

CIRCULAR DATED 27 AUGUST 2019

THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE INDEPENDENT DIRECTORS OF DELONG HOLDINGS LIMITED AND THE ADVICE OF THE INDEPENDENT FINANCIAL ADVISER, PRICEWATERHOUSECOOPERS CORPORATE FINANCE PTE LTD. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

This Circular is issued by Delong Holdings Limited (the “**Company**”). If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor, tax adviser or other professional adviser immediately.

If you have sold or transferred all your Shares (as defined herein), you should immediately forward this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.



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DELONG HOLDINGS

DELONG HOLDINGS LIMITED

(Company Registration Number: 199705215G)
(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

in relation to the

VOLUNTARY CONDITIONAL CASH OFFER

by

STIRLING COLEMAN CAPITAL LIMITED

(Company Registration Number: 200105040N)
(Incorporated in the Republic of Singapore)

for and on behalf of

BEST GRACE HOLDINGS PTE. LTD.

(Company Registration Number: 201825433Z)
(Incorporated in the Republic of Singapore)

to acquire all the issued and paid-up ordinary shares in the capital of the Company other than those already held by Best Grace Holdings Pte. Ltd., its related corporations and their nominees as at the date of the Offer

Independent Financial Adviser to the Independent Directors of the Company

PRICEWATERHOUSECOOPERS CORPORATE FINANCE PTE LTD

(Company Registration Number: 197501605H)
(Incorporated in the Republic of Singapore)

ACCEPTANCES SHOULD BE RECEIVED BY THE CLOSE OF THE OFFER AT 5.30 P.M. (SINGAPORE TIME) ON 10 SEPTEMBER 2019 (TUESDAY). THE OFFEROR DOES NOT INTEND TO EXTEND THE OFFER BEYOND SUCH TIME AND DATE.

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DEFINITIONS

GENERAL

<i>“Accepting Shareholder”</i>	:	Shall have the meaning ascribed to it in Section 2.1(d) of this Circular
<i>“Adjusted Offer Price”</i>	:	Shall have the meaning ascribed to it in Section 2.1(d)(ii) of this Circular
<i>“Board”</i>	:	Board of Directors of the Company
<i>“Books Closure Date”</i>	:	Shall have the meaning ascribed to it in Section 2.1(d)(i) of this Circular
<i>“Business Day”</i>	:	A day other than Saturday, Sunday or a public holiday on which banks are open for business in Singapore
<i>“Circular”</i>	:	This Circular to Shareholders in relation to the Offer setting out, <i>inter alia</i> , the recommendation of the Independent Directors and the advice of PwCCF to the Independent Directors in respect of the Offer
<i>“Closing Date”</i>	:	5.30 p.m. (Singapore time) on 10 September 2019 (Tuesday), being the last day for the lodgement of acceptances of the Offer
<i>“Code”</i>	:	The Singapore Code on Take-overs and Mergers, as amended or modified from time to time
<i>“Companies Act”</i>	:	The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time
<i>“Company Securities”</i>	:	(i) Shares; (ii) securities which carry voting rights in the Company; or (iii) convertible securities, warrants, options or derivatives in respect of Shares or securities which carry voting rights in the Company
<i>“Concert Parties”</i>	:	Shall have the meaning ascribed to it in Section 2.1(e) of this Circular
<i>“Constitution”</i>	:	The constitution of the Company
<i>“CPF Agent Banks”</i>	:	Agent banks included under the CPFIS
<i>“CPFIS”</i>	:	Central Provident Fund Investment Scheme
<i>“CPFIS Investors”</i>	:	Investors who have purchased Shares using their CPF contributions pursuant to the CPFIS
<i>“Directors”</i>	:	The directors of the Company as at the Latest Practicable Date, namely, Mr Ding Liguu, Mr Wu Yujie, Mr Lai Hock Meng, Mr Wang Tianyi and Mr Wu Geng
<i>“Distributions”</i>	:	Shall have the meaning ascribed to it in Section 2.1(c) of this Circular
<i>“Encumbrances”</i>	:	Shall have the meaning ascribed to it in Section 2.1(c) of this Circular

<i>“FAA”</i>	:	Form of Acceptance and Authorisation for Offer Shares which forms part of the Offer Document and which is issued to Shareholders whose Shares are deposited with CDP
<i>“FAT”</i>	:	Form of Acceptance and Transfer for Offer Shares which forms part of the Offer Document and which is issued to Shareholders whose Shares are not deposited with CDP
<i>“FY”</i>	:	Financial year ended or ending on (as the case may be) 31 December of a particular year as stated
<i>“IFA Letter”</i>	:	The letter dated 27 August 2019 from PwCCF to the Directors in respect of the Offer as set out in Appendix I to this Circular
<i>“HY2019”</i>	:	The six-month period ended 30 June 2019
<i>“Independent Directors”</i>	:	The directors of the Company who are considered to be independent for the purposes of the Offer
<i>“Latest Practicable Date”</i>	:	16 August 2019, being the latest practicable date prior to the printing of this Circular, save that where parts of the Offer Document (including the letter from Stirling Coleman to the Shareholders in the Offer Document) are reproduced, references to the “Latest Practicable Date” in such reproduction shall mean the Offer Document LPD
<i>“Listing Manual”</i>	:	The listing manual of the SGX-ST, as amended or modified from time to time
<i>“Market Day”</i>	:	A day on which the SGX-ST is open for trading of securities
<i>“Offer”</i>	:	The voluntary conditional cash offer by Stirling Coleman, for and on behalf of the Offeror, to acquire all the Offer Shares on the terms and subject to the conditions set out in the Offer Document, the FAA and the FAT
<i>“Offer Acceptance Condition”</i>	:	Shall have the meaning ascribed to it in Section 2.1(e) of this Circular
<i>“Offer Announcement”</i>	:	The announcement issued by Stirling Coleman on the Offer Announcement Date, for and on behalf of the Offeror, in relation to the Offer
<i>“Offer Announcement Date”</i>	:	29 July 2019
<i>“Offer Document”</i>	:	The offer document dated 13 August 2019 issued by Stirling Coleman, for and on behalf of the Offeror, in respect of the Offer
<i>“Offer Document LPD”</i>	:	5 August 2019, stated in the Offer Document to be the latest practicable date prior to the printing of the Offer Document
<i>“Offer Price”</i>	:	Shall have the meaning ascribed to it in Section 2.1(a) of this Circular
<i>“Offer Shares”</i>	:	Shall have the meaning ascribed to it in Section 1.1 of this Circular
<i>“Offer Unconditional Date”</i>	:	15 August 2019, the date on which the Offer was declared to be unconditional in all respects in accordance with its terms pursuant to the Offer Unconditional Announcement

<i>“Offer Unconditional Announcement”</i>	:	Shall have the meaning ascribed to it in Section 2.1(e) of this Circular
<i>“Offeror Securities”</i>	:	Ordinary shares in the capital of the Offeror, equity share capital of the Offeror and other securities which carry substantially the same rights in the Offeror, and convertible securities, warrants, options and derivatives in respect of such shares or securities
<i>“Overseas Shareholders”</i>	:	Shareholders whose addresses are outside Singapore, as shown on the Register or, as the case may be, in the Depository Register
<i>“Register”</i>	:	The register of members of the Company, as maintained by the Share Registrar
<i>“RMB”</i>	:	Renminbi, being the lawful currency for the time being of the People’s Republic of China
<i>“Securities Account”</i>	:	The securities account maintained by a Depositor with CDP but does not include a securities sub-account
<i>“SFA”</i>	:	The Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time
<i>“Shareholders”</i>	:	Holders of Shares (including persons whose Shares are deposited with CDP or who have purchased Shares on the SGX-ST)
<i>“Shares”</i>	:	Issued and paid-up ordinary shares in the capital of the Company
<i>“SRS”</i>	:	Supplementary Retirement Scheme
<i>“SRS Agent Banks”</i>	:	Agent banks included under the SRS
<i>“SRS Investors”</i>	:	Investors who have purchased Shares using their SRS contributions pursuant to the SRS
<i>“S\$” and “cents”</i>	:	Singapore dollars and cents, respectively, being the lawful currency of Singapore
<i>“%” or “per cent.”</i>	:	Percentage or per centum

COMPANIES / ORGANISATIONS

<i>“CDP”</i>	:	The Central Depository (Pte) Limited
<i>“Company” or “Offeree”</i>	:	Delong Holdings Limited
<i>“CPF”</i>	:	Central Provident Fund
<i>“FA” or “Stirling Coleman”</i>	:	Stirling Coleman Capital Limited
<i>“Group”</i>	:	The Company and its subsidiaries
<i>“Offeror”</i>	:	Best Grace Holdings Pte. Ltd.
<i>“IFA” or “PwCCF”</i>	:	PricewaterhouseCoopers Corporate Finance Pte Ltd, the appointed independent financial adviser to the Independent Directors in respect of the Offer
<i>“SGX-ST”</i>	:	Singapore Exchange Securities Trading Limited

“Share Registrar” : B.A.C.S. Private Limited

“SIC” : Securities Industry Council of Singapore

Acting in Concert and Associates. Unless otherwise defined, the terms **“acting in concert”** and **“associates”** shall have the meanings ascribed to them respectively in the Code.

Announcements and Notices. References to the making of an announcement or the giving of notice by the Company shall include the release of an announcement by the Company or its agents, for and on behalf of the Company, to the press or the delivery of or transmission by telephone, telex, facsimile, SGXNET or otherwise of an announcement to the SGX-ST. An announcement made otherwise than to the SGX-ST shall be notified to the SGX-ST simultaneously.

Capitalised Terms in Extracts. Statements which are reproduced in their entirety from the Offer Document, the IFA Letter and the Constitution are set out in this Circular within quotes and italics, and capitalised terms used within these reproduced statements shall bear the same meanings as attributed to them in the Offer Document, the IFA Letter and the Constitution respectively.

Depository Related Terms. The terms **“Depositor”**, **“Depository Agent”** and **“Depository Register”** shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

Expressions. Words importing the singular shall, where applicable, include the plural and vice versa. Words importing a single gender shall, where applicable, include any or all genders. References to persons shall, where applicable, include corporations.

Headings. The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Rounding. Any discrepancies in the figures in this Circular between the listed amounts and the totals thereof are due to rounding. Accordingly, the figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them.

Shareholders. References to **“you”**, **“your”** and **“yours”** in this Circular are, as the context so determines, to Shareholders.

Statutes. Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, the Listing Manual, or Code, the SFA or any modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the Listing Manual, the Code, the SFA or any modification thereof, as the case may be, unless the context otherwise requires.

Subsidiary and Related Corporation. References to **“subsidiary”** and **“related corporation”** shall have the meanings ascribed to them respectively in Sections 5 and 6 of the Companies Act.

Time and Date. Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, unless otherwise stated.

Total Number of Shares and Percentage as at the Latest Practicable Date. References in this Circular to the total number of issued Shares are based on 110,182,709 Shares as at the Latest Practicable Date, unless otherwise stated.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as **“aim”**, **“seek”**, **“expect”**, **“anticipate”**, **“estimate”**, **“believe”**, **“intend”**, **“project”**, **“plan”**, **“potential”**, **“strategy”**, **“forecast”**, **“possible”**, **“probable”** and similar expressions or future or conditional verbs such as **“if”**, **“will”**, **“would”**, **“should”**, **“could”**, **“may”** or **“might”**. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information as at the Latest Practicable Date. Such forward-looking statements are not guarantees of future results, performance, events or achievements and involve known and unknown risks and uncertainties. Accordingly, actual results or outcomes may differ materially from those described in such forward-looking statements. Given the risks and uncertainties involved, Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor PwCCF undertakes any obligation to update publicly or revise any forward-looking statement, subject to compliance with all applicable laws and regulations and/or rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

SUMMARY TIMETABLE

Date of Despatch of Offer Document	:	13 August 2019 (Tuesday)
Date of Despatch of Circular	:	27 August 2019 (Tuesday)
Closing Date	:	5.30 p.m. (Singapore time) on 10 September 2019 (Tuesday). The Offeror does not intend to extend the Offer beyond such time and date
Settlement of consideration for valid acceptances of the Offer	:	(a) In respect of valid and complete acceptances received on or before the Offer Unconditional Date, within seven (7) Business Days of the Offer Unconditional Date (or such other time as may be required by the Code) (b) In respect of valid and complete acceptances received after the Offer Unconditional Date but before the Closing Date, within seven (7) Business Days after the date of receipt of each such acceptance (or such other time as may be required by the Code)

DELONG HOLDINGS LIMITED

(Company Registration Number: 199705215G)
(Incorporated in the Republic of Singapore)

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS

Directors:

Mr Ding Liguu (*Executive Chairman and Non-Independent Director*)
Mr Wu Yujie (*Non-Independent and Executive Director*)
Mr Lai Hock Meng (*Lead Independent and Non-Executive Director*)
Mr Wang Tianyi (*Independent and Non-Executive Director*)
Mr Wu Geng (*Independent and Non-Executive Director*)

Registered Office:

50 Raffles Place
#30-01 Singapore Land Tower
Singapore 048623

27 August 2019

To: The Shareholders of Delong Holdings Limited

Dear Sir/Madam

VOLUNTARY CONDITIONAL CASH OFFER BY STIRLING COLEMAN, FOR AND ON BEHALF OF THE OFFEROR, FOR ALL THE OFFER SHARES

1. INTRODUCTION

1.1 Offer Announcement

On the Offer Announcement Date, Stirling Coleman announced, for and on behalf of the Offeror, that the Offeror intends to make a voluntary conditional cash offer for all the Shares, other than those already held by the Offeror, its related corporations and their nominees at the Offer Announcement Date (the “**Offer Shares**”).

A copy of the Offer Announcement is available on the website of the SGX-ST at www.sgx.com.

1.2 Offer Document

Shareholders should have by now received a copy of the Offer Document, as announced by Stirling Coleman, for and on behalf of the Offeror, to have been despatched on 13 August 2019, setting out, *inter alia*, the terms and conditions of the Offer. The principal terms and conditions of the Offer are set out in Section 2 of the Offer Document. **Shareholders are urged to read the terms and conditions of the Offer set out in the Offer Document carefully.**

A copy of the Offer Document is available on the website of the SGX-ST at www.sgx.com.

1.3 Independent Financial Adviser

PwCCF has been appointed as the independent financial adviser to the Independent Directors in respect of the Offer.

1.4 Offer Unconditional Announcement

On the Offer Unconditional Date, Stirling Coleman, for and on behalf of the Offeror, announced, *inter alia*, that the Offer has become unconditional as to acceptances and is declared unconditional in all respects on the same date.

1.5 Purpose of Circular

The purpose of this Circular is to provide Shareholders with relevant information pertaining to the Offer and to set out the recommendation of the Independent Directors and the advice of the IFA to the Independent Directors in respect of the Offer.

Shareholders should read the Offer Document, this Circular and the IFA Letter set out in Appendix I to this Circular carefully and consider the recommendation of the Independent Directors and the advice of PwCCF to the Independent Directors in respect of the Offer before deciding whether or not to accept the Offer.

If you are in any doubt about the Offer, you should consult your stockbroker, bank manager, accountant, solicitor, tax adviser or other professional adviser immediately.

2. THE OFFER

2.1 Offer Terms

Based on the information set out in the Offer Document, Stirling Coleman has, for and on behalf of the Offeror, made the Offer for all the Offer Shares, on the terms and subject to the conditions set out in the Offer Document, the FAA and the FAT, on the following basis:

(a) Offer Price

For each Offer Share: S\$7.00 in cash (the “Offer Price”).

The Offeror does not intend to revise the Offer Price or any other terms of the Offer.

(b) Offer Shares

The Offer is extended, on the same terms and conditions, to all the Offer Shares, including any and all Offer Shares owned, controlled or agreed to be acquired by parties acting or deemed to be acting in concert with the Offeror in connection with the Offer.

(c) No Encumbrances

The Offer Shares will be acquired (i) fully paid-up; (ii) free from any mortgage, debenture, lien, charge, pledge, title retention, right to acquire, security interest, option, pre-emptive or similar right, right of first refusal and any other encumbrance or condition whatsoever (“**Encumbrances**”); and (iii) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions (collectively, “**Distributions**”) (if any) that may be declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date.

(d) Adjustment for Distributions

Without prejudice to the foregoing, the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any Distribution that may be declared, paid or made by the Company on or after the Offer Announcement Date.

Accordingly, if any Distribution is declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date to a Shareholder who validly accepts or has validly accepted the Offer (the “**Accepting Shareholder**”), the Offer Price payable to such Accepting Shareholder shall be reduced by an amount which is equal to the amount of such Distribution payable to such Accepting Shareholder, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer by the Accepting Shareholder falls, as follows:

- (i) if such settlement date falls on or before the books closure date for the determination of entitlements to the Distribution (the “**Books Closure Date**”), the Offer Price for each Offer Share shall remain unadjusted and the Offeror shall pay the Accepting Shareholder the unadjusted Offer Price for each Offer Share, as the Offeror will receive the Distribution in respect of such Offer Share from the Company; or

- (ii) if such settlement falls after the Books Closure Date, the Offer Price for each Offer Share shall be reduced by an amount which is equal to the amount of the Distribution in respect of each Offer Share (the Offer Price after such reduction, the **“Adjusted Offer Price”**) and the Offeror shall pay the Accepting Shareholder the Adjusted Offer Price for each Offer Share, as the Offeror will not receive the Distribution in respect of such Offer Share from the Company.

(e) **Conditional Offer**

The Offer is conditional upon the Offeror having received, by the Closing Date, valid acceptances (which have not been withdrawn) in respect of **90%** of the total number of Offer Shares (the **“Offer Acceptance Condition”**).

Save for the Offer Acceptance Condition, the Offer is unconditional in all other respects.

On the Offer Unconditional Date, Stirling Coleman announced, for and on behalf of the Offeror, that as at 5.30 p.m. (Singapore time) on the same date, the total number of Offer Shares (i) held by the Offeror and parties acting in concert with it (the **“Concert Parties”**) before the Offer Announcement Date, (ii) acquired or agreed to be acquired by the Offeror and its Concert Parties after the Offer Announcement Date and up to 5.30 p.m. (Singapore time) on 15 August 2019 (other than pursuant to valid acceptances of the Offer), and (iii) for which valid acceptances of the Offer have been received, amounted to an aggregate of 99,971,129 Shares, representing approximately 90.73% of the total number of Shares of the Offeree (the **“Offer Unconditional Announcement”**).

Accordingly, the Offer has become unconditional as to acceptances and was declared unconditional in all respects on the Offer Unconditional Date.

A copy of the Offer Unconditional Announcement is available on the website of the SGX-ST at www.sgx.com.

2.2 **Warranty**

A Shareholder who tenders his Offer Shares in acceptance of the Offer will be deemed to unconditionally and irrevocably represent, warrant and undertake to the Offeror that he sells such Offer Shares, as or on behalf of the beneficial owner(s) thereof, (i) fully paid-up; (ii) free from all Encumbrances; and (iii) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including but not limited to the right to receive and retain all Distributions (if any) that may be declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date.

2.3 **Duration of the Offer**

(a) **Closing Date**

The Offer is open for acceptance by Shareholders for 28 days from the date of posting of the Offer Document, unless the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder. **Accordingly, the Offer will close at 5:30 p.m. (Singapore time) on 10 September 2019 (Tuesday). Acceptances of the Offer received after 5:30 p.m. on the Closing Date will be rejected.**

(b) **No Obligation to Extend the Offer**

The Offeror is not obliged to extend the Offer if the Offer Acceptance Condition is not fulfilled by the Closing Date.

(c) **Final Day Rule**

The Offer will not be capable of:

- (i) becoming or being declared unconditional as to acceptances after 5.30 p.m. (Singapore time) on the 60th day after the date of posting of the Offer Document; or
- (ii) being kept open after 5.30 p.m. (Singapore time) on the 60th day after the date of posting of the Offer Document,

unless it has previously become or has been declared to be unconditional as to acceptances, provided that the Offeror may extend the Offer beyond such 60-day period with the SIC's prior consent.

