27 October 2017

To: the Independent Board Committee of
Tiangong International Company Limited

Dear Sirs,

CONDITIONAL VOLUNTARY GENERAL OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF SKY GREENFIELD INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES IN AND FOR CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF TIANGONG INTERNATIONAL COMPANY LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offers. Details of the Offers are set out in the Composite Document jointly issued by the Offeror and the Company dated 27 October 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified herein.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong, who have no direct or indirect interest in the Offers has been established by the Company in accordance with Rule 2.1 of the Takeovers Code to make recommendation to the Independent Shareholders and Independent Optionholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers. The Independent Board Committee has approved our appointment as the independent financial adviser to the Independent Board Committee in connection with the Offers. In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with independent advice as to whether the Offers are fair and reasonable and as to acceptance of the Offers.

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We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have also sought and received confirmation from the executive Directors and management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Offers, we have not considered the tax implications on the Independent Shareholders and the Independent Optionholders of the acceptance or non-acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Independent Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice with regard to the Offers, we have taken into account the following principal factors and reasons:

1. Terms and conditions of the Offers

1.1 The Share Offer

The Share Offer is being made by ABCI on behalf of the Offeror on the following basis:

(a) Shareholders accepting the Share Offer will receive the Share Offer Price of HK$0.90 in cash; and

(b) the Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Share Offer is subject to the satisfaction of the Conditions as described in the letter from ABCI contained in the Composite Document. In particular, the Share Offer is subject to valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and persons acting in concert with it holding at least 50% of the voting rights in the Company.

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions save that the Conditions relating to minimum level of acceptances as described above and non-occurrence of event which would make the Offers or the acquisition of any of the Shares under the Share Offer void, unenforceable, illegal or prohibit the implementation of the Offers cannot be waived.

1.2 The Option Offer

ABCI is making the Option Offer on behalf of the Offeror to the Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all the outstanding Options (whether vested or not) in exchange for cash on the following basis:

(a) In respect of Options with an exercise price of HK$1.78:

For cancellation of each such Option . . . . .HK$0.01 in cash

(b) In respect of Options with an exercise price of HK$0.60:

For cancellation of each such Option . . . . .HK$0.30 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced on the Closing Date.

1.3 Further terms of the Offers

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the letter from ABCI, the letter from the Board contained in the Composite Document and in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

2. Information of the Group

2.1 Principal activities

The Group is based in Zhenjiang City, Jiangsu Province, the PRC and is principally engaged in the production and sale of die steel ("**DS**"), high speed steel ("**HSS**"), cutting tools and titanium alloy. Its products are sold in both domestic and overseas markets. Apart from the aforesaid core businesses, the Group is also engaged in the trading of normal carbon steel products.

Set out below is the revenue breakdown of the Group by business segment for each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017:

	For the year ended 31 December						For the six months ended 30 June	
	2014		**2015**		**2016**		**2017**	
	(RMB' million)	%	*(RMB' million)*	%	*(RMB' million)*	%	*(RMB' million)*	%
DS	1,660	36.6	1,018	29.7	1,262	37.5	786	41.9
HSS	1,081	23.8	679	19.8	395	11.7	306	16.3
Cutting tools	550	12.1	515	15.0	528	15.6	232	12.4
Titanium alloy	133	2.9	173	5.1	234	6.9	84	4.5
Trading of goods	1,111	24.6	1,045	30.4	956	28.3	468	24.9
Total	4,536	100.0	3,429	100.0	3,376	100.0	1,877	100.0

Note: Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

DS

DS is manufactured with rare metals, namely molybdenum, chromium and vanadium, and is a type of high alloy specialised steel. DS is mainly used in die and mould casting for different manufacturing industries such as automotive, high-speed railway construction, aviation and plastic product manufacturing, as well as machining processing. Among the core businesses of the Group, this segment has made up the largest revenue contribution over the years. For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, revenue from this segment accounted for approximately 36.6%, 29.7%, 37.5% and 41.9% of the Group's total revenue respectively.

HSS

HSS is manufactured with rare metals including tungsten, molybdenum, chromium and vanadium, and is characterised by greater hardness, heat resistance and durability. These attributes make HSS suited to such applications as cutting tools and in the manufacturing of high-temperature bearings, high-temperature springs, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation, and electronics industries. The production processes for DS and HSS are similar.

Cutting tools

Cutting tools segment includes HSS and carbide cutting tools. The two main types of HSS cutting tools manufactured by the Group are twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production enables the Group to enjoy a significant cost advantage. The Group has also started the production of high-end carbide tools since 2016, which mainly comprised customised tools.

