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LETTER FROM THE BOARD

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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)**

*Executive directors:*

ZHU Xiaokun (*Chairman*)  
WU Suojun (*Chief Executive Officer*)  
YAN Ronghua  
JIANG Guangqing

*Registered office in the Cayman Islands:*

P.O. Box 309  
G.T. Uglund House  
South Church Street, George Town  
Grand Cayman, Cayman Islands

*Independent non-executive directors:*

GAO Xiang  
LEE Cheuk Yin, Dannis  
WANG Xuesong

*Registered office in Hong Kong:*

Unit 1303, 13/F, Jubilee Centre  
18 Fenwick Street, Wanchai  
Hong Kong

*Principal place of business:*

Danbei Town, Zhenjiang City  
Jiangsu Province, The PRC

27 October 2017

*To Independent Shareholders and Independent Optionholders*

Dear Sir or Madam,

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

\* For identification purposes only

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### 1. INTRODUCTION

Reference is made to the Announcement pursuant to which the Offeror and the Company jointly announced on 14 September 2017 that ABCI would, on behalf of the Offeror, make the following voluntary conditional cash offers:

- (i) The Share Offer: to acquire all of the outstanding Shares in the issued share capital of the Company (other than those already owned by the Offeror and its Concert Parties) at HK\$0.90 per Share; and
- (ii) The Option Offer: to cancel all of the outstanding Options of the Company at HK\$0.01 per Option with exercise price at HK\$1.78 per Option and HK\$0.03 per Option with exercise price at HK\$0.60 per Option.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offers are set out in this letter, Appendix I — “Further Terms of the Offers” to this Composite Document and in the accompanying Forms of Acceptance.

The purpose of this Composite Document is to provide you with, among other things: (i) information relating to the Group, the Offeror and the Offers; (ii) a letter from ABCI containing, among other things, details of the Offers; (iii) a letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Independent Optionholders in relation to the Offers; and (iv) a letter from Optima Capital containing its advice to the Independent Board Committee in relation to the Offers.

### 2. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee of the Company, which comprises all of the independent non-executive directors of the Company, has been established by Board to make a recommendation to the Independent Shareholders as to whether the Share Offer is, or is not, fair and reasonable and as to acceptance and to the Independent Optionholders as to its views on the Option Offer. As at the date of this letter, independent non-executive directors of the Company are Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong, the executive directors are Mr. Zhu Xiaokun, Mr. Wu Suojun, Mr. Jiang Guangqing and Mr. Yan Ronghua. Mr. Zhu Xiaokun, the chairman of the Company and an executive director interested and deemed to be interested in 35.539% of the issued share capital of the Company, is a Concert Party to the Offeror and will not express his views on the Offers. Each of the other executive Directors, namely, Mr. Wu Suojun, Mr. Yan Ronghua and Mr. Jiang Guangqing held Options exercisable into 1,667,000 Shares, 800,000 Shares and 600,000 Shares, respectively, which are subject to the Option Offer, and will not express their views on the Offers. The Independent Board Committee excludes all Directors who are ordinarily not counted as independent directors of the Company. In forming the

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Independent Board Committee comprising all of the independent non-executive directors, the Company wishes to ensure that Independent Shareholders will be advised by a committee of independent directors.

In addition, as approved by the Independent Board Committee, an independent financial adviser, Optima Capital, has been appointed to advise the Independent Board Committee in connection with the Share Offer and the Option Offer.

### 3. THE SHARE OFFER

As at the Latest Practicable Date, there are 2,220,080,000 Shares in issue and outstanding Options in respect of 41,117,000 Shares. The Share Offer will be made by ABCI on behalf of the Offeror on the following basis:

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 Price**

##### *Comparisons of value*

The Share Offer Price of HK\$0.90 per Share:

- (1) is equal to the closing price of HK\$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (2) 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;
- (3) 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 5 trading days up to and including the Last Trading Date;
- (4) 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 10 trading days up to and including the Last Trading Date;
- (5) 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 Date;

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- (6) 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 Date;
- (7) 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
- (8) 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.

### *Highest and Lowest Share Prices*

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.97 on 17 March 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.63 on 25 May 2017 and 26 May 2017, respectively.

#### **4. THE OPTION OFFER**

The respective exercise prices of the outstanding Options in respect of 41,117,000 Shares and the respective periods in which they are exercisable are set out below:

| <b>Exercise price</b><br><i>(HK\$ per Share)</i> | <b>Exercise period</b>                  | <b>Number of<br/>Outstanding<br/>Options as at<br/>the Latest<br/>Practicable Date</b> |
|--|---|--|
| 1.78   | from 19 August 2014 to 18 August 2019   | 22,147,000   |
| 0.60   | from 1 January 2017 to 31 December 2017 | 18,970,000   |

All Options were granted under the Old Share Option Scheme and are vested and exercisable. As at the Latest Practicable Date, there are no outstanding Share Options under the New Share Option Scheme.

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### Option Offer

Under the Option Offer, appropriate offers will be made by ABCI on behalf of the Offeror to Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options (whether vested or not) in exchange for cash:

(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\$0.03 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.

### 5. VALUE OF THE OFFERS

Your attention is drawn to the sections headed the “The Share Offer”, the “The Option Offer” and “Value of the Offers” in the “Letter from ABCI” in this Composite Document which sets out the value of the Offers.

### 6. CONDITIONS TO THE SHARE OFFER

Your attention is drawn to the section headed “Conditions to the Share Offer” in the “Letter from ABCI” in this Composite Document which sets out the conditions to the Share Offer.

### 7. REASONS FOR AND BENEFITS OF THE SHARE OFFER

Your attention is drawn to the section headed “Reasons for and Benefits of the Share Offer” in the “Letter from ABCI” in this Composite Document.

### 8. INFORMATION ON AND INTENTION OF THE OFFEROR

Your attention is drawn to the sections headed “Information of the Offeror” and “Intentions of the Offeror in relation to the Group” in the “Letter from ABCI” in this Composite Document.

The Board notes that the Offeror does not intend to institute any major changes to the Company’s current board composition, management team, business and operation (including redeployment of the fixed assets of the Group and employee changes within the Group).

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### 9. INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares have been listed on the Main Board of the Stock Exchange since 26 July 2007. The Group is principally engaged in the production and sales of die steel, high speed steel, cutting tools and titanium alloy.

### 10. MAINTAINING THE LISTING/PUBLIC FLOAT

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 Board notes that, the Offeror has no intention to privatize the Company and intend 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.

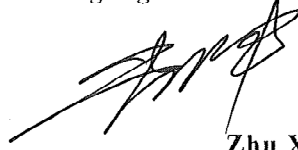
### 11. RECOMMENDATION AND ADDITIONAL INFORMATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” on pages 27 to 28 of this Composite Document, which sets out its recommendations to the Independent Shareholders in relation to the Offers and (ii) the “Letter from Optima Capital” on pages 29 to 52 of this Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its recommendations.

You are also advised to read the “Letter from ABCI”, the Appendices to this Composite Document and the Forms of Acceptances in respect of the terms and acceptance and settlement procedures of the Offers.

Independent Shareholders and Independent Optionholders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offers.

Yours faithfully,  
By order of the board of  
**Tiangong International Company Limited**

A handwritten signature in black ink, appearing to be 'Zhu Xiaokun', written in a cursive style.

**Zhu Xiaokun**  
*Chairman*