2.4 **Details of the Offer**

Appendix A to the Offer Document sets out further details on (a) the settlement of the Offer Price, (b) the requirements relating to the announcement of the level of acceptances of the Offer, and (c) the right of withdrawal of acceptances of the Offer.

2.5 **Procedures for Acceptance**

The procedures for acceptance of the Offer are set out in Appendix B to the Offer Document.

3. **IRREVOCABLE UNDERTAKINGS AND WAIVER OF OFFER PRICE**

The full text of the irrevocable undertakings given to the Offeror and waiver of Offer Price by certain Shareholders has been extracted from Section 8 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

"8. Irrevocable undertakings and waiver of Offer Price

8.1 Irrevocable Undertakings. *As at the Offer Announcement Date, each of DLG, Best Decade, and certain other Shareholders (collectively the "**Undertaking Shareholders**", and each an "**Undertaking Shareholder**") has given an irrevocable undertaking (collectively the "**Irrevocable Undertakings**") to the Offeror to, amongst other things, subject to the Offer Price being at least S\$7.00:*

- (a) accept or procure acceptance of the Offer in respect of all the Offer Shares each of them holds in aggregate as at the date of the Irrevocable Undertakings, and (in the case of DLG and Best Decade) such additional Offer Shares which each of them may acquire after the Offer Announcement Date and before the Offer closes (collectively, the "**Relevant Shares**", by no later than 5.00 p.m. on the third Business Day after the despatch of the Offer Document;*
- (b) (in the case of DLG and Best Decade) to waive their rights to receive the Offer Price in respect of all the Offer Shares tendered by them in acceptance of the Offer (the "**Waivers**"; and*
- (c) unless the Offer Document has not been posted within 21 days after the Offer Announcement Date or the Offer closes, lapses or is withdrawn, each Undertaking Shareholder will not:*
 - (i) sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in the Relevant Shares to any person except to the Offeror pursuant to the Offer;*
 - (ii) accept any other offer in respect of any of the Relevant Shares (whether it is conditional or unconditional and irrespective of the means by which it is to be implemented);*

- (iii) *withdraw its acceptance even though it may become entitled to withdraw it under the rules of the Code or any provision in the Offer Document; or*
- (iv) *enter into any agreement or arrangement or incur any obligation or give any indication of intent that might impede or restrict its obligations under its undertaking or otherwise frustrate the Offer or its implementation.*

8.2 Aggregate Holdings. *As at the Latest Practicable Date, the Undertaking Shareholders hold in aggregate 98,440,439 Shares, representing approximately 89.34% of the total number of Shares.*

Based on the Irrevocable Undertakings, the details of the Undertaking Shareholders and the number of Offer Shares which are to be tendered in acceptance of the Offer by each Undertaking Shareholder pursuant to their respective Irrevocable Undertaking are as follows:

S/N	Undertaking Shareholder	Number of Offer Shares tendered	Percentage of the total number of Shares ⁽¹⁾⁽²⁾
1.	Best Decade	85,508,799	77.61%
2.	Cai Zhizheng	2,170,580	1.97%
3.	Chew Yam Poey	147,000	0.13%
4.	DLG	5,130,000	4.66%
5.	Inaya Limited	2,921,700	2.65%
6.	Lim Ewe Ghee	936,360	0.85%
7.	Poh Kiat	523,100	0.47%
8.	Teo Chee Kok	139,000	0.13%
9.	Wang Jianyong	368,100	0.33%
10.	Wong Yet Kuan @ Wong Aik Khoon	48,600	0.04%
11.	Wong Yun Kit	457,200	0.41%
12.	Yip Pui Ling	90,000	0.08%
Total		98,440,439	89.34%

Notes:

- (1) *Based on the total number of issued Shares in the Offeree of 110,182,709 Shares as at the Latest Practicable Date. The percentage figures in this table are rounded to the nearest two (2) decimal places.*
- (2) *In this Offer Document, any discrepancies between the listed percentages and the totals shown thereof are due to rounding. Accordingly, figures shown as totals in this Offer Document may not be an arithmetic aggregation of the figures that precede them.*

8.3 Termination of the Irrevocable Undertakings. *The Irrevocable Undertakings shall terminate, lapse and cease to have any effect if, amongst other things, the Offer closes, lapses or is withdrawn.*

8.4 No other undertakings. *Save for the Irrevocable Undertakings, as at the Latest Practicable Date, neither the Offeror nor any party acting in concert with it has received any undertakings from any other party to accept or reject the Offer."*

4. INFORMATION ON THE OFFEROR

The information on the Offeror set out in italics below has been extracted from Section 6 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

"6. Information on the Offeror

6.1 The Offeror. *The Offeror is a special purpose vehicle incorporated in Singapore on 26 July 2018 and is wholly-owned by Mr. Ding Liguu ("DLG"), who is the Executive Chairman and Chief Executive Officer of the Offeree Group, and a controlling shareholder of the Offeree. As at the Latest Practicable Date, DLG is the sole director of the Offeror.*

- 6.2 **The Offeror's shareholding in the Offeree.** As at the Latest Practicable Date, the Offeror does not hold any Shares in the Offeree.
- 6.3 **The Offeror and parties acting in concert.** As at the Latest Practicable Date, DLG and his spouse, Ms. Zhao Jing ("**ZJ**"), are deemed interested in 85,508,799 Shares (representing approximately 77.61% of all the Shares in issue as at the Last Trading Day) that are held by Best Decade Holdings Limited ("**Best Decade**"). Best Decade is a wholly-owned subsidiary of Golden Top Group Limited ("**Golden Top**"). In turn, Golden Top is a wholly-owned subsidiary of Honest Joy International Limited ("**Honest Joy**"). DLG and ZJ own all of the issued shares of Honest Joy in the proportion of 7:3.
- 6.4 Separately, DLG also directly owns 5,130,000 Shares (representing approximately 4.66% of all the Shares in issue as at the Last Trading Day). As a result, ZJ is also deemed interested in the 5,130,000 Shares that are held by DLG.
- 6.5 **Further Information.** Appendix C to this Offer Document sets out additional information on the Offeror.

5. RATIONALE FOR THE OFFER

The full text of the rationale for the Offer has been extracted from Section 9 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

"9. Rationale for the Offer

9.1 Opportunity for minority Shareholders to realise their investment in the Offeree at a premium

*The Offer Price represents a premium of approximately 18.6%, 19.0%, 20.5% and 9.5% over the volume-weighted average price ("**VWAP**") per Share as transacted on the SGX-ST for the one (1)-month, three (3)-month, six (6)-month and twelve (12)-month periods up to and including the Last Trading Day respectively.*

Shareholders will have an opportunity to realise their investment in the Offeree for a cash consideration at a premium above the historical market share prices, without incurring any brokerage and other trading costs.

9.2 Opportunity for Shareholders to exit their entire investment in the Offeree, which may otherwise be difficult due to the low trading liquidity of the Shares

The trading liquidity of the Shares has been low. The average daily trading volume of the Shares for the one (1)-month, three (3)-month, six (6)-month and twelve (12)-month periods up to and including the Last Trading Day are set out in the table below.

	One (1)-month	Three (3)-month	Six (6)-month	Twelve (12)-month
Average daily trading volume as a percentage (%) of total number of issued Shares ⁽¹⁾	0.01	0.01	0.01	0.05

Note:

- (1) *The average daily trading volume is based on data extracted from Bloomberg L.P. as at the Last Trading Day. The Offeree's total number of issued Shares is 110,182,709. The percentage figures are rounded to the nearest two (2) decimal places.*

9.3 **Compliance Costs of Maintaining Listing**

In maintaining its listed status, the Offeree incurs compliance and associated costs. In the event that the Offeree is delisted from the SGX-ST, the Offeree will be able to save on expenses relating to the maintenance of a listed status and focus its resources on its business operations.

9.4 **Greater Management Flexibility**

The Offeror is making the Offer with a view to delisting the Offeree from the SGX-ST and exercising any rights of compulsory acquisition that may arise under Section 215(1) of the Companies Act. The Offeror believes that privatising the Offeree will give the Offeror and the management of the Offeree more flexibility to manage the business of the Offeree Group, optimise the use of its management and capital resources and facilitate the implementation of any operational change."

6. **OFFEROR'S INTENTIONS FOR THE COMPANY**

The full text of the intentions of the Offeror relating to future plans, the listing status and compulsory acquisition of the Company has been extracted from Section 10 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

"10. Offeror's intentions for the Offeree

10.1 The Offeror's future plans for the Offeree. *The Offeror intends to make the Offeree its wholly-owned subsidiary and does not intend to preserve the listing status of the Offeree on the Main Board of the SGX-ST. Accordingly, the Offeror, if and when entitled upon the satisfaction of the Offer Acceptance Condition, intends to exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act ("**Compulsory Acquisition Right**") and, pending the completion of such compulsory acquisition, does not intend to take any steps for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted in the event that, inter alia, less than 10% of the total number of Shares in issue are held in public hands. In addition, the Offeror also reserves the right to seek a voluntary delisting of the Offeree from the SGX-ST pursuant to Rules 1307 to 1309 of the Listing Manual.*

Subject as aforesaid, it is the intention of the Offeror to carry on the existing business activities of the Offeree, and the Offeror presently has no intention to (i) introduce any major changes to the existing businesses of the Offeree; (ii) re-deploy any of the major fixed assets of the Offeree; or (iii) discontinue the employment of any employees of the Offeree Group, save in the ordinary course of business. However, the Offeror retains the flexibility at any time to consider any options or opportunities in relation to the Offeree which may present themselves and which the Offeror may regard to be in the interest of the Offeree.

10.2 Listing status.

10.2.1 *Under Rule 1105 of the Listing Manual, if the Offeror Concert Party Group (as defined in the Listing Manual), as a result of the Offer or otherwise, owns or controls more than 90% of all the Shares, the SGX-ST may suspend the trading of the Shares in the Ready and Unit Share markets until such time when the SGX-ST is satisfied that at least 10% of all the Shares are held by at least 500 Shareholders who are members of the public.*

10.2.2 *In addition, under Rule 724(1) of the Listing Manual, if the percentage of the Shares held in public hands falls below 10%, the Offeree must, as soon as practicable, announce that fact and the SGX-ST may suspend trading of all the Shares. Under Rule 1303(1) of the Listing Manual, where the Offeror succeeds in garnering acceptances exceeding 90% of all the Shares, thus causing the percentage of the Offeree's total number of Shares held in public hands to fall below 10%, the SGX ST will suspend trading of Shares at the close of the Offer.*

10.2.3 Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Offeree a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the Shares in public hands to at least 10% (the “**Free Float Requirement**”), failing which the Offeree may be delisted. The Offer may result in the Free Float Requirement not being met. **If the Free Float Requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares.**

10.2.4 As at 5.00 p.m. (Singapore time) on the Latest Practicable Date and based on information provided by the Offeree, Shares representing at least 82.26% of the total number of Shares are held by directors and substantial shareholders who are non-public.

10.3 **Compulsory acquisition.** Pursuant to Section 215(1) of the Companies Act, if the Offeror receives acceptances pursuant to the Offer, for not less than 90 per cent. of the total issued Shares (other than those already held by the Offeror, its related corporations or their nominees as at the date of the Offer), the Offeror will be entitled to exercise its Compulsory Acquisition Right to compulsorily acquire, at the Offer Price, all the Offer Shares of Shareholders who have not accepted the Offer. **Accordingly, the Offeror will be entitled to exercise its Compulsory Acquisition Right upon the satisfaction of the Offer Acceptance Condition.**

Pursuant to Section 215(3) of the Companies Act, if the Offeror acquires such number of Offer Shares which, together with Shares held by it, its related corporations and their nominees, comprise 90 per cent. or more of the total issued Shares, Shareholders who have not accepted the Offer have a right to require the Offeror to acquire their Offer Shares at the Offer Price. Such Shareholders who wish to exercise such a right are advised to seek their own independent legal advice.”

7. ADVICE AND RECOMMENDATION IN RELATION TO THE OFFER

7.1 Appointment of PwCCF

PwCCF has been appointed as the independent financial adviser to advise the Independent Directors in respect of the Offer. Shareholders should read and consider carefully the recommendation of PwCCF to the Independent Directors in respect of the Offer as set out in the IFA Letter and the recommendation of the Independent Directors set out in Section 7.5 of this Circular before deciding whether to accept or reject the Offer.

7.2 Independence of Directors

Mr Wu Yujie, Mr Lai Hock Meng, Mr Wang Tianyi and Mr Wu Geng are considered independent for the purposes of making a recommendation to the Shareholders in relation to the Offer.

The SIC has on 22 July 2019 ruled that Mr Ding Liguu is exempted from the requirement under Rule 24.1 of the Code to make a recommendation to Shareholders in respect of the Offer as he is the sole shareholder of the Offeror and faces a conflict of interest in relation to the Offer.

Nonetheless, all the Directors are jointly and severally responsible for the accuracy of facts stated and the completeness of the information given by the Company to the Shareholders, including information contained in documents, announcements and/or advertisements issued by or on behalf of the Company in connection with the Offer.

Shareholders should read and consider carefully the advice of PwCCF to the Independent Directors in respect of the Offer as set out in the IFA Letter and the recommendation of the Independent Directors set out in Section 7.5 below before deciding whether or not to accept the Offer.

7.3 Evaluation of the Offer by PwCCF

The IFA Letter setting out the advice and recommendations of PwCCF to the Independent Directors in respect of the Offer is set out in Appendix I to this Circular. The key considerations relied upon by PwCCF in arriving at its advice to the Independent Directors are set out in paragraph 9 of the IFA Letter.

Shareholders should read and consider carefully the key considerations relied upon by PwCCF in arriving at its advice to the Independent Directors, in conjunction with, and in the context of the full text of the IFA Letter.

7.4 Advice of PwCCF to the Independent Directors on the Offer

Having regard to the considerations set out in the IFA Letter and based on the circumstances of the Company and information as at the Latest Practicable Date, PwCCF has made certain recommendations to the Independent Directors as set out in paragraph 10 of the IFA Letter and reproduced in italics below. The advice set out below should be considered and read by Shareholders in conjunction with, and in the context of, the full text of the IFA Letter. All terms and expressions used in the extract below shall have the same meanings as those defined in the IFA Letter, unless otherwise stated.

“10. OUR RECOMMENDATION TO THE INDEPENDENT DIRECTORS ON THE OFFER

In arriving at our recommendation in respect of the Offer to the Independent Directors, we have taken into account a range of factors which we consider, based on available information, to be pertinent and have significant bearing on our assessment of the Offer. Accordingly, it is important that this IFA Letter, in particular, all the considerations and information we have taken into account, be read in its entirety.

10.1 The Offer

*Based on our analysis including the qualifications made therein, we are of the opinion that, on balance, the Offer is **NOT FAIR BUT REASONABLE**, from a financial point of view.*

*We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view, after factoring, inter alia, the following:*

- (a) **Discount to NAV.** The Offer Price is at a discount of 40.1% to the NAV per Share of S\$11.68 as at 30 June 2019;*
- (b) **Comparison of valuation measures of the Group against those of Comparable Companies.** The valuation multiples of EV/EBITDA, P/E and P/NAV of the Group implied by the Offer Price are within the range, but below the mean and median of those of Comparable Companies. We wish to highlight that, to the best of our knowledge and belief, there are no similar companies listed on the SGX-ST and therefore we have considered publicly listed companies on different stock exchanges, which may be affected by different trading conditions and market sentiments. Therefore, any comparison made with respect to the Comparable Companies may not be very meaningful and can only serve as an illustrative guide.*
- (c) **Unfavourable Offer Price relative to the price paid by Best Decade in its acquisition of the Company's Shares from Evraz in June 2018.** We noted that the Offer Price of S\$7.00 is lower than the US\$ equivalent share price of S\$7.42 Best Decade paid to acquire 15.04% stake from Evraz. However, we wish to highlight that this transaction may not necessarily reflect the implied market valuation of the Company. In addition, the share prices of the Company remain below the Offer Price despite the above mentioned transaction.*

We consider the financial terms of the Offer to be **REASONABLE**, from a financial point of view, after factoring, inter alia, the following:-

- (a) **The premiums implied by the Offer Price.** The Offer Price represents premium of approximately of 1.9% to the closing price of S\$6.87 per Share as at the Last Unaffected Trading Day and premiums of approximately 8.0%, 17.9%, 37.2% and 76.9% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Unaffected Trading Day, respectively.

The Offer Price represents premium of approximately of 16.5% to the closing price of S\$6.01 per Share as at the Last Trading Day and premiums of approximately 18.6%, 19.0%, 20.5%, 10.0% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Trading Day, respectively;

- (b) **The share price of the Company has been lower than the Offer Price for the entire period since 27 September 2017 and up to the Last Trading Day.** The highest transacted price of the Shares during this period is S\$6.98 (a discount of S\$0.02 or 0.29% relative to the Offer Price of S\$7.00), which took place only on the last trading day immediately before the Previous Offer was withdrawn;
- (c) **The share price of the Company has been lower than the price paid by Best Decade in its acquisition of the Company's Shares from Evraz in June 2018.** During the trading week immediately subsequent to the Company's announcement of Evraz & Volin Transactions, the highest transacted price of the shares is S\$5.74, representing a discount of S\$1.68 (or 22.6%) relative to the US\$ equivalent share price of S\$7.42 paid to Evraz;
- (d) **Discounts to NAV is within range of historical discounts to NAV of the Company.** The discount of the Offer Price to the NAV per Share of 40.1% is within the historical discount range of 30.3% to 73.8% for the 12-month period up to and including the Last Unaffected Trading Day, and the discount of the Offer Price to the NAV per Share of 40.1% is also within the historical discount range of 30.4% to 50.1% for the 12-month period up to and including the Last Trading Day;
- (e) **Analysis of the dividend yields of the Group.** The Group does not have a dividend policy. While the Group had declared interim dividends in FY2018, the Group did not declare or pay any dividend for the past 10 years prior to FY2018;
- (f) **The Offer Price is final and will not be revised.** The Offeror does not intend to revise the Offer Price of S\$7.00 per share or any other terms of Offer;
- (g) **The Offer is the only offer available to Shareholders.** As at the Latest Practicable Date, Management has confirmed that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b), apart from the Offer being made by the Offeror, no third parties have made an offer for the Company.

As at the Offer Document LPD, the Offeror has received Irrevocable Undertaking from Undertaking Shareholders who hold an aggregate of 98,440,439 Shares, representing approximately 89.34% of the total number of Shares. Under such circumstances, any competing offer for Shares is unlikely to be forthcoming without the support of the majority control represented by the percentage of the total number of shares that the Undertaking Shareholders hold. Thus, the possibility of an alternative offer from parties other than the Offeror is significantly reduced.

- (h) **Offeror's intention regarding the listing status of the Company.** We note from Section 10 of the Offer Document that the Offeror intends to make the Offeree its wholly-owned subsidiary and does not intend to preserve the listing status of the Offeree on the Main Board of the SGX-ST.

As at the Latest Practicable Date, the percentage of Shares held by the public is approximately 8.8% and is therefore less than the requisite 10% of the total number of issued Shares (excluding treasury shares) as required under Rule 723 of the Listing Manual of the SGX-ST.

If the free float requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares. Therefore, it is likely to be difficult for Shareholders to sell their Shares in the absence of a public market for the Shares as there is no arrangement for such Shareholders to exit their investments in the Shares; and

- (i) **The Offer has been declared unconditional.** On the Offer Unconditional Date, the Offer has become unconditional as to acceptances and is declared unconditional in all respects by Sterling Coleman as the total number of (a) Offer Shares owned, controlled or agreed to be acquired by the Offeror and its Concert Parties, and (b) valid acceptances to the Offer, amount to an aggregate of 99,971,129 Shares, representing approximately 90.73% of the total number of shares of the Offeree.