Titanium alloy

Titanium alloy is lighter, stronger and has higher corrosion resistance compared to aluminum alloy, with applications in aviation, marine engineering and the medical industries. Its production involves sponge titanium as well as various other rare metals. The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with a high entry barrier. Revenue of the titanium alloy segment continued to grow since its introduction by the Group in 2012 and started to record export sales in 2016.

Trading of goods

This segment involves the purchase and sale of normal carbon steel products which are not within the Group's production capacity. Despite its contribution to revenue, the profitability of this segment is slim.

2.2 *Financial results*

Set out below are the audited consolidated financial results of the Group for the three years ended 31 December 2014, 2015 and 2016, and the unaudited consolidated financial results for the six months ended 30 June 2016 and 2017 as extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*	*RMB' million*
Revenue	4,536	3,429	3,376	1,568	1,877
Cost of sales	(3,627)	(3,038)	(3,004)	(1,381)	(1,663)
Gross profit	909	391	372	187	214
Other income	27	19	76	7	6
Distribution expenses	(71)	(68)	(66)	(29)	(42)
Administrative expenses	(124)	(115)	(143)	(67)	(63)
Other expenses	(59)	(14)	(12)	(16)	(10)
Profit from operations	682	213	227	82	105
Finance income	9	9	9	6	3
Finance expenses	(151)	(149)	(113)	(60)	(59)
Net finance costs	(142)	(141)	(103)	(54)	(56)
Share of (losses)/profits of associates	(3)	6	8	4	(2)
Share of (losses)/profits of joint ventures	6	7	(1)	2	(1)
Profit before income tax	544	85	131	33	46
Income tax	(81)	(13)	(15)	(6)	(5)
Profit for the period	463	72	116	27	41
Attributable to:					
— Equity shareholders of the Company	463	73	111	26	39
— Non-controlling interests	(1)	(1)	5	1	2
	463	72	116	27	41

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
Gross profit margin	20.0%	11.4%	11.0%	11.9%	11.4%
Net profit margin	10.2%	2.1%	3.3%	1.7%	2.2%

Note: Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

*Financial year ended 31 December 2015 ("**FY2015**") versus financial year ended 31 December 2014 ("**FY2014**")*

In 2015, the slowdown of growth rate in gross domestic products and fixed assets investments had caused a slump in the steel consumption demand in the PRC. Meanwhile, the worsening of the excess capacity problem had intensified the imbalance between the supply and demand in the industry and exerted a downward price pressure on steel products. To cope with this situation, the PRC government devoted increasing efforts on removing the excess capacity and reducing the inventory level in the industry. Under such unfavorable business environment, the Group had recorded a drop in revenue by approximately RMB1,107 million or 24.4% from approximately RMB4,536 million for FY2014 to RMB3,429 million for FY2015 as a result of a decrease in domestic sales of the Group's major products (i.e. DS, HSS and cutting tools) by approximately RMB1,072 million caused by a general decline in domestic demand and selling prices for these products.

As the overseas market of the Group's DS, HSS and cutting tools products was also undergoing a recession, the Group experienced global price pressure in the export sales of these products. Despite such price pressure, with its prior efforts on expanding the overseas market, the Group was able to maintain the export sales of DS, HSS and cutting tools products at a level similar to that of the previous year. In addition, with the Group's commitment in offering a wider range of titanium and titanium alloys products, the Group had recorded a remarkable growth in revenue from the titanium alloy segment by approximately RMB41 million or 30.6% in FY2015.

Profit attributable to the equity shareholders of the Company decreased by approximately RMB391 million or 84.4% from approximately RMB463 million in FY2014 to RMB72 million in FY2015. Such decrease was principally due to the decrease in domestic sales of DS and HSS as mentioned above.

*Financial year ended 31 December 2016 ("**FY2016**") versus FY2015*

Revenue of the Group for FY2016 was approximately RMB3,376 million, representing a slight decrease of approximately 1.5% as compared with approximately RMB3,429 million for FY2015.

Revenue from domestic sales of DS increased by approximately 91.3% from approximately RMB334 in FY2015 to RMB639 million in FY2016 mainly because of the recovery in demand from domestic manufacturing industry which drove up the sales volume of the Group's DS products. However, the recovery of the overseas market was relatively slow, resulting in a decrease of approximately 8.9% in export revenue to approximately RMB624 million.

As the recession in global HSS market still persisted, the demand of HSS in both domestic and overseas markets was weak and the Group experienced price pressure globally. As a result, the domestic revenue and export revenue dropped by approximately 44.2% and 36.2% to approximately RMB263 million and RMB132 million respectively.

In view of the severe competition in the domestic cutting tools market, the Group sold its products at a more competitive price to stimulate sales volume and recorded an increase in domestic revenue of approximately 8.3% to approximately RMB202 million. The Group's export sales of cutting tools remained relatively stable. Export revenue only dropped slightly by approximately 0.8% to approximately RMB326 million.

