideration

The consideration was determined with reference to Tianguan's appraised value of RMB276,000,000.

Conditions Precedent

The completion of the Transfer is subject to the fulfilment of the conditions precedent set out below:

- (a) the representations and warranties provided by the Parties under Equity Interest Transfer Agreement remain true, accurate, complete and not misleading from the date of the Equity Interest Transfer Agreement till the Second Installment Date;

- (b) Smart Rich (as the transferor) has delivered to TG Precision (as the transferee) the Equity Interest Transfer Agreement duly signed by the Parties, the revised articles of association of Tianguan, Tianguan's shareholder's resolution approving the Transfer and any other documents as required for the Transfer or at the request of TG Precision;
- (c) all of the necessary approval(s), consent(s) and waiver(s) have been obtained by Tianguan in relation to the Transfer, including but not limited to:
 - (i) the approval of the Transfer by Tianguan's shareholders;
 - (ii) the delivery of the duly signed document by Smart Rich to TG Precision concerning the approval of the appointment of the executive director(s) of Tianguan as nominated by TG Precision on or before the Completion Date;
- (d) the completion of the registrations in relation to the Transfer (i.e. the registration of the industrial and commercial changes, the registration of changes of directors and the registration of the revised articles of association); and
- (e) the completion of all the necessary foreign exchange registration(s) and/or filing(s) by Tianguan in relation to the Transfer.

Payment Terms

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

Subject to the fulfilment of the conditions precedent as mentioned above, the consideration shall be paid in the following manner:

- (a) RMB82,800,000 shall be paid to Smart Rich by TG Precision within thirty (30) business days upon the fulfilment of the conditions precedent;
- (b) the Remaining Consideration^(Note) shall be paid to Smart Rich by TG Precision within sixty (60) business days upon the fulfillment of the conditions precedent.

Note: The withholding tax and other tax incurred in the PRC in relation to the Transfer and payable by Smart Rich shall be withheld, declared and paid by TG Precision to the relevant tax authorities.

INFORMATION ON TIANGUAN

Tianguan is principally engaged in the production and sales of precision mechanical parts, hardware tools (such as powder metallurgy taps) and accessories.

The key financial information of Tianguan is as follows (in RMB'000):

	For the year ended 31 December 2020 (unaudited) <i>(Note 1)</i>	For the year ended 31 December 2021 (unaudited) <i>(Note 1)</i>	For the five months ended 31 May 2022 (unaudited)
Turnover	0.00	0.00	0.00
Profit before taxation <i>(Note 2)</i>	4,357.34	12,325.52	771.79
Profit after taxation <i>(Note 2)</i>	4,357.34	9,244.14	578.84
	As at 31 December 2020 (unaudited) <i>(Note 1)</i>	As at 31 December 2021 (unaudited) <i>(Note 1)</i>	As at 31 May 2022 (unaudited)
Total Assets	30,412.96	149,965.08	184,232.49
Net Assets	2,852.16	62,096.28	112,675.14

Note 1: This is based on the unaudited management accounts of Tianguan as Tianguan only commenced its operations in June 2022 and is exempted from the audit requirements for the financial year ended 31 December 2020 and 31 December 2021.

Note 2: Tianguan received government subsidies of RMB5,000,000, RMB12,946,880 and RMB1,826,300 for the financial year ended 31 December 2020 and 31 December 2021 and the five months ended 31 May 2022, respectively for the introduction of foreign investments and investment in large-scale high-tech production in the development zone.

Smart Rich acquired the entire equity interests of Tianguan at a nominal consideration of RMB2 on or around March 2021. Subsequent to the acquisition, Smart Rich made an aggregate payment of RMB100,000,000 as the registered capital of Tianguan. To the best knowledge and belief of the Directors having made all reasonable enquiry, there is no other acquisition costs involved for the entire equity interests in Tianguan.

As of the date of this announcement, Tianguan has a registered capital of RMB100,000,000 which has been fully paid up by Smart Rich.