Accordingly, the Offeror is entitled to, and will in due course, exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act to compulsorily acquire all the Shares of the Shareholders who have not accepted the Offer at the Offer Price of S\$7.00 for each Offer Share.

Accordingly, we advise that the Independent Directors, after taking the above into consideration, recommend Shareholders who:

- (a) wish to realise their investments in the Company at this time but are unable to sell their Shares in the open market at a price (after deducting related expenses) higher than the Offer Price; and/or
- (b) believe that the current market price of the Shares may not be sustained after the close of the Offer; and/or
- (c) believe that even if the Company remains listed, trading liquidity may reduce materially; and/or
- (d) believe that a higher offer may not be made,

ACCEPT the Offer. Alternatively, such Shareholders should sell their Shares in the open market if they are able to obtain a price higher than the Offer Price after deducting related expenses (such as brokerage and trading costs). The Independent Directors may also wish to consider highlighting that there is no assurance that the market price and/or trading volume of the Shares will continue to remain at the levels prevailing as at the Latest Practicable Date after the close of the Offer and that past trading performance of the Shares should not be relied upon as an indication of its future trading performance.

7.5 Recommendation of the Independent Directors

The Independent Directors, having considered carefully the terms of the Offer and the advice and recommendations given by PwCCF to the Independent Directors in the IFA Letter, **concur** with the advice and recommendation of PwCCF in respect of the Offer. Accordingly, the Independent Directors recommend that Shareholders **ACCEPT** the Offer.

Shareholders are advised to read the terms and conditions of the Offer Document carefully. Shareholders are also advised to read and consider carefully the recommendation of the Independent Directors and the IFA Letter set out in Appendix I to this Circular in their entirety before deciding whether to accept or reject the Offer. Shareholders should note that PwCCF's advice to the Independent Directors and the recommendations of the Independent Directors in respect of the Offer should not be relied upon by any Shareholder as the sole basis for deciding whether or not to accept the Offer.

Shareholders should note that the trading of the Shares are subject to, *inter alia*, the performance and prospects of the Group, prevailing economic conditions, economic outlook and stock market conditions and sentiments. Accordingly, the advice by PwCCF on the Offer does not and cannot take into account future trading activities or patterns or price levels that may be established for the Shares after the Latest Practicable Date since these are governed by factors beyond the ambit of PwCCF's review.

In rendering the above advice and making the above recommendation, PwCCF and the Independent Directors have not considered the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Shareholder. **As different Shareholders would have different investment profiles and objectives, the Independent Directors recommend that any individual Shareholder who may require specific advice in relation to his/her investment portfolio or objectives and/or the Offer should consult his/her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.**

8. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders may accept the Offer in respect of all or any part of their holdings of Shares. Shareholders who wish to accept the Offer must do so not later than **5.30 p.m. (Singapore time) on 10 September 2019 (Tuesday)**. There are different procedures for acceptance for Depositors whose Securities Accounts are or will be credited with Shares and for Shareholders who hold Shares in scrip form. Shareholders who wish to accept the Offer should take note of the "Procedures for Acceptance of the Offer" set out in Appendix B to the Offer Document.

Shareholders who do not wish to accept the Offer need not take any further action in respect of the Offer Document and the FAA and/or FAT which have been sent to them.

9. OVERSEAS SHAREHOLDERS

Shareholders whose addresses are outside Singapore, as shown on the Register or, as the case may be, in the Depository Register (each, an **"Overseas Shareholder"**) should refer to Section 14 of the Offer Document, an extract of which is set out in italics below.

"14. Overseas Shareholders

14.1 Overseas Shareholders. *This Offer Document, the Relevant Acceptance Forms and/or any related documents do not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful. The availability of the Offer to Overseas Shareholders and the ability of the Overseas Shareholders to accept the Offer may be affected by the laws of the relevant overseas jurisdictions in which they are located. Accordingly, any Overseas Shareholder should inform himself about and observe any applicable legal requirements, and exercise caution in relation to the Offer, as this Offer Document has not been reviewed by any regulatory authority in any overseas jurisdiction. Where there are potential restrictions on sending this Offer Document or any part thereof to any overseas jurisdictions, the Offeror, Stirling Coleman and CDP each reserves the right not to send this Offer Document or any part thereof to Shareholders in such overseas jurisdictions. For the avoidance of doubt, the Offer is open to all Shareholders including those to whom this Offer Document, the Relevant Acceptance Forms and/or any related documents have not been, or may not be, sent.*

*Copies of this Offer Document and any other formal documentation relating to the Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any jurisdiction where the making of or the acceptance of the Offer would violate the law of that jurisdiction (a “**Restricted Jurisdiction**”) and will not be capable of acceptance by any such use, instrumentality or facility within any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.*

The Offer (unless otherwise determined by the Offeror or Stirling Coleman and permitted by applicable law and regulation) will not be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction, and the Offer will not be capable of acceptance by any such use, means, instrumentality or facilities.

- 14.2 **Copies of this Offer Document.** *An Overseas Shareholder may, nonetheless, obtain a copy of this Offer Document and any related documents, during normal business hours and up to 5.00 p.m. (Singapore time) on the Closing Date, from CDP at 9 North Buona Vista, #01-19/20, The Metropolis, Singapore 138588 or the office of the Registrar, 8 Robinson Road #03-00, ASO Building, Singapore 048544.*

Alternatively, an Overseas Shareholder may (subject to compliance with applicable laws) write to the Registrar at 8 Robinson Road #03-00, ASO Building, Singapore 048544 or CDP at 9 North Buona Vista, #01-19/20, The Metropolis, Singapore 138588 to request that the Offer Document, the Relevant Acceptance Forms and any related documents be sent to an address in Singapore by ordinary post at his own risk, up to five (5) Business Days prior to the Closing Date.

- 14.3 **Notice.** *The Offeror and Stirling Coleman each reserves the right to notify any matter, including the fact that the Offer has been made, to any or all Overseas Shareholders by announcement to the SGX-ST and if necessary, paid advertisement in a daily newspaper published and circulated in Singapore or notice published in the Government Gazette, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement or advertisement.*

- 14.4 **Overseas jurisdiction.** *It is the responsibility of any Overseas Shareholder who wishes to (a) request for this Offer Document and/or any related documents; or (b) accept the Offer, to satisfy himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholder shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror and any person acting on its behalf (including Stirling Coleman, CDP and the Registrar) shall be fully indemnified and held harmless by such Overseas Shareholder for any such taxes, imposts, duties or other requisite payments as the Offeror and/or any person acting on its behalf may be required to pay. In (i) requesting for this Offer Document and any related documents; and/or (ii) accepting the Offer, the Overseas Shareholder represents and warrants to the Offeror, CDP, the Registrar and Stirling Coleman that he is in full observance of the laws of the relevant jurisdiction in that connection, and that he is in full compliance with all necessary formalities or legal requirements. **Any Overseas Shareholder who is in any doubt about his position, including (without limitation) the ability to accept the Offer, should consult his professional adviser(s) in the relevant jurisdiction.”***

The Constitution provides that any notice or document may be served on or delivered to any Shareholder by the Company either personally or by sending it through the post in a prepaid cover addressed to such Shareholder at his Singapore registered address appearing in the Register or (as the case may be) the Depository Register, or (if he has no registered address within Singapore) to the address, if any, within Singapore supplied by him to the Company, or (as the case may be) CDP as his address for the service of notices. The Constitution further provides that a Shareholder who (having no registered address within Singapore) has not supplied to the Company or (as the case may be) CDP an address within Singapore for the service of notices shall not be entitled to receive notices from the Company.

Accordingly, and due to potential restrictions on sending this Circular to overseas jurisdictions, this Circular has not been and will not be sent to any Overseas Shareholder who has not provided, and will not provide, the Company with an address within Singapore at which notices or documents may be served upon him. Any affected Overseas Shareholder may nonetheless (subject to compliance with applicable laws) attend in person and obtain copies of this Circular during normal business hours and up to 5.30 p.m. (Singapore time) on the Closing Date, from the office of the Share Registrar at 8 Robinson Road, #03-00, ASO Building, Singapore 048544. Alternatively, an Overseas Shareholder may (subject to compliance with applicable laws) write to the Share Registrar at the above-stated address to request for this Circular to be sent to an address in Singapore by ordinary post at his own risk, up to five Market Days prior to the Closing Date.

In requesting for this Circular and any related documents, each of the Overseas Shareholders represents and warrants to the Company that each of them is in full observance of the laws of the relevant jurisdiction in that connection, and that each of them is in full compliance with all necessary formalities or legal requirements.

10. INFORMATION PERTAINING TO CPFIS INVESTORS AND SRS INVESTORS

CPFIS Investors and SRS Investors should receive further information on how to accept the Offer from their respective CPF Agent Banks and SRS Agent Banks directly. CPFIS Investors and SRS Investors are advised to consult their respective CPF Agent Banks and SRS Agent Banks should they require further information, and if they are in any doubt as to the action they should take, CPFIS Investors and SRS Investors should seek independent professional advice.

CPFIS Investors and SRS Investors who wish to accept the Offer are to reply to their respective CPF Agent Banks and SRS Agent Banks by the deadline stated in the letter from their respective CPF Agent Banks and SRS Agent Banks, which may be earlier than the Closing Date. Subject to the Offer becoming or being declared to be unconditional in all respects in accordance with its terms, CPFIS Investors and SRS Investors who validly accept the Offer through their appropriate intermediaries will receive the payment for their Offer Shares in their CPF investment accounts and SRS investment accounts.

11. DIRECTORS' RESPONSIBILITY STATEMENT

Save for (a) the recommendation of the Independent Directors to Shareholders set out in Section 7.5 of this Circular which is the sole responsibility of the Independent Directors, (b) the IFA Letter, (c) information extracted *in toto* from the Offer Document and the Offer Unconditional Announcement and (d) information relating to the Offeror, the Directors (including any who may have delegated detailed supervision of this Circular) hereby jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are fair and accurate.

Where any information has been extracted from the Offer Document or published or otherwise publicly available sources or obtained from the Offeror (including, without limitation, the Offer Document and the Offer Unconditional Announcement), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information is accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this Circular in its proper form or context.

Yours faithfully

For and on behalf of the Board of Directors of
DELONG HOLDINGS LIMITED

Lai Hock Meng
Lead Independent Director

APPENDIX I

LETTER FROM PWCCF TO THE INDEPENDENT DIRECTORS

27 August 2019

The Independent Directors
Delong Holdings Limited
50 Raffles Place
Singapore Land Tower
Level 30-01
Singapore 048623

Dear Sirs / Madam

VOLUNTARY CONDITIONAL CASH OFFER BY STIRLING COLEMAN CAPITAL LIMITED FOR AND ON BEHALF OF BEST GRACE HOLDINGS PTE. LTD.

Unless otherwise defined in this Independent Financial Adviser's ("IFA") letter (the "IFA Letter") or the context otherwise requires, all terms defined in the Circular (the "Circular") dated 27 August 2019 to shareholders of Delong Holdings Limited (the "Shareholders") shall have the same meaning herein.

1. INTRODUCTION

On 29 July 2019 (the "**Offer Announcement Date**"), Stirling Coleman Capital Limited ("**Stirling Coleman**") announced, for and on behalf of Best Grace Holdings Pte. Ltd. (the "**Offeror**"), that the Offeror intends to make a voluntary conditional cash offer (the "**Offer**") for all of the issued and paid-up ordinary shares (the "**Shares**") in the capital of Delong Holdings Limited ("**Delong**", the "**Offeree**" or the "**Company**"), other than Shares already held by the Offeror, its related corporations and their nominees at the Offer Announcement Date (the "**Offer Shares**"), in accordance with Rule 15 of the Singapore Code on Take-overs and Mergers (the "**Code**") and Section 139 of the Securities and Futures Act (Chapter 289 of Singapore).

The Offeror is a special purpose vehicle incorporated in Singapore on 26 July 2018 and is wholly-owned by Mr. Ding Liguu ("**DLG**"), who is the Executive Chairman and Chief Executive Officer of the Offeree and its subsidiaries, and a controlling shareholder of the Offeree. As at the Offer Announcement Date, DLG is the sole director of the Offeror.

It was noted that the Offeror made a previous offer on substantively the same terms as the Offer pursuant to an offer announcement on 27 September 2018 (the "**Previous Offer**"), which was withdrawn on 11 October 2018. Rule 33.1(a) of the Code provides that, except with the consent of the Securities Industry Council of Singapore (the "**SIC**"), neither the offeror, any persons who acted in concert with it in the course of the original offer nor any person who is subsequently acting in concert with any of them may announce an offer for the offeree company within 12 months from the date on which the original offer was withdrawn. In relation to the foregoing, the Offeror had sought an exemption from the prohibition under Rule 33.1(a) of the Code and SIC has granted the Offeror the exemption sought.

The Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances (which have not been withdrawn) in respect of 90% of the total number of Offer Shares (the “**Offer Acceptance Condition**”). Save for the Offer Acceptance Condition, the Offer is unconditional in all other respects. The Offer is made at the offer price of S\$7.00 in cash for each Offer Share (the “**Offer Price**”). The Offeror does not intend to revise the Offer Price or any other terms of the Offer.

On 13 August 2019, Sterling Coleman announced that the formal offer document (the “**Offer Document**”) setting out, *inter alia*, the terms and conditions of the Offer has been despatched to Shareholders on the same day. It is also noted that, on 15 August 2019, Stirling Coleman announced, *inter alia*, that the Offer has become unconditional as to acceptances and is declared unconditional in all respects on the same date.

In connection with the Offer, the Company has appointed PricewaterhouseCoopers Corporate Finance Pte Ltd (“**PwCCF**”) as the Independent Financial Adviser (“**IFA**”) to the directors of the Company who are considered independent for the purposes of the Offer (“**Independent Directors**”) for the purpose of making a recommendation to the Shareholders in relation to the Offer.

This letter (“**IFA Letter**”) is addressed to the Independent Directors and sets out, *inter alia*, our evaluation and advice on the financial terms of the Offer. This IFA Letter forms part of the Circular to Shareholders dated 27 August 2019 (the “**Circular**”) which provides, *inter alia*, the details of the Offer and the recommendations of the Independent Directors thereon.

2. TERMS OF REFERENCE

We have confined our evaluation of the Offer solely from a financial point of view on the bases set out herein.

We have relied upon and assumed, *inter alia*, the accuracy, adequacy and completeness of all publicly available information or information provided to or discussed with us by the Company or otherwise reviewed by or for us, and we have not independently verified such information. As such, we do not represent or warrant, expressly or impliedly, and do not accept any responsibility for the accuracy, completeness or adequacy of such information. We have not conducted any valuation or appraisal of any assets or liabilities, (including without limitation, real properties) nor have we evaluated the solvency of the Company, the Company and its subsidiaries and its associated companies (the “**Group**”), the Offeror (and parties acting in concert with them) or any other relevant party to the Offer under any applicable laws relating to bankruptcy, insolvency or similar matters. We are not legal, regulatory or tax experts, but we are the independent financial advisers and have relied on, without independent verification, the assessments made by advisers to the Company with respect to such issues. We have nevertheless made reasonable enquiries and exercised reasonable judgement as we deemed necessary or appropriate in assessing such information and we are not aware of any reason to doubt the reliability of the information.

In addition, we have assumed that the Offer will be consummated in accordance with the terms set forth in the Offer Document without any waiver, amendment or delay of any terms or conditions

and that no conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. We have further assumed, *inter alia*, that all material governmental, regulatory or other consents and approvals necessary for the consummation of the Offer will be obtained and that no delays, limitations, conditions or restrictions will be imposed that would have any material adverse effect on the Company or on the contemplated benefits of the Offer.

Our opinion as set out in this IFA Letter is based upon prevailing market, economic, industry, monetary and other conditions (if applicable) and the information made available to us as of 16 August 2019 (the “**Latest Practicable Date**”). Developments after the Latest Practicable Date may affect the contents of this IFA Letter and we assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent developments after the Latest Practicable Date. Our opinion is limited to the fairness and reasonableness, from a financial point of view, of the Offer. We express no opinion as to the fairness and reasonableness of the Offer to, or any consideration received in connection therewith by, the holders of any class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the Offer.

We have not been requested to, and we do not, express any opinion on the structure of the Offer, the specific amount of the Offer Price, or any other aspects of the Offer, or to provide services other than the delivery of this IFA Letter. We were not involved in negotiations pertaining to the Offer nor were we involved in the deliberation leading up to the decision to put forth the Offer to the Shareholders. We have not been requested or authorised to solicit, and we have not solicited, any indication of interest from any third party with respect to the Shares and/or any other alternative transaction.

Our terms of reference also do not require us to evaluate or comment on the rationale for, risks and/or merits of the Offer or the future prospects, earnings potential and/or financial position of the Company and/or the Group, nor do our terms of reference require us to evaluate or comment on the merits of the statements or opinions stated in any research reports on the Company, including any other reports issued by any other party. We have accordingly not made such evaluation or comments. Such evaluation or comments, if any, remains the sole responsibility of the Directors, although we may draw upon their views to the extent deemed necessary or appropriate by us in arriving at our opinion as set out in this IFA Letter. The Independent Directors may wish to advise Shareholders to take note of any announcement relevant to their consideration of the Offer, which may be released by the Company after the Offer Document Latest Practicable Date.

The Directors have confirmed to us, after making all reasonable enquiries that, to the best of their knowledge and belief, all material information in connection with the Company, the Group, the Offer and the Circular has been disclosed to us, that such information constitutes a full and true disclosure in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Company and/or the Group as stated in the Circular to be incomplete, inaccurate or misleading in any material respect. The Directors have jointly and severally accepted the responsibility for the accuracy and completeness of such information. We have relied upon such confirmation by the Directors and the

accuracy and completeness of all information given to us by the Directors and/or management of the Company (“**Management**”) and have not independently verified such information, whether written or verbal, and accordingly cannot and do not represent and warrant, expressly or impliedly, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. For the purposes of providing this IFA Letter and our evaluation of the Offer from a financial point of view, we have not received or relied on any financial projections or forecasts in respect of the Company, the Group, or any part or division of any of the foregoing.

In rendering our opinion, we have not had regard to any general or specific investment objectives, financial situation, tax position, risk profile, tax status or positions or particular needs and constraints or other particular circumstances of any Shareholder and do not assume any responsibility for, nor hold ourselves out as advisers to, any person other than the Independent Directors. As each Shareholder would have different investment objectives and profiles, the Independent Directors may wish to advise any Shareholder who may require specific advice in relation to his specific investment portfolio to consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other appropriate professional adviser immediately.

This IFA Letter is addressed to the Independent Directors and is for their benefit in connection with and for the purpose of their consideration of the Offer. However, the recommendations made by them shall remain the responsibility of the Independent Directors. This IFA Letter is not addressed to and may not be relied upon by any third party including, without limitation, Shareholders of the Company, employees or creditors of the Company. This IFA Letter does not constitute, and should not be relied on, as advice or a recommendation to, or confer any rights or remedies upon, any Shareholders as to how such person should deal with their Shares in relation to the Offer or any matter related thereto.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than this IFA Letter). We have had no role or involvement and have not provided and will not provide any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Circular (other than this IFA Letter). Accordingly, we take no responsibility for, and express no views (express or implied) on, the contents of the Circular (other than this IFA Letter).

Our opinion in relation to the Offer should be considered in the context of the entirety of this IFA Letter and the Circular.

3. THE OFFER

The following paragraphs have been extracted from Section 2 of the Offer Document and are set out in italics. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. Shareholders are advised to read the entire Offer Document including relevant sections, as extracted below, carefully.

2. The Offer

2.1 Offer Price. *For and on behalf of the Offeror, Stirling Coleman hereby makes the Offer, on the terms and conditions of this Offer Document, for all the Offer Shares on the following basis:*

*(a) **\$7.00** in cash for each Offer Share (the “Offer Price”); and*

(b) the Offeror does not intend to revise the Offer Price or any other terms of the Offer.