The titanium alloy segment continued to grow rapidly during the year. Revenue of the segment recorded a significant increase of approximately 35.1% to RMB234 million, which was mainly attributable to the increase in sales volume. The Group also recorded its first export sales in the amount of approximately RMB0.5 million during the year.

Notwithstanding the slight decrease in total revenue, the Group managed to record an increase in profit attributable to the equity shareholders of the Company from approximately RMB73 million in FY2015 to RMB111 million in FY2016. Such increase was primarily due to (i) the increase in other income of approximately RMB57 million relating to increase in grants of approximately RMB29 million from the PRC government to the Group to reward its contribution to the local economy and encourage technology innovation, and the reversal of impairment loss on trade receivables of approximately RMB39 million; (ii) the decrease in finance costs of approximately RMB36 million after the repayment of bank loans; partially offset by (iii) the increase in administrative expenses of approximately RMB28 million resulting from the increase in staff costs incurred for incentivising the employees during the year.

*Six months ended 30 June 2017 ("**1H2017**") versus six months ended 30 June 2016 ("**1H2016**")*

In 2017, the domestic market for steel products had experienced a moderate recovery. Driven by an upward pricing trend in rare metals which the Group uses as raw materials, the average selling prices of DS and HSS products generally increased. In addition, the Group's strategic plan to penetrate the eastern and southern China markets coupled with the efforts of the government on removing excess capacity in the industry had enabled the Group to capture additional market share and acquire stronger bargaining power to price its products. As a result of the rebound of sales volume and increase in selling prices of the DS and HSS products, the domestic revenue from DS and HSS increased by approximately RMB275 million which led to an overall increase in revenue of the Group by approximately RMB309 million or 19.7% from approximately RMB1,568 million in 1H2016 to approximately RMB1,877 million in 1H2017.

Demand for DS products in the overseas market was relatively stable. As a result of the increase in average selling prices of the Group's DS products, an increase in export revenue of approximately RMB47 million or 15.1% to approximately RMB358 million was recorded. With an increase in number of customers, export revenue of HSS products also increased by approximately RMB29 million or 42.4% to approximately RMB97 million.

With the Group's competitive pricing strategy and the stable development of various manufacturing industries such as automobile and shipbuilding industries, domestic revenue from sale of cutting tools increased by approximately 28.3% to approximately RMB110 million. For overseas market, due to the shift of demand from HSS cutting tools to carbide tools, the Group commenced the production of high-end carbide tools in 2016. During this transitional period, the Group's export sales was affected, resulting in a decrease in export revenue by approximately 19.5% to approximately RMB122 million.

The Group adjusted its pricing strategy to price its titanium alloy products at a more profitable level. As a result of the adjustment, sales volume decreased and domestic revenue fell by approximately 16.8% to approximately RMB82 million. For overseas market, the Group started to export titanium alloy in the second half of 2016 and recorded export sales of approximately RMB2 million.

Profit attributable to the equity shareholders of the Company increased by approximately 50.0% from approximately RMB26 million in 1H2016 to approximately RMB39 million in 1H2017. The increase was mainly attributable to the rebound of sales volume and increase in average selling prices of the Group's DS and HSS products as explained above.

2.3 *Financial position*

Set out below is a summary of the financial position of the Group as at 31 December 2016 and 30 June 2017 as set out in the annual report and interim report of the Company:

	31 December 2016 *RMB' million* (audited)	30 June 2017 *RMB' million* (unaudited)
Non-current assets		
Property, plant and equipment	3,444	3,411
Lease prepayments	73	72
Goodwill	22	22
Interests in associates	46	50
Interest in joint ventures	25	25
Other financial assets	96	93
Deferred tax assets	30	34
	3,737	3,707
Current assets		
Trading securities	—	2
Inventories	1,902	1,999
Trade and other receivables	1,577	1,835
Pledged deposits	180	201
Time deposits	640	450
Cash and cash equivalents	260	295
	4,559	4,782
Current liabilities		
Interest-bearing borrowings	2,679	2,573
Trade and other payables	1,145	1,215
Current taxation	2	—
Deferred income	6	6
	3,831	3,795
Non-current liabilities		
Interest-bearing borrowings	210	417
Deferred income	44	40
Deferred tax liabilities	55	57
	309	514
Total equity attributable to equity shareholders of the Company	4,018	4,041
Non-controlling interests	138	139
Total Equity	4,155	4,180

Note: Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided.

As at 31 December 2016

As at 31 December 2016, the total assets of the Group amounted to approximately RMB8,296 million, which comprised principally (i) property, plant and equipment of approximately RMB3,444 million; (ii) inventories of approximately RMB1,902 million; (iii) trade and other receivables of approximately RMB1,577 million; and (iv) pledged deposits, time deposits and cash and cash equivalents of approximately RMB1,080 million.