REASONS AND BENEFIT FOR ENTERING INTO THE EQUITY INTEREST TRANSFER AGREEMENT

Since Tianguan completed the set-up of its factory and commenced its production on or around June 2022 (with an annual production capacity of approximately 5 million pieces of powder metallurgy taps), the Company has been the supplier of certain raw materials to Tianguan. As of the date of this announcement, the supply of certain raw materials to Tianguan by the Company constitutes de minimis continuing connected transactions and thus is fully exempted from shareholder's approval, annual review and all disclosure requirements for connected transactions under Rule 14A.76(1)(a) of the Listing Rules. Throughout the business cooperation with Tianguan, the Directors have developed a good understanding of Tianguan's business. One of the major products manufactured by Tianguan is powder metallurgy taps. This is a new type of high-end cutting tools which has been one of the key research and development focus of the Group. Compared with the traditional screw taps, powder metallurgy taps are more wear-resistant, have better anti-cracking performance and longer service life and are therefore suitable for high precision machining applications. A wider application of powder metallurgy taps in manufacturing industries has been seen in recent years because of its excellent performance and the Company expects the demand would continue to grow in the coming years in light of the recovery of the global manufacturing industries. The acquisition of Tianguan would allow the Company to expand the scope of products that can be offered to its customers and increase its market share in the cutting tools segment. Further, in line with the Group's strategy of upgrading its products, the Directors believe that the Transfer would create synergies between the Group and Tianguan.

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 Valuation Report prepared by the Valuer commissioned by TG Precision and capital contribution made by Smart Rich at as the date of Equity Interest Transfer Agreement. The Directors (including 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.

VALUATION

According to the Valuation Report, the market value of the entire equity interests of Tianguan as at the Valuation Date using the discounted cash flow approach of the income method amounted to RMB276,000,000. As the discounted cash flow method of the income approach was applied in the Valuation, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules and accordingly, the requirements under Rules 14A.68(7) and 14.62 of the Listing Rules are applicable.

Pursuant to Rule 14.62 of the Listing Rules, details of the principal assumptions (including the commercial assumptions) upon which the Profit Forecast is based are as follows:

General assumptions

1. *Transactional assumption*

It is assumed that all assets to be valued are in the process of transaction, and the Valuer makes estimation in a simulated market according to the transaction conditions of assets to be valued.

2. *Open market assumption*

It is assumed that with respect to the asset traded or to be traded in the market, the transacting parties are in equal position and both have opportunities and time to access sufficient market information so as to make a rational judgment on the function, purpose and transaction price of assets.

3. *Going-concern assumption:*

It is assumed that Tianguan will fully comply with all relevant laws and regulations and continue to operate as a going concern in the foreseeable future.

Special assumptions

1. The Valuation is premised on the specified valuation purpose stated in the Valuation Report.
2. It is assumed that there will be no major changes in the current laws and regulations and the macro-economic situation of the country, and that there will be no unforeseeable and significant changes on the external economic environment such as interest rate, exchange rate, tax base and tax rate, and policy-based fee collection.
3. It is assumed that the future operation and management team of Tianguan will remain dutiful and that the business scope and mode of Tianguan will be consistent with current direction under the current management mode and management level.

4. It is assumed that the business scope and mode of Tianguan will be consistent with current direction under the current management mode and management level, regardless of future changes in the operating ability that may result from management and business strategy adjustments.
5. Based on the current management style and management standard, there will be no force majeure and unforeseeable factors that may have a material adverse impact on Tianguan.
6. The general information and financial information provided by Tianguan and TG Precision are true, accurate and complete.
7. The financial reports and transaction data of comparable companies relied on by the Valuer are true and reliable.
8. The scope of Valuation is only based on the declaration form for valuation provided by TG Precision and Tianguan, without taking into account contingent assets and contingent liabilities not covered by the list provided by TG Precision and Tianguan.
9. Tianguan could obtain net cashflow evenly throughout the valuation period.

The board of Directors has reviewed the principal assumptions upon which the Profit Forecast was based on and are of the view that the Profit Forecast was made after due care and enquiry.

KPMG, the reporting accountant of the Company, has also reported on the calculations of the discounted future cash flows upon which the Valuation prepared by the Valuer was based on. The discounted future cash flows do not involved the adoption of accounting policies.

A letter from the board of Directors and a letter from KPMG are included in the appendices to this announcement for the purpose of Rules 14A.68(7) and 14.62 of the Listing Rules.

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

Name	Qualification
KPMG	Certified Public Accountants
China Alliance Appraisal (Shanghai) Co., Ltd.* (中同華資產評估（上海）有限公司)	Independent professional valuer

To the best knowledge, information and belief of the board of Directors and having made all reasonable enquiries, the experts are third parties independent of the Group and its connected persons (as defined under the Listing Rules). As at the date of this announcement, each of the experts:

- (i) has given, and has not withdrawn, its written consent to the publication of this announcement that includes its letter and all references to its name in the form and context in which they appear; and
- (ii) does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any member of the Group.

FINANCIAL EFFECT OF THE TRANSFER

Upon the completion of the Transfer, Tianguan 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 by TG Precision with Smart Rich and the acquisition of 100% equity interest of Tianguan from Smart Rich thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.76 of the Listing Rules, as the highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Transfer is more than 0.1% but less than 5%, the Transfer is only subject to announcement requirements but exempt from independent shareholders' approval pursuant to Rule 14A.76(2)(a) 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 Precision is an indirect wholly-owned subsidiary of the Company and is principally engaged in the research and development, manufacturing and sales of cutting tools related products.