2.2 Shares of parties acting in concert. *The Offer is extended, on the same terms and conditions, to all Offer Shares, including any and all Offer Shares owned, controlled or agreed to be acquired by parties acting or deemed to be acting in concert with the Offeror in connection with the Offer.*

2.3 No Encumbrances. *The Offer Shares will be acquired (i) fully paid-up; (ii) free from any mortgage, debenture, lien, charge, pledge, title retention, right to acquire, security interest, option, pre-emptive or similar right, right of first refusal and any other encumbrance or condition whatsoever (“**Encumbrances**”); and (iii) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions (collectively, “**Distributions**”) (if any) that may be declared, paid or made by the Offeree in respect of the Offer Shares on or after the Offer Announcement Date.*

2.4 Adjustment for Distributions. *Without prejudice to the foregoing, the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any Distribution that may be declared, paid or made by the Offeree on or after the Offer Announcement Date.*

*Accordingly, if any Distribution is declared, paid or made by the Offeree in respect of the Offer Shares on or after the Offer Announcement Date to a Shareholder who validly accepts or has validly accepted the Offer (the “**Accepting Shareholder**”), the Offer Price payable to such Accepting Shareholder shall be reduced by an amount which is equal to the amount of such Distribution payable to such Accepting Shareholder, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer by the Accepting Shareholder falls, as follows:*

- (a) *If such settlement date falls on or before the books closure date for the determination of entitlements to the Distribution (the “**Books Closure Date**”), the Offer Price for each Offer Share shall remain unadjusted and the Offeror shall pay the Accepting Shareholder the unadjusted Offer Price for each Offer Share, as the Offeror will receive the Distribution in respect of such Offer Share from the Offeree; or*
- (b) *if such settlement falls after the Books Closure Date, the Offer Price for each Offer Share shall be reduced by an amount which is equal to the amount of the Distribution in respect of each Offer Share (the Offer Price after such reduction, the “**Adjusted Offer Price**”) and the Offeror shall pay the Accepting Shareholder the Adjusted Offer Price for each Offer Share, as the Offeror will not receive the Distribution in respect of such Offer Share from the Offeree.*

2.5 Offer Acceptance Condition. *The Offer is conditional upon the Offeror having received, by the Closing Date, valid acceptances (which have not been withdrawn) in respect of 90% of the total number of Offer Shares (the “**Offer Acceptance Condition**”).*

Save for the Offer Acceptance Condition, the Offer is unconditional in all other respects.

As stated in the Section 2.5 of the Offer Document, the Offer is conditional upon the Offeror having received, by the closing date of the Offer, valid acceptances (which have not been withdrawn) in respect of 90% of the total number of Offer Shares (the “**Offer Acceptance Condition**”).

As at the Offer Document LPD, DLG, Best Decade Holdings Limited (“**Best Decade**”) and certain other Shareholders (collectively the “**Undertaking Shareholders**”) have provided Irrevocable Undertakings (as defined below) to the Offeror to tender in acceptance of the Offer in aggregate of 98,440,439 shares, representing approximately 89.34% of the total number of Shares.

On 15 August 2019 (the “**Offer Unconditional Date**”), Stirling Coleman announced, for and on behalf of the Offeror, that the Offeror has at 5.30 p.m. (Singapore time) on 15 August 2019 received valid acceptances (which have not been withdrawn) in respect of such number of Offer Shares which, when taken together with the Offer Shares acquired or agreed to be acquired before or during the Offer, result in the Offeror holding not less than 90% of the total number of the Offer Shares (the “**Offer Unconditional Announcement**”). Accordingly, the Offer has become unconditional as to acceptances and has been declared unconditional in all respects on the Offer Unconditional Date.

4. DETAILS OF THE OFFER

Please refer to Appendix A to the Offer Document for details of the Offer on (i) the duration of the Offer; (ii) the settlement of the Offer Price; (iii) the requirements relating to the announcement of the level of acceptances of the Offer; and (iv) the right of withdrawal of acceptances of the Offer.

5. INFORMATION ON THE OFFEROR

Please refer to Section 6 of the Offer Document for information and further disclosures on the Offeror.

6. IRREVOCABLE UNDERTAKINGS

The following paragraphs have been extracted from Section 8 of the Offer Document and are set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. Shareholders are advised to read the entire Offer Document including relevant sections, as extracted below, carefully.

8. Irrevocable undertakings and waiver of Offer Price

8.1 Irrevocable Undertakings. *As at the Offer Announcement Date, each of DLG, Best Decade, and certain other Shareholders (collectively the “Undertaking Shareholders”, and each an “Undertaking Shareholder”) has given an irrevocable undertaking (collectively the “Irrevocable Undertakings”) to the Offeror to, amongst other things, subject to the Offer Price being at least S\$7.00:*

- (a) accept or procure acceptance of the Offer in respect of all the Offer Shares each of them holds in aggregate as at the date of the Irrevocable Undertakings, and (in the case of DLG and Best Decade) such additional Offer Shares which each of them may acquire after the Offer Announcement Date and before the Offer closes (collectively, the “Relevant Shares”), by no later than 5.00 p.m. on the third Business Day after the despatch of the Offer Document;*
- (b) (in the case of DLG and Best Decade) to waive their rights to receive the Offer Price in respect of all the Offer Shares tendered by them in acceptance of the Offer (the “Waivers”); and*
- (c) unless the Offer Document has not been posted within 21 days after the Offer Announcement Date or the Offer closes, lapses or is withdrawn, each Undertaking Shareholder will not:*
 - (i) sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in the Relevant Shares to any person except to the Offeror pursuant to the Offer;*
 - (ii) accept any other offer in respect of any of the Relevant Shares (whether it is conditional or unconditional and irrespective of the means by which it is to be implemented);*

(iii) *withdraw its acceptance even though it may become entitled to withdraw it under the rules of the Code or any provision in the Offer Document; or*

(iv) *enter into any agreement or arrangement or incur any obligation or give any indication of intent that might impede or restrict its obligations under its undertaking or otherwise frustrate the Offer or its implementation.*

8.2 Aggregate Holdings. *As at the Latest Practicable Date, the Undertaking Shareholders hold in aggregate 98,440,439 Shares, representing approximately 89.34% of the total number of Shares.*

Based on the Irrevocable Undertakings, the details of the Undertaking Shareholders and the number of Offer Shares which are to be tendered in acceptance of the Offer by each Undertaking Shareholder pursuant to their respective Irrevocable Undertaking are as follows:

S/N	Undertaking Shareholder	Number of Offer Shares tendered	Percentage of the total number of Shares⁽¹⁾⁽²⁾
1.	Best Decade	85,508,799	77.61%
2.	Cai Zhizheng	2,170,580	1.97%
3.	Chew Yam Poey	147,000	0.13%
4.	DLG	5,130,000	4.66%
5.	Inaya Limited	2,921,700	2.65%
6.	Lim Ewe Ghee	936,360	0.85%
7.	Poh Kiat	523,100	0.47%
8.	Teo Chee Kok	139,000	0.13%
9.	Wang Jianyong	368,100	0.33%
10.	Wong Yet Kuan @ Wong Aik Khoon	48,600	0.04%
11.	Wong Yun Kit	457,200	0.41%
12.	Yip Pui Ling	90,000	0.08%
	Total	98,440,439	89.34%

Notes:

(1) *Based on the total number of issued Shares in the Offeree of 110,182,709 Shares as at the Latest Practicable Date. The percentage figures in this table are rounded to the nearest two (2) decimal places.*

(2) *In this Offer Document, any discrepancies between the listed percentages and the totals shown thereof are due to rounding. Accordingly, figures shown as totals in this Offer Document may not be an arithmetic aggregation of the figures that precede them.*

8.3 Termination of the Irrevocable Undertakings. *The Irrevocable Undertakings shall terminate, lapse and cease to have any effect if, amongst other things, the Offer closes, lapses or is withdrawn.*

8.4 No other undertakings. *Save for the Irrevocable Undertakings, as at the Latest Practicable Date, neither the Offeror nor any party acting in concert with it has received any undertakings from any other party to accept or reject the Offer.*

7. RATIONALE FOR THE OFFER

The following paragraphs have been extracted from Section 9 of the Offer Document and are set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. Shareholders are advised to read the entire Offer Document including relevant sections, as extracted below, carefully.

9. RATIONALE FOR THE OFFER

9.1 **Opportunity for minority Shareholders to realise their investment in the Offeree at a premium**

The Offer Price represents a premium of approximately 18.6%, 19.0%, 20.5% and 9.5% over the volume-weighted average price ("VWAP") per Share as transacted on the SGX-ST for the one (1)-month, three (3)-month, six (6)-month and twelve (12)-month periods up to and including the Last Trading Day respectively.

Shareholders will have an opportunity to realise their investment in the Offeree for a cash consideration at a premium above the historical market share prices, without incurring any brokerage and other trading costs.

9.2 **Opportunity for Shareholders to exit their entire investment in the Offeree, which may otherwise be difficult due to the low trading liquidity of the Shares**

The trading liquidity of the Shares has been low. The average daily trading volume of the Shares for the one (1)-month, three (3)-month, six (6)-month and twelve (12)-month periods up to and including the Last Trading Day are set out in the table below.

	One (1)- month	Three (3)- month	Six (6)- month	Twelve (12)-month
<i>Average daily trading volume as a percentage (%) of total number of issued Shares ⁽¹⁾</i>	0.01	0.01	0.01	0.05

Note:

- (1) *The average daily trading volume is based on data extracted from Bloomberg L.P. as at the Last Trading Day. The Offeree's total number of issued Shares is 110,182,709. The percentage figures are rounded to the nearest two (2)*

decimal places.

9.3 Compliance Costs of Maintaining Listing

In maintaining its listed status, the Offeree incurs compliance and associated costs. In the event that the Offeree is delisted from the SGX-ST, the Offeree will be able to save on expenses relating to the maintenance of a listed status and focus its resources on its business operations.

9.4 Greater Management Flexibility

The Offeror is making the Offer with a view to delisting the Offeree from the SGX-ST and exercising any rights of compulsory acquisition that may arise under Section 215(1) of the Companies Act. The Offeror believes that privatising the Offeree will give the Offeror and the management of the Offeree more flexibility to manage the business of the Offeree Group, optimise the use of its management and capital resources and facilitate the implementation of any operational change.

8. THE OFFEROR'S INTENTIONS FOR THE OFFEREE

The following paragraphs have been extracted from Section 10 of the Offer Document and are set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. Shareholders are advised to read the entire Offer Document including relevant sections, as extracted below, carefully.

10. Offeror's intentions for the Offeree

10.1 The Offeror's future plans for the Offeree. *The Offeror intends to make the Offeree its wholly-owned subsidiary and does not intend to preserve the listing status of the Offeree on the Main Board of the SGX-ST. Accordingly, the Offeror, if and when entitled upon the satisfaction of the Offer Acceptance Condition, intends to exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act ("**Compulsory Acquisition Right**") and, pending the completion of such compulsory acquisition, does not intend to take any steps for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted in the event that, inter alia, less than 10% of the total number of Shares in issue are held in public hands. In addition, the Offeror also reserves the right to seek a voluntary delisting of the Offeree from the SGX-ST pursuant to Rules 1307 to 1309 of the Listing Manual.*

Subject as aforesaid, it is the intention of the Offeror to carry on the existing business activities of the Offeree, and the Offeror presently has no intention to (i) introduce any major changes to the existing businesses of the Offeree; (ii) re-deploy any of the major fixed assets of the Offeree; or (iii) discontinue the employment of any employees of the

Offeree Group, save in the ordinary course of business. However, the Offeror retains the flexibility at any time to consider any options or opportunities in relation to the Offeree which may present themselves and which the Offeror may regard to be in the interest of the Offeree.

10.2 Listing status.

10.2.1 Under Rule 1105 of the Listing Manual, if the Offeror Concert Party Group (as defined in the Listing Manual), as a result of the Offer or otherwise, owns or controls more than 90% of all the Shares, the SGX-ST may suspend the trading of the Shares in the Ready and Unit Share markets until such time when the SGX-ST is satisfied that at least 10% of all the Shares are held by at least 500 Shareholders who are members of the public.

10.2.2 In addition, under Rule 724(1) of the Listing Manual, if the percentage of the Shares held in public hands falls below 10%, the Offeree must, as soon as practicable, announce that fact and the SGX-ST may suspend trading of all the Shares. Under Rule 1303(1) of the Listing Manual, where the Offeror succeeds in garnering acceptances exceeding 90% of all the Shares, thus causing the percentage of the Offeree's total number of Shares held in public hands to fall below 10%, the SGX ST will suspend trading of Shares at the close of the Offer.

10.2.3 Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Offeree a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the Shares in public hands to at least 10% (the "**Free Float Requirement**"), failing which the Offeree may be delisted. The Offer may result in the Free Float Requirement not being met. **If the Free Float Requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares.**

10.2.4 As at 5.00 p.m. (Singapore time) on the Latest Practicable Date and based on information provided by the Offeree, Shares representing at least 82.26% of the total number of Shares are held by directors and substantial shareholders who are non-public.

10.3 **Compulsory acquisition.** Pursuant to Section 215(1) of the Companies Act, if the Offeror receives acceptances pursuant to the Offer, for not less than 90 per cent. of the total issued Shares (other than those already held by the Offeror, its related corporations or their nominees as at the date of the Offer), the Offeror will be entitled to exercise its Compulsory Acquisition Right to compulsorily acquire, at the Offer Price, all the Offer Shares of Shareholders who have not accepted the Offer. **Accordingly, the Offeror will**

be entitled to exercise compulsory acquisition upon the satisfaction of the Offer Acceptance Condition.

Pursuant to Section 215(3) of the Companies Act, if the Offeror acquires such number of Offer Shares which, together with Shares held by it, its related corporations and their nominees, comprise 90 per cent. or more of the total issued Shares, Shareholders who have not accepted the Offer have a right to require the Offeror to acquire their Offer Shares at the Offer Price. Such Shareholders who wish to exercise such a right are advised to seek their own independent legal advice.

9. FINANCIAL ASSESSMENT OF THE OFFER

For the purpose of our analyses in this IFA Letter, we wish to highlight the following dates:

- (a) 26 September 2018 (the “**Last Unaffected Trading Day**”), being the last full day of trading of the Shares preceding the Previous Offer. This information may have been incorporated into the price of the Shares subsequent to 26 September 2018;
- (b) 22 July 2019 (the “**Last Trading Day**”), being the last trading day immediately prior to the Offer Announcement Date;
- (c) 29 July 2019 (the “**Offer Announcement Date**”), being the date that Stirling Coleman announced that the Offeror intends to make a voluntary conditional cash offer for all the Shares in the capital of the Company;
- (d) 15 August 2019 (the “**Offer Unconditional Date**”), being the date that Sterling Coleman announced that the Offer has become unconditional as to acceptances and has been declared unconditional in all respects on the Offer; and
- (e) 16 August 2019, being the Latest Practicable Date prior to the printing of this Circular, save that where parts of the Offer Document (including the letter from Stirling Coleman to the Shareholders in the Offer Document) are reproduced, references to the “Latest Practicable Date” in such reproduction shall mean the Offer Document LPD.

In the course of our evaluation of whether the Offer is fair and reasonable from a financial point of view, we have considered the following factors based on publicly available information and information made available to us by the Company as of the Latest Practicable Date:

- (a) Historical share price performance of the Shares;
- (b) Historical share price performance relative to market index;
- (c) Liquidity analysis;
- (d) Net asset value (“**NAV**”) of the Group;
- (e) NAV per Share relative to the Offer Price;

- (f) Valuation multiples of selected listed companies which are broadly comparable with the Group;
- (g) Recent selected successful privatisation take-over transactions involving companies listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”);
- (h) Historical dividend yield of the Company; and
- (i) Other relevant considerations in relation to the Offer which may have a significant bearing on our evaluation.

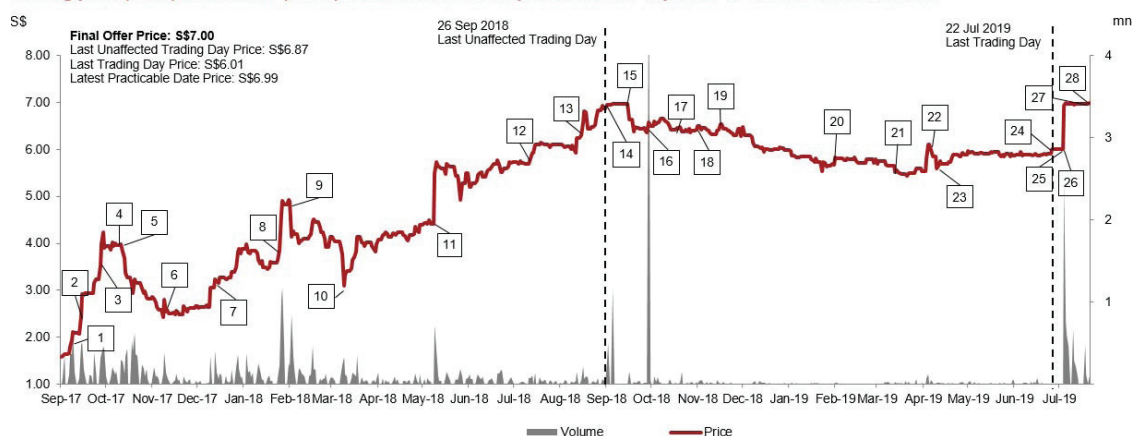
The figures and underlying financial data used in our analyses in this section of this IFA Letter have been extracted from, amongst others, Bloomberg L.P., Capital IQ, SGX-ST, publicly available financial information of the Company and relevant public documents of the Company covered by those sources as at the Latest Practicable Date. We have not independently verified (nor have we assumed responsibility or liability for independently verifying) or ascertained and make no representations or warranties, express or implied, on the accuracy or completeness or adequacy of such information.

9.1 Historical share price performance of the Shares

In assessing the reasonableness of the Offer Price from a financial point of view, we have taken into consideration the historical share price performance and trading volume of the Company over a reasonable period of time, based on the assumption that the stock market provides an efficient mechanism by which such price expectations may be expressed. We wish to highlight that under ordinary circumstances, the market valuation of shares traded on a recognised stock exchange may be affected by, *inter alia*, its relative liquidity, the size of its free float, the extent of research coverage, the investor interest it attracts and the general market sentiment at a given point in time. Therefore, this analysis serves as an illustrative guide only.

We set out a chart below which shows the trend of the daily closing prices and the volume traded for the Shares from 27 September 2017 (being the 12-month period preceding the Last Unaffected Trading Day) and up to and including the Latest Practicable Date.

Closing price (in S\$) and volume (in mn) of the Shares for the period from 27 Sept 2017 to Latest Practicable Date



Source: Bloomberg L.P., Delong's SGX-ST announcements

A summary of the salient announcements on key corporate developments by the Company during the 12-month period preceding the Last Unaffected Trading Day and up to and including the Latest Practicable Date is set out below:

No.	Date	Event Description
1	4 October 2017	In response to SGX-ST's queries on 3 October 2017 regarding the unusual price movements in the Company's shares, the Company announced that it is currently engaging with relevant parties in connection with its potential participation in the bidding exercise in respect of proposed acquisition by its subsidiary Delong Steel Limited of 51% of the equity stake in Anhui Shoukang Dachang Metal Materials Limited Company.
2	10 October 2017	The Company supplemented its response to SGX-ST's queries raised on 3 October 2017 that one of its substantial shareholders is in the process of carrying out strategic review of its shares in the Company, which may or may not lead to a transaction.
3	23 October 2017	The Company announced that it expected to report a significant increase in net profit for 3Q2017, compared to the corresponding period.
4	3 November 2017	The Company released its Financial Statements and Related Announcements for the Third Quarter of FY2017.
5	6 November 2017	The Company announced that certain plant and equipment of Delong Steel Limited is undergoing maintenance or in the process of being dismantled.
6	6 December 2017	Delong Steel Limited has, on 4 December 2017, entered into a sale and purchase agreement to acquire 60% equity interest in Xingtai Degui Nano Material Technology Limited Company for a purchase consideration of RMB6 million.
7	8 January 2018	In response to SGX-ST's queries on 8 January 2018 regarding the unusual price movements in the Company's shares, the Company announced that it was unaware of any information, which has not been previously announced which, if known, may explain the trading.
8	20 February 2018	The Company announced that it expected to report a significant increase in 4Q2017 and FY2017 net profit, compared to the previous corresponding period.
9	27 February 2018	The Company released its unaudited Financial Statements and Related Announcements for the FY2017.