Property, plant and equipment comprised principally plant and buildings of approximately RMB721 million, machinery of approximately RMB2,170 million and construction in progress related to plant, buildings and machinery of approximately RMB542 million. Inventories comprised principally (i) raw materials of approximately RMB35 million; (ii) work in progress of approximately RMB910 million; and (iii) finished goods of approximately RMB957 million.

Trade and other receivables amounted to approximately RMB1,577 million, of which approximately RMB1,368 million were trade and bills receivables (net of provision for doubtful debts of approximately RMB37 million). Customers are normally granted credit terms of 90 to 180 days depending on the creditworthiness of individual customers. Among the net trade and bills receivables, approximately RMB105 million had been outstanding for over six months. The table below sets out our analysis of the average collection day of the Group's trade and bills receivables for the three financial years ended 31 December 2014, 2015 and 2016:

	2014	**2015**	**2016**
Revenue for the year ended 31 December *(RMB' million)*	4,536	3,429	3,376
Outstanding amount of net trade and bills receivables as at 31 December *(RMB' million)*	1,986	1,670	1,368
Trade and bills receivables turnover ratio *(Note 1)*	2.64	1.88	2.22
Trade and bills receivables collection day *(Note 2)*	138	195	164

Notes:

1. *Trade and bills receivables turnover ratio is calculated by dividing revenue by the average balance of net trade and bills receivables of the year (i.e. average of the beginning balance and the closing balance).*

2. *Trade and bills receivables collection day is calculated by dividing 365 days by the net trade and bills receivables turnover ratio.*

As shown in the table above, the average trade and bills receivables collection day for the year ended 31 December 2014, 2015 and 2016 were 138 days, 195 days and 164 days respectively. After having discussed with the executive Directors and management of the Company, we understand that the increase in the receivable collection days in FY2015 was mainly due to the delay of certain customers in settling their trade balances under the worsening domestic business environment. In order to expedite the recovery of receivables, the Group had strengthened its credit control in approving sales and implemented tighter debt collection policy during FY2016, resulting in a decrease in the receivable collection days.

Total liabilities of the Group as at 31 December 2016 amounted to approximately RMB4,140 million, which comprised principally (i) interest-bearing borrowings of approximately RMB2,889 million; and (ii) trade and other payables of approximately RMB1,145 million. Out of the total borrowings, approximately RMB2,679 million were repayable within one year.

As at 30 June 2017

Plant and buildings of the Group increased from approximately RMB721 million to approximately RMB738 million as at 30 June 2017. Total assets of the Group as at 30 June 2017 increased by approximately RMB193 million from approximately RMB8,296 million as at 31 December 2016 to approximately RMB8,489 million as at 30 June 2017. Such increase was mainly attributable to the increase in trade and other receivables of approximately RMB258 million driven by the growth in sales in 1H2017 as mentioned above and the increase in inventory of approximately RMB97 million in anticipation of the growth in sales following the recovery in domestic demand and increase in penetration into the eastern and southern market, partially offset by the decrease in cash and cash equivalents of approximately RMB134 million which had been used for funding the capital expenditures incurred for the increase in production.

Total liabilities of the Group as at 30 June 2017 increased to approximately RMB4,309 million from RMB4,140 million as at 31 December 2016, which was mainly due to the drawdown of a new bank loan in June 2017 to refinance an existing bank loan due in July 2017.

3. Prospects of the Group

Since the Group mainly derived its sales in the PRC, the future business of the Group is largely dependent on the balance of demand and supply for specialised steel products and the national reform policies implemented in the PRC steel industry. As mentioned in the paragraph headed "Financial results" under the section headed "Information of the Group" above, the imbalance of demand and supply caused by excess capacity in the industry had adversely affected the business of the Group in the past years. To address such issue, the PRC government has taken measures to remove excess production capacity in the steel industry since 2013. Under such reform environment, many of the low-end steel manufacturers have been squeezed out of the market and other manufacturers which failed to maintain its profitability have decided to suspend operations. The PRC government further issued an opinion relating to the future development of the steel industry in early 2016, emphasising that it would continue to remove excess production capacity and encourage market participants to advance its technologies to meet the enhanced standards in the industry. Benefiting from the removal of the low-end manufacturers and the suspension of operations of certain manufacturers as a result of the policy reform, the Group was able to capture additional market share.