Smart Rich is an investment holding company wholly-owned by Mr. Zhu Zefeng.

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 the industrial and commercial changes in relation to the Transfer is completed
“Director(s)”	the director(s) of the Company
“Equity Interest Transfer Agreement”	the equity interest transfer agreement dated 19 August 2022, entered into between TG Precision and Smart Rich
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Parties”	the parties to the Equity Interest Transfer Agreement (i.e. Smart Rich and TG Precision)

“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region and Taiwan
“Profit Forecast”	a profit forecast for the purpose of Rule 14.61 of the Listing Rules, which the Valuation constitutes
“Remaining Consideration”	the remaining consideration payable to Smart Rich by TG Precision (i.e. the remaining balance of the total consideration of RMB276,000,000 after deducting (1) the RMB82,800,000 paid to Smart Rich and (2) the withholding tax and other tax incurred in the PRC in relation to the Transfer and payable by Smart Rich (including but not limited to stamp duties))
“RMB”	Renminbi, the lawful currency of the PRC
“Second Installment Date”	the date on which the Remaining Consideration is paid by TG Precision to Smart Rich as mentioned in the section headed “ <i>The Equity Interest Transfer Agreement – payment terms</i> ”
“Smart Rich”	Smart Rich Industrial Limited (駿發實業有限公司), a company incorporated in Hong Kong with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TG Precision”	江蘇天工精密工具有限公司 (Jiangsu Tiangong Precision Tools Co. Ltd*), a company established in the PRC with limited liability
“Tianguan”	江蘇天冠精密機械發展有限公司 (Jiangsu Tianguan Precision Machinery Development Co., Ltd.*), a company established in the PRC with limited liability
“Transfer”	the transfer of equity interests in Tianguan as contemplated under the Equity Interest Transfer Agreement
“Valuation”	the valuation of the entire equity interests of Tianguan as at the Valuation Date using the discounted cash flow method of the income approach prepared by the Valuer

“Valuation Date”	31 May 2022
“Valuation Report”	the valuation report prepared by the Valuer in respect of Tianguan for the purpose of the Transfer dated 18 July 2022
“Valuer”	中同華資產評估（上海）有限公司(China Alliance Appraisal (Shanghai) Co., Ltd.*), a valuer commissioned by TG Precision

Note: For information purpose only, the translation of RMB to HK\$ in this announcement is based at the rate of RMB0.86766 to HK\$1.00.

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

Hong Kong, 19 August 2022

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*

APPENDIX I – LETTER FROM THE BOARD OF DIRECTORS

19 August 2022

Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

We refer to the announcement of Tiangong International Company Limited (the “**Company**”) dated 19 August 2022 (the “**Announcement**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation Report dated 18 July 2022 issued by the Valuer regarding (i) the valuation of the entire equity interests in Tianguan as at the Valuation Date using the discounted cash flow method of the income approach, which constitutes a profit forecast as defined under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the letter dated 19 August 2022 from KPMG regarding whether the Profit Forecast, so far as the calculations are concerned, have been properly complied in all material respects in accordance with the bases and assumptions as set out in the Valuation Report. We have noted that the Profit Forecast in the Valuation are mathematically accurate and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

We hereby confirm that pursuant to the Valuation Report, the Profit Forecast has been made after due and careful enquiry of the board of Directors.

Yours faithfully,

For and on behalf of the Board
Tiangong International Company Limited
Zhu Xiaokun
Chairman

APPENDIX II – LETTER FROM KPMG

The following is the text of a report received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this announcement.



REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF 江蘇天冠精密機械發展有限公司 (JIANGSU TIANGUAN PRECISION MACHINERY DEVELOPMENT CO., LTD.*)

TO THE BOARD OF DIRECTORS OF TIANGONG INTERNATIONAL COMPANY LIMITED

We refer to the discounted future cash flows on which the business valuation (“**the Valuation**”) dated 18 July 2022 prepared by 中同華資產評估（上海）有限公司 (China Alliance Appraisal (Shanghai) Co., Ltd.*) in respect of the appraisal of the fair value of 江蘇天冠精密機械發展有限公司 (Jiangsu Tianguan Precision Machinery Development Co., Ltd.*) (“**the Target Company**”) as at 31 May 2022 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibilities

The directors of Tiangong International Company Limited (the “**Directors**”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

* For identification purpose only

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

19 August 2022