No.	Date	Event Description
10	4 April 2018	In response to SGX-ST's queries on 4 April 2018 regarding the unusual price movements in the Company's shares, the Company announced that it is unaware of any information, which has not been previously announced which, if known, may explain the trading.
11	1 June 2018	Best Decade entered into a sale and purchase agreement with EVRAZ Group S.A. (" Evr az") and Vollar Holdings Ltd (" Vollar ") to acquire 16,569,599 Shares at US\$ equivalent of S\$7.42 per share and 2,522,100 Shares at US\$ equivalent of S\$4.86 per share from Evraz and Vollar respectively (collectively the " Evr az & Vollar Transactions"), representing approximately 17.33% of the total number of Shares. The transactions resulted in Best Decade obtaining an approximately 75.56% interest in the total number of Shares.
12	8 August 2018	The Company released its Financial Statements and Related Announcements for the Second Quarter of FY2018.
13	10 September 2018	The Company announced payment of cash dividend of S\$0.55 per share to be made on 26 September 2018.
14	27 September 2018	Announcement of the voluntary unconditional cash offer of S\$7.00 per share for the Offer Shares by PrimePartners Corporate Finance Pte. Ltd. for and on behalf of the Offeror.
15	11 October 2018	PrimePartners Corporate Finance Pte. Ltd. announced withdrawal of voluntary conditional cash offer for Delong Holdings Limited.
16	26 October 2018	The Company announced that its CEO, Ding Ligu, has acquired 5,130,000 shares via an off-market transaction on 25 October 2018.
17	12 November 2018	The Company released its Financial Statements and Related Announcements for the Third Quarter of FY2018.
18	29 November 2018	The Company announced that its subsidiary, Delong Steel Limited, is required to shut down a blast furnace on 30 November 2018. The hiatus on production is expected to subsist until 31 March 2019.
19	13 December 2018	The Company announced that there will be a delay in the completion of construction of its steel plant in Indonesia due to delay in delivery of plant & equipment and shortage of steel-related skilled labour.
20	26 February 2019	The Company released its unaudited Financial Statements and Related Announcements for the FY2018.

No.	Date	Event Description
21	10 April 2019	The Company released its Annual Report for FY2018.
22	2 May 2019	The Company announced a profit guidance that it expects to report a lower net profit for 1Q2019, compared to the previous corresponding period.
23	8 May 2019	The Company released its Financial Statements and Related Announcements for the First Quarter of FY2019.
24	22 July 2019	The Company submitted a request to halt the trading of its shares pending the release of a material announcement.
25	26 July 2019	The Company released its Financial Statements and Related Announcements for the Second Quarter and Half Yearly results of FY2019.
26	29 July 2019	Announcement of the voluntary unconditional cash offer of S\$7.00 per share for the Offer Shares by Stirling Coleman for and on behalf of the Offeror. The Company submitted a request for the lifting of the trading halt.
27	13 August 2019	Stirling Coleman announced the despatch of Offer Document.
28	15 August 2019	Stirling Coleman announced that the Offeror has received valid acceptances (which have not been withdrawn) of not less than 90% of the total number of the Offer Shares. Accordingly, the Offer has been declared unconditional in all respects.
29	16 August 2019	The Company announced that the percentage of Shares held by the public as at the date hereof is approximately 9.27% and is therefore less than the requisite 10% of the total number of issued Shares (excluding treasury shares) as required under Rule 723 of the Listing Manual of the SGT-ST.

Source: Delong's SGX-ST announcements

Based on the analysis above, we note the following:

- (a) Over the 12-month period preceding the Last Unaffected Trading Day and up to the Last Unaffected Trading Day, the closing prices of the Shares have been in the range of a low of S\$1.59 to a high of S\$6.93. The Offer Price of S\$7.00 represents a premium of S\$5.41 (or 340.3%) above the lowest transacted price and a premium of S\$0.07 (or 1.0%) above the highest transacted price of the Shares. The closing prices of the Shares had been below the Offer Price for the entire period since 27 September 2017 and up to the Last Unaffected Trading Day;

- (b) Over the period subsequent to the Last Unaffected Trading Day and up till the Last Trading Day, the closing price of the Shares have been in the range of a low of S\$5.45 to a high of S\$6.98. The Offer Price of S\$7.00 represents a premium of S\$1.55 (or 28.4%) above the lowest transacted price and a premium of S\$0.02 (or 0.3%) above the highest transacted price of the Shares. The closing prices of the Shares had been below the Offer Price for the entire period since 27 September 2018 and up to the Last Trading Day;
- (c) On the Last Trading Day, the closing price of the Shares was S\$6.01. On 30 July 2019 (being the first trading day after the Offer Announcement Date and the lifting of the trading halt), the price of the Shares rose to close at S\$6.94. Since 30 July 2019 and up to the Latest Practicable Date, the Shares has been trading close to the Offer Price of between S\$6.94 and S\$6.99; and
- (d) The Offer Price represents a premium of S\$0.01 (or 0.1%) above the last transacted price of the Shares of S\$6.99 as at the Latest Practicable Date.

We have sought to benchmark the Offer Price against the VWAP of the Shares for selected reference periods. The table below shows the premium of the Offer Price over the last transacted price, the 1-month, 3-month, 6-month and 12-month period VWAP preceding and including the Last Unaffected Trading Day, as well as the 1-month, 3-month, 6-month and 12-month period VWAP preceding and including the Last Trading Day.

Reference Period	VWAP	Premium of Offer Price over VWAP (%)
Periods up to and including the Last Unaffected Trading Day		
Last Unaffected Trading Day	6.870	1.9%
Last 1 month	6.482	8.0%
Last 3 months	5.936	17.9%
Last 6 months	5.101	37.2%
Last 12 months	3.957	76.9%
Periods up to and including the Last Trading Day		
Last Trading Day	6.010	16.5%
Last 1 month	5.900	18.6%
Last 3 months	5.882	19.0%
Last 6 months	5.807	20.5%
Last 12 months	6.363	10.0%

Source: Bloomberg L.P.

Notes:

1. The historical VWAPs are rounded to the nearest three (3) decimal places. The corresponding premiums are rounded to the nearest one (1) decimal place.
2. Off market transactions are excluded from the computation of VWAPs.

We have made reasonable enquiries and Management has confirmed to us that they are not aware of any information not previously announced concerning the Company which, if known, might otherwise explain such variances in the price and trading volume.

We note the following:

- (a) The Offer Price represents a premium of approximately 1.9% to the closing price of S\$6.87

per share as at the Last Unaffected Trading Day and premiums of approximately 8.0%, 17.9%, 37.2%, 76.9% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Unaffected Trading Day, respectively; and

- (b) The Offer Price represents a premium of approximately 16.5% to the closing price of S\$6.01 per Share as at the Last Trading Day and premiums of approximately 18.6%, 19.0%, 20.5%, 10.0% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Trading Day, respectively.

Shareholders should note that there is no assurance that the market prices of the Shares will continue to remain at the levels prevailing as at the Latest Practicable Date up to the close of the Offer. Shareholders should also note that past trading performance of the Shares should not be relied upon as an indication of its future trading performance.

9.2 Historical share price performance relative to market index

To gauge the market price performance of the Shares vis-à-vis the general performance of the Singapore equity market, we have compared the market price movements of the Shares against the FTSE Straits Times Index (“STI”), which is a market capitalisation-weighted stock market index that is regarded as the benchmark index for the Singapore stock market based on the top 30 companies listed on the Main Board of the SGX-ST, for the 12-month period preceding the Last Unaffected Trading Day and up to and including the Latest Practicable Date as illustrated below:

Delong's Share price vs. STI for the period from 27 Sep 2017 up to and including the Latest Practicable Date



Source: Bloomberg L.P.

We note that the Shares had generally outperformed the STI over the 12-month period preceding the Last Unaffected Trading Day and up to and including the Latest Practicable Date. In addition, the closing prices of the Shares appear to have been supported by the Offer subsequent to the Offer Announcement Date and up to the Latest Practicable Date.

Shareholders should note that past trading performance of the Shares should not be relied upon as an indication of its future trading performance.

9.3 Liquidity analysis

9.3.1 Liquidity analysis of the Shares

As at the Latest Practicable Date, the Company had a free float of approximately 8.8%. We have considered the historical trading volume of the Shares for the 1-month, 3-month, 6-month and 12-month periods preceding and including the Last Unaffected Trading Day, Last Trading Day and Latest Practicable Date below.

Reference Period	ADTVolume	ADTVolume/Shares Outstanding ⁽¹⁾	12M ADTVolume / free float ⁽²⁾
For the period prior to Last Unaffected Trading Day			
Last Unaffected Trading Day	17,200	0.02%	0.07%
Last 1 month	53,217	0.05%	0.23%
Last 3 months	60,156	0.05%	0.26%
Last 6 months	77,333	0.07%	0.33%
Last 12 months	136,973	0.12%	0.58%
For the period prior to Last Trading Day			
Last Trading Day	6,700	0.01%	0.03%
Last 1 month	14,638	0.01%	0.07%
Last 3 months	16,429	0.01%	0.08%
Last 6 months	13,379	0.01%	0.07%
Last 12 months	30,698	0.03%	0.15%
For the period prior to Latest Practicable Date			
Latest Practicable Date	92,300	0.08%	0.95%
Last 1 month	292,929	0.27%	3.02%
Last 3 months	108,527	0.10%	1.12%
Last 6 months	61,592	0.06%	0.64%
Last 12 months	51,774	0.05%	0.53%

Source: Bloomberg L.P., Capital IQ

Notes:

- (1) The average daily trading volume ("ADTVolume") of Shares traded over the reference period divided by the total number of Shares outstanding of the Company on the Last Unaffected Trading Day, Last Trading Day or the Latest Practicable Date, where relevant.
- (2) The ADTVolume of Shares traded over the reference period divided by the total number of free float of the Company on the Last Unaffected Trading Day, the Last Trading Day or the Latest Practicable Date, where relevant. The Company's free float percentages on Last Unaffected Trading Day and Last Trading Day are extracted from Capital IQ, whereas the Company's free float percentage on the Latest Practicable Date is extracted from Appendix II of the Circular.
- (3) Off market transactions are excluded from the computation of ADTVolume.

Ordinarily, relative liquidity is one of the factors affecting the Share price performance at any given point in time. In benchmarking the Offer Price against the historical price of the Shares, we have compared the relative liquidity of the Company's Shares in relation to all the companies listed on the Main Board of the SGX-ST with market capitalisation of between S\$600 million and S\$800 million as at the Latest Practicable Date, excluding the Company and companies that were recently listed within the 12-month period preceding and including the Latest Practicable Date.

9.3.2 Liquidity analysis for companies listed on the Main Board of the SGX-ST with market capitalisation of between S\$600 million and S\$800 million ⁽¹⁾

No.	Company Name	Market Capitalisation (\$ mn)	Shares Outstanding (mn)	Percentage Free Float (%) ⁽²⁾	12M ADTVolume / Shares Outstanding ⁽³⁾	12M ADTVolume / Free Float ⁽⁴⁾
1	Health Management International Ltd	603	837	28.9	0.05%	0.18%
2	HRnetGroup Limited	605	1,008	25.0	0.02%	0.08%
3	Soilbuild Business Space REIT	614	1,067	65.2	0.09%	0.14%
4	Yoma Strategic Holdings Ltd.	627	1,899	65.6	0.16%	0.24%
5	VICOM Ltd	629	89	26.6	0.02%	0.07%
6	Straco Corporation Limited	631	864	14.3	0.00%	0.02%
7	Keppel-KBS US REIT	633	827	84.2	0.10%	0.12%
8	Lippo Malls Indonesia Retail Trust	637	2,895	64.5	0.11%	0.18%
9	COSCO Shipping International (Singapore) Co., Ltd.	638	2,239	46.6	0.20%	0.42%
10	Gallant Venture Ltd.	641	5,338	30.3	0.14%	0.45%
11	Riverstone Holdings Limited	671	741	33.5	0.02%	0.05%
12	Halcyon Agri Corporation Limited	694	1,595	25.2	0.01%	0.02%
13	CITIC Envirotech Ltd.	718	2,432	12.8	0.07%	0.55%
14	Hong Fok Corporation Limited	723	861	31.8	0.05%	0.17%
15	Delfi Limited	733	611	48.8	0.00%	0.01%
16	GSH Corporation Limited	774	1,959	20.3	0.01%	0.03%
17	Cache Logistics Trust	795	1,081	97.3	0.17%	0.18%
18	Metro Holdings Limited	795	828	54.8	0.01%	0.03%
	Minimum	603	89	12.8	0.00%	0.01%
	Median	639	1,038	32.6	0.05%	0.13%
	Mean	675	1,510	43.1	0.07%	0.16%
	Maximum	795	5,338	97.3	0.20%	0.55%
	DeLong (period prior to the Last Unaffected Trading Day)	757	110	21.4	0.12%	0.58%
	DeLong (period prior to the Last Trading Day)	662	110	18.5	0.03%	0.15%
	DeLong (period prior to the Latest Practicable Date)	770	110	8.8	0.05%	0.53%

Source: Bloomberg L.P., Capital IQ

Notes:

- (1) All figures are as the Latest Practicable Date, unless otherwise stated.
- (2) Free float percentages are extracted from Capital IQ.
- (3) 12-month average daily trading volume ("12M ADTVolume") traded leading up to and including the Latest Practicable Date, divided by the total number of shares outstanding as at the Latest Practicable Date.
- (4) 12M ADTVolume traded leading up to and including the Latest Practicable Date, divided by total number of free float as at the Latest Practicable Date.

Based on the table above, we note that, in the 12-month period preceding and including the Last Unaffected Trading Day, the Company's average daily trading volume as a percentage of its total shares outstanding is within range but higher than median and mean liquidity measure of companies listed on the Main Board of the SGX-ST with market capitalisation between S\$600 million and S\$800 million. Its average daily trading volume as percentage of its total free float shares is above the range of liquidity measure.

We further note that, in the 12-month period preceding and including the Last Trading Day, the Company's average daily trading volume as a percentage of its total shares outstanding is within range but lower than median and mean liquidity measure of companies listed on the Main Board of the SGX-ST with market capitalisation between S\$600 million and S\$800 million. Its average daily trading volume as percentage of its total free float shares is within the range of liquidity measure, higher than the median but lower than the mean.

As suggested by the analysis above, the trading of the Shares does not seem to suffer from illiquid trading conditions relative to companies on the Main Board of the SGX-ST with market capitalisation between S\$600 million and S\$800 million. However, the liquidity of the Shares may be affected by certain market sentiments at any given point in time, including but not limited to the Evraz & Vollin Transactions, announcement of the Previous Offer, the withdrawal of the Previous Offer, the announcement of the Offer and the Offer Unconditional Announcement. As such, Shareholders should note that past trading performance of the Shares should not be relied upon as an indication of its future trading performance.

In addition, Shareholders should also note that there is no assurance that the trading volume of the Shares will continue to remain at the levels prevailing as at the Latest Practicable Date up to the close of the Offer.

In the event that the Company does not meet the free float requirements of the Listing Manual, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares. Therefore, it is likely to be difficult for Shareholders to sell their Shares in the absence of a public market for the Shares as there is no arrangement for such Shareholders to exit their investments in the Shares.

9.4 NAV of the Group

The main components of the unaudited financial position of the Group as at 30 June 2019 are set out below:

	Unaudited As at 30 June 2019	
	(RMB'000)	(S\$'000) ⁽¹⁾
Non-current assets	4,959,310	977,182
Current assets	10,841,968	2,136,301
Non-current liabilities	1,433,369	282,431
Current liabilities	7,827,631	1,542,356
Net assets	6,540,278	1,288,696
Total equity	6,540,278	1,288,696
Non-controlling interests	9,362	1,845
Equity/NAV attributable to the owners of the Company	6,530,916	1,286,852
NAV attributable to owners of the Company per Share	RMB59.27	S\$11.68

Source: Delong's announcement relating to the unaudited financial results for second quarter FY2019 ("2Q2019 results")

Notes:

(1) Based on an assumed exchange rate of RMB1.00: S\$0.1970 from Capital IQ as at 30 June 2019.

As at 30 June 2019, the unaudited NAV attributable to owners of the Company was approximately S\$1.29 billion (RMB6.53 billion) and the resultant NAV per Share was approximately S\$11.68 (RMB59.27). We note that the majority of the assets of the Group comprise mainly cash and cash equivalents, bank balances pledged, financial assets and property, plant and equipment (“**PPE**”), accounting for 10.5%, 14.0%, 35.6% and 20.2% respectively of the total assets of the Group as at 30 June 2019.

The carrying amounts of cash and cash equivalents and bank balances pledged reported in the Group’s consolidated balance sheet can be considered to approximate their fair values.

We understand that the Group’s statement of financial positions are prepared in accordance with Singapore Financial Reporting Standards International (“**SFRS(I)**”). In line with SFRS(I) 9, the Group’s financial assets are initially measured at fair value. Subsequent to initial recognition, financial assets are measured at amortised cost, fair value through other comprehensive income (“**FVTOCI**”), or fair value through profit or loss (“**FVTPL**”). As at 30 June 2019, approximately RMB5.06 billion of Group’s financial assets (32.0% of total assets of the Group) are measured under either FVTOCI or FVTPL. The remaining financial assets of RMB0.57 billion (3.6% of total assets of the Group) are measured at amortised cost which Management represented to be cash placed with financial institutions with fixed maturity of one year. As such, the carrying value of the Group’s financial assets can be considered to approximate their fair values.

In line with SFRS(I) 16, PPE are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment loss. Accordingly, we note that the difference between the market value of the PPE and its carrying value is not reflected in the NAV of the Group as at 30 June 2019. We are of the view that a revalued NAV (“**RNAV**”) may not be relevant for the valuation of the Company and Group for the following reasons. Firstly, Management expects that a PPE revaluation will not be substantially different from its carrying value. Secondly, Management has also confirmed that all of the Group’s assets are used in the continuing operations of the business, and that it is their intention to continue using the PPE in its current business. Lastly, the Group does not have any idle or non-operational PPE as at 30 June 2019. As such, none of the assets can be sold without affecting the continuing operations of the business.

We wish to highlight that should a valuation of the PPE is performed, the RNAV could be potentially different from the NAV as at 30 June 2019. Management has confirmed that there has been no recent independent market valuation of its PPE and/or any other assets. As such, we are unable to comment whether the RNAV per Share is likely to be higher or lower than the Offer Price. Shareholders should note that even in the event that a valuation exercise is performed, it would be challenging to find comparable companies to benchmark the premium/(discount) of the Offer Price over the RNAV as companies typically do not record the market value of its operational assets.