Based on our discussions with the executive Directors and management of the Company, we understand that to cope with government measures and to ensure that production is in compliance with the requirements, the Group has continued to enhance the standards of its production by strengthening the control on wastes emission and conducting safety inspections on the operational environment. Over the past years, the Group has also focused on advancing the technologies in cutting tool products and developing new products such as titanium composite plate. In 2016, the Group established a new research centre in Jurong City, Jiangsu Province. Such centre is expected to be put into full operation by the end of 2017. The Group intends to conduct research projects in the new centre in cooperation with various research institutes with respect to the development of certain "New Materials" which are specified in the "13th Five-Year Plan for National Economic and Social Development of the People's Republic of China" issued by the National Development and Reform Commission of the PRC and "China Manufacturing 2025" issued by the State Council of the PRC. "New Material" is defined in the "12th Five-Year Plan for National Economic and Social Development of the People's Republic of China" as new materials with excellent performance and special features, or modified traditional materials with significant improvement in the performance and equipped with new function. The Group's titanium and titanium alloy products are included as "New Material" under this definition.

Apart from being affected by the demand and supply and the government policies implemented in the PRC steel industry as mentioned above, the business of the Group is also sensitive to the fluctuations in prices of rare metals as the pricing of the specialised steel products is normally set on a cost-plus basis based on the costs of rare metals which the Group uses as raw materials. To pass on the procurement costs of the raw materials to customers and increase the profitability of the sales, it is the plan of the Group to continue strengthening its pricing power by positioning itself in the high-end manufacturing and increasing penetration in the eastern and southern PRC market. For the purpose of strengthening the sales presence, the Group has established distribution channels with several distributors to distribute its products in the eastern and southern PRC market.

For overseas market, the Group seeks to improve profit margin by expanding its direct reach to end customers. For new product development, the Group has recently acquired new production line for the production of thin metal plates, which is applicable to the existing DS, HSS and titanium alloy products. For the titanium alloy segment, the Group would continue to place prime focus on the development of steel-titanium composite plate in the ocean-related industry.

Despite the Group has continued to enhance its production facilities and sought for means to strengthen its pricing power, the specialised steel industry in the PRC is to a certain extent policy driven and the competition within the industry is severe. As such, we consider there remain uncertainties about the Group's prospects, particularly whether the Group is able to cope with the changes in government policies from time to time, maintain its competitiveness and pass on the costs to customers when the rare metal prices fluctuate.

4. Information on the Offeror and intentions of the Offeror

Based on the information disclosed in the letter from ABCI contained in the Composite Document, the Offeror was set up by Mr. Zhu Zefeng for the sole purpose of making the Offers and holding the Shares and has not carried out any business activities other than making the Offers. Mr. Zhu Zefeng, aged 35, joined the Group in January 2016 and was appointed the chief investment officer of the Group in January 2017. He is responsible for screening and recommending investment opportunities to the board of directors of the Company, including the expansion opportunities to the emerging "New Material" industry. He is also responsible for the post-investment integration process. He has spear-headed various strategic downstream investment of the Group as well as the further expansion of distribution network to cover the rest of the market, including Southern China, South America and South East Asia. Prior to joining the Group, he worked for a Canadian cutting tool manufacturer and distributor for machining ferrous, non-ferrous, composite, fiberglass and carbon fiber materials as an operation manager, with over 7 years of experience in overlooking and integration of upstream and downstream operation of its specialised steel business. Mr. Zhu Zefeng holds Options which are exercisable into 500,000 Shares. Mr. Zhu Xiaokun, the chairman of the Company who is beneficially interested in 1,600,000 Shares and deemed interested in 787,390,000 Shares, representing approximately 35.467% of the total issued share capital of the Company, through his interests in THCL and SPHK and a holder of Options exercisable into 2,700,000 Shares and the controlling shareholder of the Company, is the father of Mr. Zhu Zefeng. Mr. Zhu Zefeng, Mr. Zhu Xiaokun, Ms. Yu Yumei, THCL and SPHK are Concert Parties of the Offeror and together hold 788,990,000 Shares, representing approximately 35.539% of the total issued share capital of the Company.

The Offeror intends that the Group will continue to operate its business in substantially its current state. Upon close of the Offers, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating a sustainable business plan or strategy for the Group's long term development. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

Notwithstanding the above, as at the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group, and the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

As at the Latest Practicable Date, the Offeror has not decided on the future composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code, the Listing Rules and the articles of association of the Company and further announcement will be made by the Company as and when appropriate.