9.5 NAV per Share relative to the Offer Price

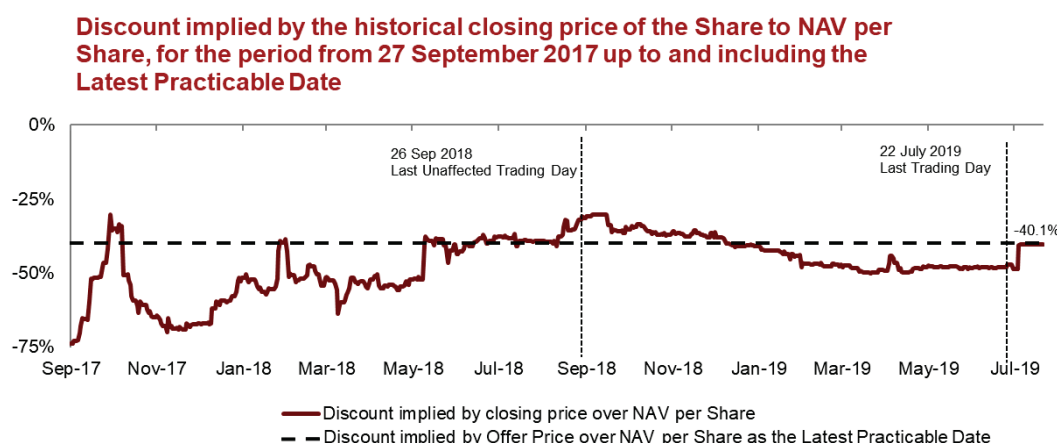
We were not provided with the Group's NAV as at the Latest Practicable Date. For the analysis in this section, we have relied on the latest available information from the Group's unaudited 2Q2019 results announcement to obtain a NAV of S\$1.29 billion as at 30 June 2019¹. Therefore, for the purpose of this analysis, NAV per Share is determined to be approximately S\$11.68¹ as at the Latest Practicable Date.

Offer Price (S\$)	NAV per share (S\$)	Discount to NAV per share
7.00	11.68	40.1%

Source: Delong's 2Q2019 results announcement

From the above table, we note that the Offer Price is at a discount of approximately 40.1% to the NAV per Share of S\$11.68 as at 30 June 2019.

We have compared the discounts of the historical closing prices to the NAV per Share, over the 12-month period preceding the Last Unaffected Trading Day up to and including the Latest Practicable Date, as set out below:



Source: Capital IQ

We note that the discount of the Offer Price to the NAV per Share of 40.1% is within the historical discount range of 30.3% to 73.8% for the 12-month period up to and including the Last Unaffected Trading Day.

We further note that the discount of the Offer Price to the NAV per Share of 40.1% is within the historical discount range of 30.4% to 50.1% for the 12-month period up to and including the Last Trading Day.

Management has confirmed to us that as at the Latest Practicable Date, to the best of their knowledge and belief that other than those already provided for or disclosed in the Group's financial

¹ Refer to paragraph 9.4 of this IFA Letter

information as at 30 June 2019, there are no other contingent liabilities, bad or doubtful debts or material events which are likely to have a material impact on the unaudited NAV of the Group as at 30 June 2019.

Shareholders should note that the above computation is solely for illustration purposes as the NAV of the Company is not necessarily a realisable value given that the market value of the assets may vary depending on, amongst others, the prevailing market and economic conditions.

9.6 Valuation multiples of selected listed companies which are broadly comparable with the Group

In our evaluation of whether the Offer is fair and reasonable from a financial point of view, we have compared the implied multiples for the Offer against those of companies which we consider to be comparable to the Group.

The Group is principally engaged in the manufacture and sale of hot-rolled steel coil in the People's Republic of China ("**PRC**"). Based on our discussions with Management and a search for comparable listed companies on Capital IQ, Bloomberg and other available databases, we recognise that there are no particular listed companies on the SGX-ST that we may consider to be similar to the Group in terms of the product offerings, customer base, scale of operations, geographical presence and other relevant criteria.

In the absence of directly comparable companies to the Group, for the purposes of comparison, we have considered companies that are listed on the Shanghai Stock Exchange ("**SHSE**"), Shenzhen Stock Exchange ("**SZSE**") and Stock Exchange of Hong Kong ("**SEHK**") with PRC as their principal markets. We have selected 8 listed companies (the "**Comparable Companies**") that are principally engaged in the business of manufacture and sale of steel products, including hot-rolled steel coil, as broad proxies to the Group.

We have had discussions with Management about the suitability and reasonableness of the selected Comparable Companies acting as a basis for comparison with the Group. Relevant information has been extracted from Capital IQ, publicly available annual reports and/or public announcements of the selected Comparable Companies. We make no representations or warranties, expressed or implied, as to the accuracy or completeness of such information. The selected Comparable Companies' accounting policies with respect to the values for which the assets and liabilities or the revenue and cost are recorded may differ from that of the Group.

We wish to highlight that the Comparable Companies listed herewith are not exhaustive and to the best of our knowledge and belief, there are no publicly listed companies which may be considered directly comparable to the Group in terms of, *inter alia*, operations, market capitalisation, business activities, asset base, geographical spread, track record, financial performance, operating and financial leverage, risk profile, liquidity, future prospects and other relevant criteria. Accordingly, any comparisons made with respect to the Comparable Companies can only serve as an illustrative guide.

Brief descriptions of the Comparable Companies are set out as follows:

Description of Comparable Companies	
Company	Description
Baoshan Iron & Steel Co., Ltd.	Baoshan Iron & Steel Co., Ltd. engages in the manufacture and sale of iron and steel products in China and internationally.
China Oriental Group Company Limited	China Oriental Group Company Limited, an investment holding company, manufactures and sells iron and steel products for downstream steel manufacturers in the People's Republic of China.
Hbis Company Limited	Hbis Company Limited produces and sells steel products in China.
Hunan Valin Steel Co., Ltd.	Hunan Valin Steel Co., Ltd. manufactures and sells steel products in China.
Maanshan Iron & Steel Company Limited	Maanshan Iron & Steel Company Limited manufactures and sells iron and steel products, and related by-products in the People's Republic of China and internationally.
Nanjing Iron & Steel Co., Ltd.	Nanjing Iron & Steel Co., Ltd. produces and sells steel products in China, Europe, South Korea, India, the Middle East, and Southeast Asia.
Sansteel MinGuang Co., Ltd., Fujian	Sansteel MinGuang Co., Ltd., Fujian manufactures and sells steel products in China.
Shandong Iron and Steel Company Ltd.	Shandong Iron and Steel Company Ltd. provides iron and steel products in China, the United States, Britain, Germany, Canada, India, Japan, Korea, and internationally.

Source: Capital IQ

We have considered the following widely-used valuation multiples:

Valuation Multiple	Description
P/E	“P/E” or “price-to-earnings” multiple illustrates the ratio of the market price of a company's shares relative to its earnings per share. The P/E multiple is affected by, <i>inter alia</i> , the capital structure of a company, its tax position as well as its accounting policies relating to revenue recognition, depreciation and intangible assets.

Valuation Multiple	Description
EV/EBITDA	“EV” or “Enterprise Value” is the sum of a company’s market capitalisation, minority interests, short-term and long-term debt less cash and cash equivalents. “EBITDA” stands for historical earnings before interest, tax, depreciation and amortisation expenses. The EV/EBITDA multiple compares the market value of a company’s business to its pre-tax operating cash flow performance. The EV/EBITDA multiple is an earnings-based valuation methodology. However, unlike the P/E multiple, it does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges.
P/NAV	“P/NAV” is the ratio of the market capitalisation of a company relative to its net asset value (“NAV”). The P/NAV multiple is affected by differences in their respective accounting policies including their depreciation and asset valuation policies. The net asset value of a company provides an estimate of the value of a company assuming a hypothetical sale of all its assets and repayment of its liabilities and obligations, as well as any minority interests, with the balance being available for distribution to its shareholders. It is an asset-based valuation methodology and this approach is meaningful to the extent that it measures the value of each share that is backed by the assets of a company.

The table below sets out the valuation multiples for the Comparable Companies as at the Latest Practicable Date:

Valuation Metrics of Comparable Companies ⁽¹⁾						
Company	Stock Exchange	Market Capitalisation (\$ million)	Enterprise Value ("EV") ⁽²⁾ (\$ million)	EV/EBITDA ⁽³⁾ (x)	P/E ⁽⁴⁾ (x)	P/NAV ⁽⁵⁾ (x)
Baoshan Iron & Steel Co., Ltd.	SHSE	25,688	37,524	4.4 x	9.7 x	0.7 x
China Oriental Group Company Limited	SEHK	2,051	528	0.4 x	2.6 x	0.6 x
Hbis Company Limited	SZSE	5,368	16,343	5.0 x	11.8 x	0.5 x
Hunan Valin Steel Co., Ltd.	SZSE	3,460	7,962	2.9 x	4.6 x	0.9 x
Maanshan Iron & Steel Company Limited	SEHK	4,049	6,714	3.3 x	7.0 x	0.7 x
Nanjing Iron & Steel Co., Ltd.	SHSE	2,623	3,868	2.6 x	4.5 x	0.8 x
Sansteel MinGuang Co., Ltd., Fujian	SZSE	3,858	2,742	1.6 x	3.8 x	1.0 x
Shandong Iron and Steel Company Ltd.	SHSE	3,221	7,021	7.4 x	10.3 x	0.8 x
Minimum		2,051	528	0.4 x	2.6 x	0.5 x
Median		3,659	6,867	3.1 x	5.8 x	0.8 x
Mean		6,289	10,338	3.4 x	6.8 x	0.8 x
Maximum		25,688	37,524	7.4 x	11.8 x	1.0 x
Delong (as implied by the Offer Price)	SGX-ST	771	596	1.7 x	3.9 x	0.6 x

Source: Capital IQ

Notes:

- (1) The above mentioned statistics and multiples are based on the last twelve months company information as at the Latest Practicable Date.
- (2) Enterprise Value = Market Capitalisation + Total Debt + Total Preferred Equity + Minority Interest – Cash & Short Term Investments
- (3) EV / EBITDA = Enterprise Value / EBITDA (includes equity income from affiliates). EV / EBITDA for Delong refers to the Company's Enterprise Value implied by the Offer Price relative to its EBITDA.
- (4) P / E = Share price / Normalised diluted earnings per share (excludes unusual items in the calculation of earnings). P / E for Delong refers to the Company's Market Capitalisation implied by the Offer Price relative to its Earnings.
- (5) Price / NAV = Share price / NAV per share. P / NAV for Delong refers to the Company's Market Capitalisation implied by the Offer Price relative to its NAV.
- (6) The financial statements of the Comparable Companies are reported in various currencies which may be different from the respective currencies that their shares are traded in. For the purposes of computing and comparing the valuation measures, financial figures of the Comparable Companies have been translated (if applicable) to respective currencies that their shares are traded in using a suitable exchange rate from Capital IQ for the relevant financial period. Market Capitalisation and Enterprise Value of the Comparable Companies as at the Latest Practicable Date have been translated to Singapore dollars using a suitable exchange rate from Capital IQ as at the Latest Practicable Date.
- (7) The financial statements of the Company are reported in Renminbi while the Shares are traded in Singapore dollars. For the purpose of computing and comparing the valuation measures, financial figures of the Company has been translated to Singapore dollars at an exchange rate of RMB1.00 = S\$0.1970 from Capital IQ as at the 30 June 2019.

Based on the above, we note the following:

- (a) The EV/EBITDA multiple of 1.7x implied by the Offer Price is within the range of the corresponding EV/EBITDA multiples of the Comparable Companies from 0.4x to 7.4x but below the median and mean of 3.1x and 3.4x of the EV/EBITDA multiples of the Comparable Companies;
- (b) The P/E multiple of 3.9x implied by the Offer Price is within the range of the corresponding P/E multiples of Comparable Companies from 2.6x to 11.8x, but below the median and mean of 5.8x and 6.8x of the P/E multiples of the Comparable Companies; and
- (c) The P/NAV multiple of 0.6x implied by the Offer Price is within the range of the corresponding P/NAV multiples of the Comparable Companies from 0.5x to 1.0x, but below the median and mean of 0.8x and 0.8x of the P/NAV multiples of the Comparable Companies respectively.

Shareholders should note that any comparison made with respect to the Comparable Companies merely serve to provide an illustrative perceived market valuation of the Company as at the Latest Practicable Date.

9.7 Recent selected successful privatisation take-over transactions on the companies listed on the SGX-ST

This analysis serves as general indication of the relevant premium/(discount) that offerors have paid in order to acquire the level of acceptances required to delist/privatise the target companies without having regard to specific industry characteristics or other considerations.

As stated in the Offer Document, we note that, in the event that the Company does not meet the free float requirement pursuant to the Rule 724 of the Listing Manual, the Offeror does not intend

to preserve the listing status of the Company and does not intend to take any steps for any trading suspension in the securities of the Company to be lifted, and, if and when entitled, the Offeror intends to exercise its rights of compulsory acquisition pursuant to Section 215(1) of the Companies Act, Chapter 50 of Singapore.

We have referred to voluntary general offers (“VGO”) and mandatory general offers (“MGO”) where the offeror had majority control (owning 50% or more of the issued shares in the target company as at the date of the offer announcement) and the offer resulted in a successful privatisation and delisting of the target company (“**Selected Successful Delisting/Privatisation Transactions**”). This resulting premium/(discount) analysis serves as a general indication of the relevant premium/(discount) that an offeror would have to pay to acquire the level of acceptances required to delist and privatise the target company without having regard to their specific industry characteristics or other considerations.

We wish to highlight that the target companies set out under the Selected Successful Delisting/Privatisation Transactions are not directly comparable to the Company in terms of operations, market capitalisation, business activities, asset base, geographical spread, track record, financial performance, operating and financial leverage, risk profile, liquidity, future prospects and other relevant criteria. Each of the Selected Successful Delisting/Privatisation Transactions must be considered on its own commercial and financial merits. We also wish to highlight that the list of Selected Successful Delisting/Privatisation Transactions is by no means exhaustive and has been compiled based on publicly available information as at the Latest Practicable Date.

Details of the Selected Successful Delisting/Privatisation Transactions announced during the last 24-month period preceding the Offer Announcement Date and up to Latest Practicable Date are set out as follows:

Announcement Date	Company	Note	Type	Premium/(discount) of offer price/(to)				
				Last transacted price (%) ⁽¹⁾	1-month VWAP (%)	3-month VWAP (%)	6-month VWAP (%)	12-month VWAP (%)
20 Sep 2017	Poh Tiong Choon Logistics Limited	(2)	VGO	1.6	30.0	41.3	47.7	56.6
03 Nov 2017	Cogent Holdings Limited	(3)	VGO	164.9	160.2	167.9	177.6	158.1
28 Dec 2017	CWG International Ltd	(4)	VGO	27.5	29.5	29.2	30.8	10.3
11 Jan 2018	Tat Hong Holdings Limited	(5)	VGO	29.9	34.0	35.5	27.6	30.9
19 Jul 2018	Wheelock Properties (Singapore) Limited	(6)	VGO	20.7	29.0	22.7	17.8	13.3
29 Oct 2018	Cityneon Holdings Limited	(7)	MGO	4.1	6.9	11.9	15.7	19.2
07 Jan 2019	Declout Limited	(8)	VGO	60.5	66.7	66.7	58.5	51.2
18 Jan 2019	Courts Asia Limited	(9)	VGO	34.9	35.8	34.0	23.5	(16.7)
04 Apr 2019	Kingboard Copper Foil Holdings Limited	(10)	VGO	11.3	16.1	25.3	27.4	32.5
15 May 2019	Boardroom Limited	(11)	VGO	14.3	18.9	16.1	17.6	16.9
Minimum				1.6	6.9	11.9	15.7	(16.7)
Median				24.1	29.8	31.6	27.5	25.1
Mean				37.0	42.7	45.1	44.4	37.2
Maximum				164.9	160.2	167.9	177.6	158.1
29 Jul 2019	Delong Holdings Limited implied by the Offer Price and based on Share prices prior to and including the Last Unaffected Trading Day			1.9	8.0	17.9	37.2	76.9
	Delong Holdings Limited implied by the Offer Price and based on Share prices prior to and including the Last Trading Day			16.5	18.6	19.0	20.5	10.0

Source: Respective companies' filings

Notes:

- (1) Last transacted price is calculated based on the last price on either the last trading day, last trading date or last market day as defined in the respective circulars.
- (2) On 20 September 2017, UOB announced, for and on behalf of Respond Logistics Pte. Ltd., that the offeror intends to make the offer for all the offer shares of Poh Tiong Choon Logistics Limited, other than those already held by the offeror as at the offer announcement date. The market premia is calculated based on \$1.28 per share. The time reference for calculation of premia is 19 September 2017, being the last full trading day of the company prior to the date of the offer announcement.
- (3) On 3 November 2017, Bank of China Limited, Singapore Branch announced, for and on behalf of COSCO SHIPPING International (Singapore) Co., Ltd., that the offeror intends to make a voluntary conditional cash offer for all the issued ordinary shares in the capital of Cogent Holdings Limited, including all shares owned, controlled or agreed to be acquired by parties acting or deemed to be acting in concert with the offeror. The market premia is calculated based on \$0.385 per share. The time reference for calculation of premia is 28 January 2016, being the last full trading day of the company prior to the date of the WSJ Article.
- (4) On 28 December 2017, RHT Capital Pte. Ltd. announced, for and on behalf of Elidom Investment Co., Ltd., that the offeror intends to make a voluntary conditional cash offer for all the issued and paid-up ordinary shares in the capital of CWG International Ltd. other than those already held by the company as treasury shares and those already held by the offeror as at the date of the offer. The market premia is calculated based on \$0.153 per share. The time reference for calculation of premia is 28 December 2017, being the last full trading day of the company prior to the date of the offer announcement.
- (5) On 11 January 2018, OCBC Bank announced, for and on behalf of the offeror, THSC Investments Pte. Ltd, inter alia, that subject to and contingent upon the satisfaction of the pre-conditions, the offeror intends to make the offer for all the offer shares of Tat Hong Holdings Ltd. The market premia is calculated based on S\$0.385 per share. The time reference for calculation of premia is 20 September 2017, being the last full trading day of the company prior to the date of the offer announcement.
- (6) On 19 July 2018, DBS Bank Limited, for and on behalf of the offeror, Star Attraction Limited, announced that it intends to make a voluntary unconditional general offer for the offer shares of Wheelock Properties (Singapore) Limited. The market premia is calculated based on S\$1.712 per share. The time reference for calculation of premia is 13 July 2018, being the last full trading day of the company prior to the date of the offer announcement.
- (7) On 29 October 2018, Credit Suisse wishes to announce, for and on behalf of West Knighton Limited, that it has purchased an aggregate of 168,692,268 ordinary shares in the capital of Cityneon Holdings Limited. As a consequence of the acquisition, the offeror is required to make a mandatory unconditional cash offer for all the shares, other than those already owned, controlled or agreed to be acquired by the offeror. The market premia is calculated based on S\$1.249 per share. The time reference for calculation of premia is 24 October 2018, being the last full trading day of the company prior to the date of the offer announcement.
- (8) On 7 January 2019, KPMG Corporate Finance Pte Ltd announced, for and on behalf of Exeo Global Pte. Ltd., that the offeror intends to make a voluntary conditional cash offer for all the issued and paid-up ordinary shares in the capital of DeClout Limited. The market premia is calculated based on S\$0.081 per share. The time reference for calculation of premia is 6 September 2018, being the last undisturbed trading date of the company prior to the date of the offer announcement.
- (9) On 18 January 2019, PrimePartners Corporate Finance Pte. Ltd. announced, inter alia, that the offeror, a wholly-owned subsidiary of Nojima, intends to make a voluntary conditional cash offer for all the issued and outstanding Courts Asia Limited shares. The market premia is calculated based on S\$0.152 per share. The time reference for calculation of premia is 16 January 2019, being the last full trading day of the company prior to the date of the offer announcement.
- (10) On 4 April 2019, Excel First Investment Limited announced, inter alia, that the offeror, a wholly-owned subsidiary of Kingboard Laminates Holdings Limited, intends to make a voluntary unconditional cash offer for all the issued and outstanding Kingboard Copper Foil Holdings Limited shares. The market premia is calculated based on S\$0.6 per share. The time reference for calculation of premia is 1 April 2019, being the last trading day of the company prior to the date of the offer announcement.