5. Evaluation of the Share Offer Price

5.1 Comparison with historical Share prices

The Share Offer Price of HK$0.90 per Share:

(i) is equal to the closing price of HK$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) represents a premium of approximately 12.50% over the closing price of HK$0.800 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) represents a premium of approximately 11.66% over the average closing price of approximately HK$0.806 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including 11 September 2017 (the "**Last Trading Day**");

(iv) represents a premium of approximately 10.29% over the average closing price of approximately HK$0.816 per Share based on the daily closing prices as quoted on the Stock Exchange for the ten trading days up to and including the Last Trading Day;

(v) represents a premium of approximately 8.43% over the average closing price of approximately HK$0.830 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(vi) represents a premium of approximately 19.05% over the average closing price of approximately HK$0.756 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(vii) represents a discount of approximately 55.51% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.023 as at 31 December 2016; and

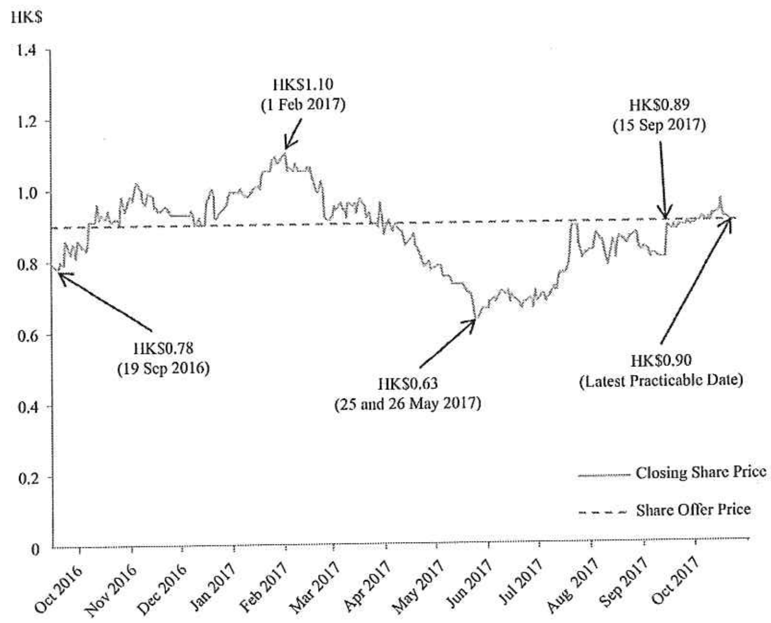
(viii) represents a discount of approximately 57.08% to the unaudited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.097 as at 30 June 2017.

For the purpose of item (7) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.89451 as at 31 December 2016 and for the purpose of item (8) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.86792 as at 30 June 2017.

5.2 *Historical Share price trend*

The chart below depicts the closing prices of the Shares traded on the Stock Exchange from 15 September 2016, being the date falling 12 months preceding the date of the Announcement, up to and including the Latest Practicable Date (the "**Review Period**"):

Historical Share Price



Source: Bloomberg

During the period from 15 September 2016 to 1 February 2017, the closing price of the Shares demonstrated a general upward trend, rising from HK$0.78 on 19 September 2016 to HK$1.10 per Share. The start of the upward trend can be traced back to 6 June 2016 when the Company announced that Jiangsu Tiangong Technology Company Limited, a non-wholly owned subsidiary of the Group, proposed to conduct a second round share placement to raise gross proceeds of RMB80.6 million in order to fund its capital needs for product development and introduce a strategic investor to the Group. The rise in Share price was probably due to the positive market response to the prospects of the Group as a result of the aforesaid fund raising exercise.

After the closing price of the Shares reached its recent peak of HK$1.10 on 1 February 2017, it gradually fell to the bottom of HK$0.63 on 25 May 2017 and 26 May 2017 which was its lowest price during the Review Period. Since then, the Share price started to rebound and reached HK$0.80 on 11 September 2017 (i.e. the Last Trading Date). We have enquired with the Directors the possible reasons for the aforesaid price fluctuation; however, they are not aware of any reason which may give rise to such Share price movements.

Trading in the Shares was suspended from 12 September 2017 to 14 September 2017 (both days inclusive) pending the publication of the Announcement. Immediately thereafter, the closing price of the Shares jumped to HK$0.89 on 15 September 2017 (i.e. the first trading day following the Announcement) and maintained in the range of HK$0.88 to HK$0.96 and closed at HK$0.90 as at the Latest Practicable Date.

During the Review Period, the closing price of the Shares ranged between HK$0.63 and HK$1.10 and the simple average closing price of the Shares was approximately HK$0.87. The Share Offer Price is within the aforesaid range and represents a premium of approximately 11.66%, 10.29%, 8.43% and 19.05% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5, 10, 30 and 90 consecutive trading days up to and including the Last Trading Day respectively. It also represents a premium of approximately 42.9% over the lowest closing Share price and a discount of approximately 18.2% to the highest closing Share price during the Review Period. In our opinion, the rise in the Share price after the publication of the Announcement was likely associated with the market response to the Offers. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Offers close, lapse or do not become unconditional for any reason.

5.3 Liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/period	Average daily trading volume for the month/period *(Note 1)*	Percentage of average daily trading volume to the total issued Shares as at the Latest Practicable Date *(Note 2)*	Percentage of average daily trading volume to the total number of Shares held by public Shareholders as at the Latest Practicable Date *(Note 3)*
2016				
15 to 30 September	33,213,500	3,019,409	0.1%	0.2%
October	72,323,300	3,806,489	0.2%	0.3%
November	54,904,800	2,495,673	0.1%	0.2%
December	89,256,000	4,462,800	0.2%	0.3%
2017				
January	47,430,824	2,496,359	0.1%	0.2%
February	38,248,000	1,912,400	0.1%	0.1%
March	29,677,449	1,290,324	0.1%	0.1%
April	18,688,000	1,099,294	0.05%	0.1%
May	25,514,000	1,275,700	0.1%	0.1%
June	34,328,000	1,560,364	0.1%	0.1%
July	52,174,000	2,484,476	0.1%	0.2%
August	97,040,000	4,410,909	0.2%	0.3%
September (trading of the Shares from 12 to 14 September was suspended)	160,350,000	8,908,333	0.4%	0.6%
October (up to the Latest Practicable Date)	69,294,000	4,330,875	0.2%	0.3%

Source: Bloomberg

Notes:

1. *Total trading volume is expressed in terms of number of Shares traded.*

2. *Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.*

3. *Based on 2,220,080,000 Shares in issue as at the Latest Practicable Date.*

4. *Based on 1,431,090,000 Shares held by the public Shareholders as at the Latest Practicable Date as disclosed in the letter from ABCI contained in the Composite Document.*

As illustrated in the above table, the average daily trading volume during the Review Period ranged from around 1,000,000 Shares to 9,000,000 Shares, representing approximately 0.05% to 0.4% of the total number of Shares in issue as at the Latest Practicable Date, and approximately 0.1% to 0.6% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. Even with the increase in average daily trading volume after the publication of the Announcement, the percentage of average daily trading volume to the total issued Shares held by public Shareholders during the period from the first trading day following the Announcement to the Latest Practicable Date was only approximately 0.3%. In light of the thin liquidity of the Shares during the Review Period, we are of the view that the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares, and that the Share Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

5.4 Comparable companies

For the purpose of assessing the fairness and reasonableness of the Share Offer Price, we consider that it is relevant to assess the Share Offer Price by making reference to market valuation of companies listed in Hong Kong which are principally engaged in businesses similar to those of the Group.

Having considered the principal activities of the Group in manufacturing specialised steels and the significant contribution of revenue from the manufacture and sale of specialised steel as described in the section headed "Information of the Group" above and the listing status of the Company, we consider that companies (i) which are principally engaged in the steel manufacturing industry in the PRC with revenue from the production and sale of specialised steel products contributing not less than 50% of the total revenue for the latest financial year; and (ii) whose shares are listed on the Main Board or Growth Enterprise Market of the Stock Exchange with market capitalisation similar to that of the Company are companies comparable to the Company, and their market valuation would provide meaningful references for the purpose of our assessment of the fairness and reasonableness of the Share Offer Price. However, given the uniqueness of the business, sales focus and market position of the Group, we have not identified any listed company in Hong Kong which satisfies the criteria described above and accordingly we are not able to perform any comparison of the Share Offer Price against the market valuation of comparable companies.

5.5 Net asset value per Share

According to the 2016 annual report and 2017 interim report of the Company, the total equity attributable to equity shareholder of the Company were approximately RMB4,018 million as at 31 December 2016 and RMB4,041 million as at 30 June 2017. Based on the 2,220,080,000 Shares in issue as at the relevant dates, the net asset value per Share as at 31 December 2016 and 30 June 2017 were approximately HK$2.023 and HK$2.097 respectively and the Share Offer Price represents a discount of approximately 55.5% and 57.1% to the aforesaid net asset values per Share respectively.

As discussed in the paragraph headed "Financial position" in the section headed "Information of the Group" above, the assets of the Group mainly comprised properties, plant and equipment, inventories, and trade and other receivables. Among the total assets, property, plant and equipment with book value of approximately RMB3,411 million as at 30 June 2017 are used in the production of the Group's products, of which approximately RMB2,138 million were machinery, motor vehicles and other equipment. These assets are operating assets of the Group and it is not practicable for the Company to realise these operating assets while there are substantive operations. In addition, as certain of these assets are specific to the business of the Group, the Company may not be able to realise these assets at prices equal to or above their respective book value due to lack of marketability. Other assets such as inventories and trade and other receivables are also not readily realisable into cash. In our opinion, the net asset value per Share does not represent the cash value per Share which the Company may actually return to the Shareholders while the Group is operating as a going concern or put under liquidation. Neither does it represent the price per Share which a potential investor may be willing to pay, particularly when the acquisition involves a minority stake in the Company. This is demonstrated by the observation that the Shares had been traded below and at more than 50% discount to the net asset value per Share during most of the time of the Review Period.