- (11) On 15 May 2019, CIMB Bank Berhad announced, inter alia, that the offeror, a wholly-owned subsidiary of G. K. Goh Holdings Limited, intends to make a voluntary unconditional cash offer for all the issued and outstanding Boardroom Limited. The market premia is calculated based on S\$0.88 per share. The time reference for calculation of premia is 3 May 2019, being the last trading day of the company prior to the date of the offer announcement.

Based on the information above, we note the following:

- (a) The premium of the Offer Price over the last transacted price on the Last Unaffected Trading Day of 1.9% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 1.6% to 164.9%, but below the median and mean of 24.1% and 37.0% respectively.

The premium of the Offer Price over the last transacted price on the Last Trading Day of 16.5% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 1.6% to 164.9%, but below the median and mean of 24.1% and 37.0% respectively;

- (b) The premium of the Offer Price over the 1-month VWAP on the Last Unaffected Trading Day of 8.0% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 6.9% to 160.2%, but below the median and mean of 29.8% and 42.7% respectively.

The premium of the Offer Price over the 1-month VWAP on the Last Trading Day of 18.6% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 6.9% to 160.2%, but below the median and mean of 29.8% and 42.7% respectively;

- (c) The premium of the Offer Price over the 3-month VWAP on the Last Unaffected Trading Day of 17.9% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 11.9% to 167.9%, but below the median and mean of 31.6% and 45.1% respectively.

The premium of the Offer Price over the 3-month VWAP on the Last Trading Day of 19.0% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 11.9% to 167.9%, but below the median and mean of 31.6% and 45.1% respectively;

- (d) The premium of the Offer Price over the 6-month VWAP on the Last Unaffected Trading Day of 37.2% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 15.7% to 177.6%, higher than the median of 27.5% but lower than the mean 44.4% respectively.

The premium of the Offer Price over the 6-month VWAP on the Last Trading Day of 20.5% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from 15.7% to 177.6%, but below the median and mean of 27.5% and 44.4% respectively;

- (e) The premium of the Offer Price over the 12-month VWAP on the Last Unaffected Trading Day of 76.9% is within the range of the corresponding premia of Selected Successful

Delisting/Privatisation Transactions from -16.7% to 158.1% and above the median and mean of 25.1% and 37.2% respectively.

The premium of the Offer Price over the 12-month VWAP on the Last Trading Day of 10.0% is within the range of the corresponding premia of Selected Successful Delisting/Privatisation Transactions from -16.7% to 158.1%, but below the median and mean of 25.1% and 37.2% respectively.

Shareholders should note that the level of premium/(discount) an offeror would normally pay in any particular delisting and privatisation transaction depends on, *inter alia*, factors such as potential synergy that the offeror can gain by acquiring the target company, the significance of the cash reserves, the trading liquidity of the target company's shares, the presence of competing bids for the target company, prevailing market conditions and sentiments, attractiveness and profile of the target company's business and assets, size of consideration and existing and desired level of control in the target company. Therefore, the comparison of the Offer with the Selected Successful Delisting/Privatisation Transactions set out above is for illustrative purposes only. Conclusions drawn from the comparisons made may not reflect any perceived market valuation of the Company.

9.8 Historical dividend yield of the Company

We wish to highlight that the Group does not have a dividend policy. The form, frequency, and amount dividends declared is subject to the Group's profit growth, cash position, positive cash flow, capital requirements and other relevant factors.

While the Group had declared an interim dividend of S\$0.55 in FY2018 (representing dividend yield of 10.5%²), the Group did not declare or pay any dividends in the past 10 years prior to FY2018.

Shareholders should note that there is no assurance on the amount and frequency of dividends in the future, and that past dividend declarations should not be relied upon as an indication of future dividend declarations.

9.9 Other relevant considerations in relation to the Offer which may have a significant bearing on our evaluation

9.9.1 Final Offer Price

Pursuant to the Section 2.1 of the Offer Document, the Offeror does not intend to revise the Offer Price or any other terms of the Offer. Shareholders should note that the Offer Price of S\$7.00 per Share is final and will not be revised.

9.9.2 Irrevocable Undertakings

As stated in Section 8 of the Offer Document, the Offeror has received Irrevocable Undertakings from Undertaking Shareholders who hold an aggregate of 98,440,439 Shares, representing approximately 89.34% of the total number of Shares as at the Offer Document LPD. Under such

² Computed based on dividends per Share divided by the average Share price in FY2018

circumstances, any competing offer for Shares is unlikely to be forthcoming without the support of the majority control represented by the percentage of the total number of shares that the Undertaking Shareholders hold. Thus, the possibility of an alternative offer from parties other than the Offeror is significantly reduced.

9.9.3 The Offeror's Intention for the Offeree

As stated in Section 10 of the Offer Document, the Offeror intends to make the Offeree its wholly-owned subsidiary and does not intend to preserve the listing status of the Offeree on the Main Board of the SGX-ST.

As at the Latest Practicable Date, the percentage of Shares held by the public is approximately 8.8% and is therefore less than the requisite 10% of the total number of issued Shares (excluding treasury shares) as required under Rule 723 of the Listing Manual of the SGX-ST.

If the free float requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares. Therefore, it is likely to be difficult for Shareholders to sell their Shares in the absence of a public market for the Shares as there is no arrangement for such Shareholders to exit their investments in the Shares; and

9.9.4 Offer declared unconditional and rights of compulsory acquisition

On the Offer Unconditional Date, the Offer has become unconditional as to acceptances and is declared unconditional in all respects by Sterling Coleman as the Offeror has received valid acceptances of the Offer which result in Offeror holding not less than 90% of the total number of the Offer Shares.

Accordingly, the Offeror is entitled to, and will in due course, exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act to compulsorily acquire all the Shares of the Shareholders who have not accepted the Offer at the Offer Price of S\$7.00 for each Offer Share.

We also note that as at the Latest Practicable Date, the percentage of Shares held by the public is approximately 8.8% and is therefore less than the requisite 10% of the total number of issued Shares (excluding treasury shares) as required under Rule 723 of the Listing Manual of the SGX-ST.

As stated in the Offer Document, if the free float requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares.

9.9.5 Unaudited 2QFY2019 results announcement

The Company had, in its results announcement dated 26 July 2019 in relation to the 2QFY2019 results, disclosed that the Group is facing an uncertain and challenging operating environment in China. We note that the Group had stated a commentary which we reproduce in italics below:

According to the National Bureau of Statistics, China's economic growth slowed to 6.2% in the second quarter of 2019, below the 6.4% reported in the preceding quarter. While this remains rangebound of China's target growth rate of 6.0% to 6.5%, market watchers expect the ongoing trade war with the United States may continue to pressure on China's economic growth.

The overall business environment for steel players remains highly uncertain, as authorities push forward with efforts to curb overcapacity, with a view towards reducing domestic steel capacity to less than 1 billion tonnes by 2025.

Within Hebei Province, a three-year industry capacity reduction work plan for the period from 2018 to 2020 continues unabated. With the purpose of keeping total annual provincial capacity within 200 million tonnes, the work plan targets a reduction of steelmaking capacity by 14 million tonnes per year in 2019 and 2020 respectively.

In addition to capacity reductions, the following targets have also been put in place, to be achieved by 2020: (i) phase out blast furnaces with capacities lower than 1,000 cubic meters, (ii) phase out converters with capacities below 1 million tonnes, (iii) relocation of steel mills from the cities, (iii) compliance with a tougher set of emission targets, (iv) as well as further consolidation within the industry, reducing from 14 steel producers to just 5-6 producers.

While the abovementioned measures have not affected Delong's operations, the Group does not discount the possibility that the implementation of any further tightening measures may invariably impact its operations and commercial viability.

To be in line with the industry's rising environmental standards, the Group continually invests in technological upgrades and enhancements to reduce emission, improve energy efficiency and recycling of waste material.

In relation to the Group's 45%-owned joint-venture (JV) steel project in Indonesia, the Group expects the facility to be operational by end-October 2019 instead of end-June 2019 as previously anticipated. The delay is due to a shortage of steel-related skilled labour in Sulawesi Indonesia, as well as disruption in construction activities due to a recent earthquake in Sulawesi and the 2019 Indonesian general election.

9.9.6 Best Decade's Acquisition of the Company's Shares from Evraz and Vollin in June 2018

On 1 June 2018, Best Decade, concert party of the Offeror, had entered into a share purchase agreement with Evraz and Vollin to acquire 15.04% stake in the Offeree from Evraz at the US\$ equivalent of S\$7.42 per share and a 2.30% stake in the Offeree from Vollin at the US\$ equivalent of S\$4.86 per share. These transactions were completed on 13 June 2018.

Shareholders should note that these transactions should not in any way relied upon as an indication or a guarantee of its perceived or implied market valuation of the Company as at the Latest Practicable Date.

10. OUR RECOMMENDATION TO THE INDEPENDENT DIRECTORS ON THE OFFER

In arriving at our recommendation in respect of the Offer to the Independent Directors, we have taken into account a range of factors which we consider, based on available information, to be pertinent and have significant bearing on our assessment of the Offer. Accordingly, it is important that this IFA Letter, in particular, all the considerations and information we have taken into account, be read in its entirety.

10.1 The Offer

Based on our analysis including the qualifications made therein, we are of the opinion that, on balance, the Offer is **NOT FAIR BUT REASONABLE**, from a financial point of view.

We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view, after factoring, *inter alia*, the following:

- (a) **Discount to NAV.** The Offer Price is at a discount of 40.1% to the NAV per Share of S\$11.68 as at 30 June 2019;
- (b) **Comparison of valuation measures of the Group against those of Comparable Companies.** The valuation multiples of EV/EBITDA, P/E and P/NAV of the Group implied by the Offer Price are within the range, but below the mean and median of those of Comparable Companies. We wish to highlight that, to the best of our knowledge and belief, there are no similar companies listed on the SGX-ST and therefore we have considered publicly listed companies on different stock exchanges, which may be affected by different trading conditions and market sentiments. Therefore, any comparison made with respect to the Comparable Companies may not be very meaningful and can only serve as an illustrative guide.
- (c) **Unfavourable Offer Price relative to the price paid by Best Decade in its acquisition of the Company's Shares from Evraz in June 2018.** We noted that the Offer Price of S\$7.00 is lower than the US\$ equivalent share price of S\$7.42 Best Decade paid to acquire a 15.04% stake from Evraz. However, we wish to highlight that this transaction may not necessary reflect the implied market valuation of the Company. In addition, the share prices of the Company remain below the Offer Price despite the abovementioned transaction.

We consider the financial terms of the Offer to be **REASONABLE**, from a financial point of view, after factoring, *inter alia*, the following:-

- (a) **The premiums implied by the Offer Price.** The Offer Price represents premium of approximately of 1.9% to the closing price of S\$6.87 per Share as at the Last Unaffected Trading Day and premiums of approximately 8.0%, 17.9%, 37.2% and 76.9% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Unaffected Trading Day, respectively.

The Offer Price represents premium of approximately of 16.5% to the closing price of S\$6.01 per Share as at the Last Trading Day and premiums of approximately 18.6%, 19.0%, 20.5%, 10.0% above the VWAP of the Shares for the 1-month, 3-month, 6-month and 12-month periods prior to the Last Trading Day, respectively;

- (b) **The share price of the Company has been lower than the Offer Price for the entire period since 27 September 2017 and up to the Last Trading Day.** The highest transacted price of the Shares during this period is S\$6.98 (a discount of S\$0.02 or 0.29% relative to the Offer Price of S\$7.00), which took place only on the last trading day immediately before the Previous Offer was withdrawn;
- (c) **The share price of the Company has been lower than the price paid by Best Decade in its acquisition of the Company's Shares from Evraz in June 2018.** During the trading week immediately subsequent to the Company's announcement of Evraz & Volin Transactions, the highest transacted price of the shares is S\$5.74, representing a discount of S\$1.68 (or 22.6%) relative to the US\$ equivalent share price of S\$7.42 paid to Evraz;
- (d) **Discount to NAV is within range of historical discounts to NAV of the Company.** The discount of the Offer Price to the NAV per Share of 40.1% is within the historical discount range of 30.3% to 73.8% for the 12-month period up to and including the Last Unaffected Trading Day, and the discount of the Offer Price to the NAV per Share of 40.1% is also within the historical discount range of 30.4% to 50.1% for the 12-month period up to and including the Last Trading Day;
- (e) **Analysis of the dividend yields of the Group.** The Group does not have a dividend policy. While the Group had declared interim dividends in FY2018, the Group did not declare or pay any dividend in the past 10 years prior to FY2018;
- (f) **The Offer Price is final and will not be revised.** The Offeror does not intend to revise the Offer Price of S\$7.00 per share or any other terms of Offer;
- (g) **The Offer is the only offer available to Shareholders.** As at the Latest Practicable Date, Management has confirmed that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b), apart from the Offer being made by the Offeror, no third parties have made an offer for the Company.

As at the Offer Document LPD, the Offeror has received Irrevocable Undertakings from Undertaking Shareholders who hold an aggregate of 98,440,439 Shares, representing approximately 89.34% of the total number of Shares. Under such circumstances, any competing offer for Shares is unlikely to be forthcoming without the support of the majority control represented by the percentage of the total number of shares that the Undertaking Shareholders hold. Thus, the possibility of an alternative offer from parties other than the Offeror is significantly reduced;

- (h) **Offeror's intention regarding the listing status of the Company.** We note from Section 10 of the Offer Document that the Offeror intends to make the Offeree its wholly-owned subsidiary and does not intend to preserve the listing status of the Offeree on the Main Board of the SGX-ST.

As at the Latest Practicable Date, the percentage of Shares held by the public is approximately 8.8% and is therefore less than the requisite 10% of the total number of issued Shares (excluding treasury shares) as required under Rule 723 of the Listing Manual of the SGX-ST.

If the free float requirement is not satisfied at the close of the Offer, and the trading of the Shares on the SGX-ST is suspended at the close of the Offer, the Offeror does not intend to support any action or take any steps to maintain the listing status of the Offeree or to restore the free float of the Shares. Therefore, it is likely to be difficult for Shareholders to sell their Shares in the absence of a public market for the Shares as there is no arrangement for such Shareholders to exit their investments in the Shares; and

- (i) **The Offer has been declared unconditional.** On the Offer Unconditional Date, the Offer has become unconditional as to acceptances and is declared unconditional in all respects by Sterling Coleman as the total number of (a) Offer Shares owned, controlled or agreed to be acquired by the Offeror and its Concert Parties, and (b) valid acceptances to the Offer, amount to an aggregate of 99,971,129 Shares, representing approximately 90.73% of the total number of shares of the Offeree.

Accordingly, the Offeror is entitled to, and will in due course, exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act to compulsorily acquire all the Shares of the Shareholders who have not accepted the Offer at the Offer Price of S\$7.00 for each Offer Share.

Accordingly, we advise that the Independent Directors, after taking the above into consideration, recommend Shareholders who:

- (a) wish to realise their investments in the Company at this time but are unable to sell their Shares in the open market at a price (after deducting related expenses) higher than the Offer Price; and/or
- (b) believe that the current market price of the Shares may not be sustained after the close of the Offer; and/or

- (c) believe that even if the Company remains listed, trading liquidity may reduce materially; and/or
- (d) believe that a higher offer may not be made,

ACCEPT the Offer. Alternatively, such Shareholders should sell their Shares in the open market if they are able to obtain a price higher than the Offer Price after deducting related expenses (such as brokerage and trading costs). The Independent Directors may also wish to consider highlighting that there is no assurance that the market price and/or trading volume of the Shares will continue to remain at the levels prevailing as at the Latest Practicable Date after the close of the Offer and that past trading performance of the Shares should not be relied upon as an indication of its future trading performance.

For the purposes of providing this IFA Letter and our evaluation of whether the Offer is fair and reasonable from a financial point of view, we have not received or relied on any financial projections or forecasts in respect of the Company, the Group, or any part or division of any of the foregoing. We are not required to express, and we do not express, an opinion on the future growth prospects and earnings potential of the Company.

Our opinion is only based on a financial analysis and does not incorporate any assessment of commercial, legal, tax, regulatory or other matters. Our opinion also does not incorporate an assessment of the price at which the Shares may trade following the success or failure of the Offer. Such factors (including the aforesaid illustrations) are beyond the ambit of our review and do not fall within our terms of reference in connection with the Offer.

In rendering our opinion, we have not had regard to any general or specific investment objectives, financial situations, risk profiles, tax positions or particular needs or constraints of any specific Shareholders and we neither assume any responsibility for, nor hold ourselves out as advisers to any person other than the Independent Directors. As each Shareholder would have different objectives and profiles, we recommend that any individual Shareholder who may require specific advice in relation to his/her investment objectives or portfolio should consult his/her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Shareholders should note that trading of the Shares are subject to, *inter alia*, the performance and prospects of the Company, prevailing economic conditions, economic outlook and stock market conditions and sentiments. Accordingly, save as highlighted about in this IFA Letter, our advice on the Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established beyond the Latest Practicable Date.

This IFA Letter is addressed to the Independent Directors for their benefit, in connection with and for the purpose of their consideration of the Offer. The recommendation made by the Independent Directors to the Shareholders in relation to the Offer remains the responsibility of the Independent Directors.

Whilst a copy of this IFA Letter may be reproduced in the Circular, neither the Company nor the Independent Directors may reproduce, disseminate or quote this IFA Letter (or any part thereof)

for any other purpose (other than for the purpose of the Offer) at any time and in any manner without the prior written consent of PwCCF in each specific case.

This IFA Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully

For and on behalf of

PricewaterhouseCoopers Corporate Finance Pte Ltd

Ling Tok Hong

Managing Director

APPENDIX II

ADDITIONAL GENERAL INFORMATION

1. DIRECTORS

The names, addresses and designations of the Directors as at the Latest Practicable Date are set out below:

Name	Address	Designation
Mr Ding Liguo	c/o 50 Raffles Place #30-01 Singapore Land Tower Singapore 048623	Executive Chairman and Non-Independent Director
Mr Wu Yujie	c/o 50 Raffles Place #30-01 Singapore Land Tower Singapore 048623	Non-Independent and Executive Director
Mr Lai Hock Meng	c/o 50 Raffles Place #30-01 Singapore Land Tower Singapore 048623	Lead Independent and Non-Executive Director
Mr Wang Tianyi	c/o 50 Raffles Place #30-01 Singapore Land Tower Singapore 048623	Independent and Non-Executive Director
Mr Wu Geng	c/o 50 Raffles Place #30-01 Singapore Land Tower Singapore 048623	Independent and Non-Executive Director

2. REGISTERED OFFICE

The registered office of the Company is at 50 Raffles Place, #30-01 Singapore Land Tower, Singapore 048623.

3. PRINCIPAL ACTIVITIES

The Company was incorporated under the laws of Singapore on 28 July 1997 and was listed on the SESDAQ of the Singapore Stock Exchange (now known as the SGX-ST) in 1999. The Company subsequently upgraded to the Main Board of the SGX-ST on 2 March 2006.

The principal business activities of the Group are the manufacture and sale of steel products, with the People's Republic of China as its principal market.

4. SHARE CAPITAL

4.1 Issued share capital

The Company has one class of shares, being ordinary shares. As at the Latest Practicable Date, the issued and paid-up share capital of the Company is RMB 2,112,480,000 comprising a total of 110,182,709 Shares. As at the Latest Practicable Date, the Company has no treasury shares. The issued Shares are listed and quoted on the Main Board of the SGX-ST.

4.2 Capital, dividends and voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Constitution, which are available for inspection at the Company's registered office at 50 Raffles Place, #30-01 Singapore Land Tower, Singapore 048623. The relevant provisions of the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been extracted from the Constitution and are set out in Appendix III to this Circular. Capitalised terms and expressions not defined in the extracts have the meanings ascribed to them in the Constitution.

4.3 Number of Shares issued since the end of the last financial year

No Shares have been issued by the Company since the end of the last financial year up to the Latest Practicable Date.