In view of the above, we consider the net asset value per Share is not a suitable benchmark for assessing the fairness and reasonableness of the Share Offer Price. In our assessment of the fairness and reasonableness of the Share Offer Price, we have therefore focused on comparing the Share Offer Price with historical trading prices of the Shares instead of the net asset value per Share as we consider the trading price of the Shares determined under an open market to be a fair market price for listed securities at which a buyer is willing to purchase and a seller is willing to sell.

6. The Option Offer

The Company has outstanding Options in respect of 41,117,000 Shares, of which the exercise price in respect of 22,147,000 Shares is HK\$1.78 and the exercise price of in respect of 18,970,000 Shares is HK\$0.60. All Options were granted under the Old Share Option Scheme and are vested and exercisable at any time.

The Option Offer price is (i) HK\$0.01 in cash for cancellation of each Option with an exercise price of HK\$1.78; and (ii) HK\$0.30 in cash for cancellation of each Option with an exercise price of HK\$0.60 (collectively, the "**Option Offer Prices**"). The Option Offer Price of HK\$0.30 for the cancellation of each Option with an exercise price of HK\$0.60 represents the difference between the Share Offer Price and the exercise price. As the exercise price of HK\$1.78 is higher than the Share Offer Price of HK\$0.90, the Options with an exercise price of HK\$1.78 have no implied intrinsic value based on the Share Offer Price and therefore a nominal cash consideration of HK\$0.01 is offered for cancellation of each such Options. We consider the Option Offer Prices to be fair and reasonable so far as the Independent Optionholders are concerned.

7. Listing status of the Company

The Stock Exchange has stated that if, at the close of the Share Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Offeror has no intention to privatise the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares after the close of the Offers.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

(i) the Share Offer Price represents a premium of approximately 19.05%, 8.43%, 10.29% and 11.66% over the average of the closing prices of the Shares for the 90, 30, 10 and 5 consecutive trading days up to the including the Last Trading Day and a premium of approximately 12.50% over the closing price of the Shares on the Last Trading Date respectively, and it is equal to the closing price of the Shares as at the Latest Practicable Date;

(ii) the Share Offer Price lies within the range of closing price of the Shares of HK$0.63 to HK$1.10 during the Review Period. The Share prices during the six-month period preceding the Latest Practicable Date were consistently below the Share Offer Price. The recent increase in the price of the Shares was possibly due to the Offers, which may not be sustainable in the absence of the Offers;

(iii) the liquidity of the Shares was generally low and the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. The Share Offer provides an assured opportunity to the Independent Shareholders to realise their investments in the Company;

(iv) despite the Share Offer price is below the net asset value per Share, the net assets of the Group comprised substantially trade and bills receivables with long collection period and uncertain collectability, fixed assets used in the production activities and inventories which are not readily realisable into cash; and

(v) the financial performance of the Group had shown improvement due to the recent recovery in demand in domestic market. Nevertheless, the specialised steel industry in the PRC is to a certain extent policy driven and the competition within the industry is severe. There are uncertainties on the future business and profitability of the Group, particularly whether the Group is able to cope with the changes in government policies from time to time, maintain its competitiveness and pass on the costs to customers when the rare metal prices fluctuate,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

In respect of the Options with an exercise price of HK$1.78, as these Options are out-of-money with no implied intrinsic value based on the Share Offer Price, we consider the Option Offer Price of a nominal amount of HK$0.01 for the cancellation of each Option is fair and reasonable so far as the Independent Optionholders are concerned. In respect of the Options with an exercise price of HK$0.60 which are in-the-money, as the Option Offer Price is determined using a "see through" approach in accordance with the requirements of Rule 13 of the Takeovers Code such that the Offeror is effectively offering to pay the Share Offer Price of HK$0.90 per Share that would have been issued under the Options, we consider the Option Offer Price of HK$0.30 for the cancellation of each Option is fair and reasonable so far as the Independent Optionholders are concerned. Accordingly, we also advise the Independent Board Committee to recommend the Independent Optionholders to accept the Option Offer.

Independent Shareholders and Independent Optionholders should note that the price of the Shares has increased and consistently traded at a level close to the Share Offer Price since 14 September 2017 following the publication of the Announcement. Independent Shareholders or Independent Optionholders who wish to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Share Offer, if the net proceeds of such sale after deducting all transaction costs and, in the case of the Share Options, the exercise price of the Share Options exceed the net amount to be received under the Share Offer.

Independent Shareholders and Independent Optionholders should also read carefully the procedures for accepting the Share Offer and the Option Offer set out in the letter from ABCI and in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED

Mei H. Leung
Chairman

Ms. Mei H. Leung is a licensed person and a responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.