4.4 Options and convertible instruments

There are no outstanding instruments convertible into, rights to subscribe for, and options in respect of securities being offered for or which carry voting rights affecting the Shares in the Company, as at the Latest Practicable Date.

5. DISCLOSURE OF INTERESTS

5.1 Interests of the Company in Offeror Securities

The Company does not have any direct or indirect interests in the Offeror Securities as at the Latest Practicable Date.

5.2 Dealings in Offeror Securities by the Company

The Company has not dealt for value in the Offeror Securities during the period commencing three months prior to the Offer Announcement Date, and ending on the Latest Practicable Date.

5.3 Interests of Directors in Offeror Securities

Save as disclosed below, none of the Directors has any direct or indirect interests in the Offeror Securities as at the Latest Practicable Date.

Name of Director	Direct interest		Deemed interest		Total interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Mr Ding Liguó	1	100	–	–	1	100

5.4 Dealings in Offeror Securities by the Directors

None of the Directors has dealt for value in the Offeror Securities during the period commencing three months prior to the Offer Announcement Date, and ending on the Latest Practicable Date.

5.5 Interests of the Directors in the Company Securities

Save as disclosed below, as at the Latest Practicable Date, none of the Directors has any direct or indirect interests in the Company Securities:

Name of Director	Direct interest		Deemed interest		Total interest	
	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾
Mr Ding Liguó	–	–	100,491,716 ⁽²⁾	91.20	100,491,716	91.20

Notes:

- (1) As a percentage of the total number of Shares in issue as at the Latest Practicable Date. For the purposes of the table above, all percentage figures are rounded to the nearest two decimal places.

- (2) Based on the Offer Unconditional Announcement, the Offer was declared to be unconditional in all respects on the Offer Unconditional Date. As at 5.30 p.m. (Singapore time) on the Latest Practicable Date, the total number of (a) Offer Shares owned, controlled or agreed to be acquired by the Offeror and its Concert Parties, and (b) valid acceptances to the Offer, amounted to an aggregate of 100,491,716 Shares, representing approximately 91.20% of the total number of Shares of the Company. As the Offeror is wholly owned by Mr Ding Liguu, Mr Ding Liguu is deemed to be interested in the 100,491,716 Shares which are owned or controlled by the Offeror as at the Latest Practicable Date, according to Section 4 of the SFA.

5.6 Dealings in Company Securities by the Directors

Save as disclosed below, none of the Directors has dealt for value in the Company Securities during the period commencing three months prior to the Offer Announcement Date, and ending on the Latest Practicable Date:

Director	Transaction Date	Nature of Transaction	Number of Company Securities Traded	Transaction Price Per Share
Mr Ding Liguu	15 August 2019	Acceptance of Offer	5,130,000	S\$7.00 ⁽¹⁾

Note:

- (1) As mentioned in Section 3 of this Circular, Mr Ding Liguu has waived his rights to receive the Offer Price in respect of all the Offer Shares held by him in acceptance of the Offer.

5.7 Company Securities owned or controlled by PwCCF

None of PwCCF or any funds whose investments are managed by PwCCF on a discretionary basis owns or controls any Company Securities as at the Latest Practicable Date.

5.8 Dealings in Company Securities by PwCCF

None of PwCCF or any funds whose investments are managed by PwCCF on a discretionary basis has dealt for value in any Company Securities during the period commencing three months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

5.9 Directors' Intentions in relation to the Offer

As mentioned in Section 3 of this Circular, Mr Ding Liguu and Best Decade Holdings Limited have each given an irrevocable undertaking to the Offeror to, *inter alia*, accept the Offer in respect of all the Shares held by each of them. Mr Ding Liguu and Best Decade Holdings Limited had accepted the Offer on 15 August 2019 in respect of 5,130,000 Shares and 85,508,799 Shares held by each of them, respectively.

Save for Mr Ding Liguu, none of the Directors has any direct or indirect interest in the Shares.

6. OTHER DISCLOSURES

6.1 Directors' service contracts

As at the Latest Practicable Date:

- (a) there are no service contracts between any of the Directors or proposed directors with the Company or any of its subsidiaries which have more than 12 months to run and which are not terminable by the employing company within the next 12 months without paying any compensation; and
- (b) there are no such service contracts entered into or amended during the period commencing six months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

6.2 Arrangements affecting Directors

As at the Latest Practicable Date:

- (a) there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Offer;
- (b) it is not proposed that any payment or other benefit shall be made or given to any Director or director of any other corporation which is by virtue of Section 6 of the Companies Act deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Offer; and
- (c) none of the Directors has a material personal interest, whether direct or indirect, in any material contract entered into by the Offeror.

7. MATERIAL CONTRACTS WITH INTERESTED PERSONS

Save as disclosed below, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries has entered into material contracts (other than those entered into in the ordinary course of business) with persons who are interested persons¹ during the period commencing three years before the Offer Announcement Date and ending on the Latest Practicable Date.

As at 31 December 2016, the Group provided a corporate guarantee to a bank in respect of a banking borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd, a company which is owned by Mr Ding Liguu and his spouse, Ms Zhao Jing. The corporate guarantee granted amounted to RMB50 million and was discharged in March 2017.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company or its subsidiaries is engaged in any material litigation, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole. As at the Latest Practicable Date, the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or of any facts likely to give rise to any litigation, claims or proceedings, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole.

9. FINANCIAL INFORMATION

9.1 Consolidated income statements

A summary of the audited consolidated statement of comprehensive income of the Group for FY2016, FY2017 and FY2018 and the unaudited financial information of the Group for HY2019 is set out below.

	Group			
	HY2019	FY2018	FY2017	FY2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	6,908,151	14,287,453	12,831,279	9,874,981
Cost of sales	(6,102,825)	(11,940,378)	(10,102,751)	(8,410,749)
Gross profit	805,326	2,347,075	2,728,528	1,464,232
Other income	90,817	228,740	141,240	88,948
Other gains - net	41,745	16,292	302,748	(676,832)
Distribution and marketing costs	(23,845)	(33,520)	(87,990)	(76,576)
Administrative expenses	(216,881)	(402,741)	(374,298)	(260,351)
Finance costs	(146,156)	(163,194)	(153,066)	(230,361)
Share of loss of an associate	(323)	(611)	(606)	(339)
Share of loss of a joint venture	(9,637)	(5,727)	—	—
Profit before tax	541,046	1,986,314	2,556,556	308,721
Income tax expenses	(89,764)	(285,438)	(486,650)	(99,398)
Profit for the year	451,282	1,700,876	2,069,906	209,323

¹ An "interested person" is defined in the Note on Rule 23.12 of the Code to mean:

- (a) a director, chief executive officer or substantial shareholder of the Company;
- (b) the immediate family of a director, the chief executive officer or a substantial shareholder (being an individual) of the Company;
- (c) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a substantial shareholder (being an individual) and his immediate family is a beneficiary;
- (d) any company in which a director, the chief executive officer or a substantial shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more;
- (e) any company that is the subsidiary, holding company or fellow subsidiary of the substantial shareholder (being a company); or
- (f) any company in which a substantial shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more.

**Other comprehensive income
(loss)**

*Items that will not be reclassified
subsequently to profit or loss*

Net fair value loss on financial assets at
fair value through other comprehensive
income

4,832	(25,339)	–	–
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*Items that may be reclassified
subsequently to profit or loss*

Currency translation differences

(3,448)	42,320	(12,247)	6,753
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Fair value changes on available-for-sale
financial assets

–	–	(23,232)	22,794
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Net fair value loss on financial assets at
fair value through other comprehensive
income of notes receivables

–	(11,297)	–	–
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Deferred tax relating to changes in fair
value of notes receivables

–	2,823	–	–
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1,384	33,846	(35,479)	29,547
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**Other comprehensive income (loss)
for the year, net of tax**

1,384	8,507	(35,479)	29,547
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**Total comprehensive income for
the year**

452,666	1,709,383	2,034,427	238,870
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Profit attributable to:

Owners of the Company

450,689	1,702,707	2,069,906	213,030
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Non-controlling interests

593	(1,831)	–	(3,707)
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451,282	1,700,876	2,069,906	209,323
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**Total comprehensive income
attributable to:**

Owners of the Company

452,073	1,711,214	2,034,427	238,670
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Non-controlling interests

593	(1,831)	–	200
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452,666	1,709,383	2,034,427	238,870
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Earnings per share

(expressed in RMB per share)

- Basic

4.09	15.45	18.79	1.93
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- Diluted

4.09	15.45	18.79	1.93
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The above summary should be read together with the annual reports of the Company for FY2016, FY2017 and FY2018 and relevant financial statements, copies of which are available for inspection at the registered office of the Company as mentioned in paragraph 11 of Appendix II to this Circular.

The unaudited financial information of the Group for HY2019 is set out in fuller detail in Appendix V of this Circular.

9.2 Consolidated statements of financial position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2018 is set out below.

	December 31, 2018
	RMB'000
ASSETS	
Current assets	
Cash and cash equivalents	2,766,631
Bank balances pledged	2,180,629
Financial assets at fair value through profit or loss	1,863,654
Other financial assets at amortised cost	550,000
Trade and other receivables	193,380
Inventories	607,656
Other assets	325,114
Non-current assets held for sale	67,672
Financial assets at fair value through other comprehensive income	378,942
Total current assets	8,933,678
Non-current assets	
Other assets	572,762
Financial assets at fair value through other comprehensive income	425,753
Investment in an associate	2,784
Investment in a joint venture	458,447
Property, plant and equipment	2,743,925
Deferred tax assets	14,886
Total non-current assets	4,218,557
Total assets	13,152,235
LIABILITIES AND EQUITY	
Current liabilities	
Trade and other payables	3,135,491
Borrowings and notes payables	2,954,302
Provision for taxation	226,501
Total current liabilities	6,316,294
Non-current liabilities	
Borrowings	725,440
Deferred tax liabilities	22,889
Total non-current liabilities	748,329
Total liabilities	7,064,623
Net assets	6,087,612
Capital and reserves	
Share capital	406,644
Capital reserve	261,613
Fair value reserve	(58,849)
Currency translation reserve	53,497
Statutory reserve	141,072
Retained earnings (Accumulated losses)	5,274,866
Equity attributable to owners of the Company	6,078,843
Non-controlling interests	8,769
Total equity	6,087,612

The above summary should be read together with the annual report for FY2018, the audited consolidated statements of financial position of the Group for FY2018, which are set out in Appendix IV of this Circular, and the related notes thereto.

9.3 Significant accounting policies

A summary of the significant accounting policies of the Group is set out in Note 2 to the audited consolidated financial statements of the Group for FY2018, which are reproduced in Appendix IV of this Circular.

Save as disclosed in this Circular and publicly available information on the Group (including but not limited to that contained in the audited consolidated financial statements of the Group for FY2018 and that contained in the unaudited financial information of the Group for HY2019), there are no significant accounting policies or any points from the notes to the financial statements which are of major relevance for the interpretation of the accounts.

9.4 Changes in accounting policies

As at the Latest Practicable Date, there has been no change in the accounting policies of the Group since the date of its audited consolidated financial statements for FY2018 which will cause the figures set out in paragraphs 9.1 and 9.2 of Appendix II to this Circular to be not comparable to a material extent.

9.5 Material changes in financial position

Save as disclosed in this Circular and in publicly available information on the Group (including but not limited to the annual report of the Company for FY2018), as at the Latest Practicable Date, there has been no known material change in the financial position of the Company since 31 December 2018, being the date of the Company's last published audited financial statements.

9.6 Material change in information

Save as disclosed in this Circular and save for the information relating to the Company and the Offer that is publicly available, there has been no material change in any information previously published by or on behalf of the Company during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date.

10. GENERAL

10.1 Costs and Expenses

All expenses and costs incurred by the Company in relation to the Offer will be borne by the Company.

10.2 Consents

PwCCF has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name, (ii) the IFA Letter, and (iii) all references thereto in the form and context in which they appear in this Circular.

Deloitte & Touche LLP, named as the auditors of the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of (i) its name, (ii) the independent auditor's report in relation to the audited financial statements of the Group for FY2018 (as reproduced in Appendix IV to this Circular), and (iii) all references thereto in the form and context in which they appear in this Circular.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 50 Raffles Place, #30-01 Singapore Land Tower, Singapore 048623 during normal business hours for the period during which the Offer remains open for acceptance:

- (a) the Constitution of the Company;
- (b) the annual reports of the Company for FY2016, FY2017 and FY2018;

- (c) the audited consolidated financial statements for the Group for FY2018 and its accompanying notes as set out in Appendix IV to this Circular;
- (d) the unaudited consolidated financial statements of the Group for HY2019 and the accompanying notes as set out in Appendix V to this Circular;
- (e) the IFA Letter; and
- (f) the letter of consents referred to in paragraph 10.2 of Appendix II to this Circular.

APPENDIX III

RELEVANT PROVISIONS IN THE CONSTITUTION OF THE COMPANY

The provisions in the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been reproduced below:

“

ISSUE OF SHARES

4. (A) *Subject to these presents, no shares may be issued by the Directors without the prior approval of the Company in General Meeting pursuant to Section 161 of the Act, but subject thereto and the terms of such approval, and to Article 5, and to any special rights attached to any shares for the time being issued, the Directors may allot (with or without conferring a right of renunciation) or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and at such time and whether or not subject to the payment of any part of the amount thereof in cash or otherwise as the Directors may think fit, and any shares may, subject to compliance with Sections 70 and 75 of the Act, be issued with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions, whether as regards dividend, return of capital, participation in surplus assets and profits, voting, conversion or otherwise, as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors in accordance with the Act, Provided Always that:-*

- (a) *no shares shall be issued to transfer a controlling interest in the Company without the specific prior approval of the Company in General Meeting; and*
- (b) *no shares shall be issued at a discount or options granted over unissued shares except in accordance with the Act.*

(B) *The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder, recognize a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.*

(C) *Except so far as otherwise provided by the conditions of issue or by these presents, all new shares shall be issued subject to the provisions of the Statutes and of these presents with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture or otherwise.*

5. (A) *Subject to any direction to the contrary that may be given by the Company in General Meeting or except as permitted by the rules of the Designated Stock Exchange, all new shares shall before issue be offered to such persons who as at the date (as determined by the Directors) of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 5(A).*

(B) *The Company may, notwithstanding Article 5(A) above, authorize the Directors not to offer new shares to members to whom by reason of foreign securities laws, such offers may not be made without registration of the shares or a prospectus or other document, but to sell the entitlements to the new shares on behalf of such members on such terms and conditions as the Company may direct.*

6. The Company may exercise the power of paying commissions in respect of subscription for shares which is conferred by the Act to the full extent thereby permitted, Provided Always that the amount or rate of the commissions paid or agreed to be paid and the number of shares to be subscribed for absolutely shall be disclosed in the manner required by the Act, in the relevant prospectus, statement, circular or notice as the case may be. Such commissions may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful subject to disclosure of the amount or rate thereof in the manner required by the Act in the relevant prospectus, statement, circular or notice as the case may be.

7. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of that share capital as is for the time being paid up for the period and charge the same to capital as part of the cost of the construction of the works or buildings or the provision of the plant, subject to the conditions and restrictions mentioned in the Act.

8. (A) The rights attached to shares issued upon special conditions shall be clearly defined in the Memorandum and Articles and the rights attaching to shares of a class other than ordinary shares shall be expressed. In the event of preference shares being issued, the total nominal value of issued preference shares shall not at any time exceed the total nominal value of the issued ordinary shares and preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance-sheets and attending General Meetings of the Company, and preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing capital or winding-up or sanctioning a sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrears.

(B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

VARIATION OF RIGHTS

9. (A) Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of these presents relating to General Meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two or more persons holding at least one-third in nominal value of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him where the class is a class of equity shares within the meaning of Section 64(1) of the Act or at least one vote for every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a Special Resolution is not obtained at such General Meeting, the consent in writing, if obtained from the holders of three-quarters in nominal value of the issued shares of the class concerned within two months of such General Meeting, shall be as valid and effectual as a Special Resolution carried at such General Meeting.

(B) The provisions in Article 9(A) shall *mutatis mutandis* apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.

(C) The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

ALTERATION OF SHARE CAPITAL

10. The Company may from time to time by Ordinary Resolution increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

11. The Company may by Ordinary Resolution:-

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (b) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled;
- (c) subject to the provisions of the Statutes, sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the Memorandum of Association; so however that the proportion of the amount paid to the amount unpaid (if any) on each sub-divided share is the same as on the original share from which it was derived; and the resolution whereby any share is sub-divided being otherwise permitted to determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred, qualified or other special rights, or be subject to any such restrictions, as the Company has then the authority to attach to unissued or new shares; and/or
- (d) subject to the provisions of the Statutes, convert or exchange any class of shares into or for any other class of shares.

12. The Company may reduce its share capital or any capital redemption reserve fund, share premium account or other undistributable reserve in any manner permitted, and with, and subject to, any incident authorized, and consent or confirmation required, by law.

TRANSFER OF SHARES

33. All transfers of shares shall be effected by written instruments of transfer in the form for the time being approved by the Directors and each stock exchange upon which the shares in the Company may be listed. An instrument of transfer shall be signed by or on behalf of both the transferor and the transferee and be witnessed, provided that CDP shall not be required to sign, as transferee, any instrument of transfer relating to any transfer of shares to it during such period as the Directors may think fit. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof.

34. The Registers of Members and of Transfers may be closed at such times and for such periods as the Directors may from time to time determine, Provided Always that such Registers shall not be closed for more than thirty days in any year, and that the Company shall give prior notice of each such closure, as may be required, to any stock exchange upon which the shares in the Company may be listed, stating the period and purpose or purposes for which such closure is made.

35. (A) There shall be no restriction on the transfer of fully paid up shares (except where required by law or by the rules, bye-laws or listing rules of any stock exchange on which the shares in the Company may be listed) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien, and in the case of shares not fully paid up, may refuse to register a transfer to a transferee of whom they do not approve, Provided Always that in the event of the Directors refusing to register a transfer of shares, the Company shall within ten market days after the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.

(B) *The Directors may decline to register any instrument of transfer unless:-*

- (a) *such fee not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require is paid to the Company in respect thereof;*
- (b) *the instrument of transfer, duly stamped in accordance with any law for the time being in force relating to stamp duty, is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by the certificates of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and*
- (c) *the instrument of transfer is in respect of only one class of shares.*

36. *All instruments of transfer which are registered may be retained by the Company.*

37. *The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof and all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company, Provided Always that:-*

- (a) *the provisions aforesaid shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;*
- (b) *nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and*
- (c) *references herein to the destruction of any document include references to the disposal thereof in any manner.*

EXCLUSION OF EQUITIES

43. *Except as required by the Statutes or law, no person shall be recognized by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by these presents or by the Statutes or law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in these presents contained relating to CDP or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.*

STOCK

44. *The Company may from time to time by Ordinary Resolution convert any paid-up shares into stock and may from time to time by like resolution reconvert any stock into paid-up shares of any denomination.*

45. The holders of stock may transfer the same or any part thereof in the same manner and subject to the same Articles as and subject to which the shares from which the stock arose might previous to conversion have been transferred (or as near thereto as circumstances admit), but no stock shall be transferable except in such units (not being greater than the nominal amount of the shares from which the stock arose) as the Directors may from time to time determine.

46. The holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards dividend, return of capital, voting and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except as regards participation in the profits or assets of the Company) shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage, and no such conversion shall affect or prejudice any preference or other special privileges attached to the shares so converted.

NOTICE OF GENERAL MEETINGS

49. Any Extraordinary General Meeting at which it is proposed to pass a Special Resolution or (save as provided by the Statutes) a resolution of which special notice has been given to the Company, shall be called by twenty-one days' notice in writing at the least and an Annual General Meeting or any other Extraordinary General Meeting by fourteen days' notice in writing at the least. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the meeting is to be held and shall be given in manner hereinafter mentioned to all members other than such as are not under the provisions of these presents entitled to receive such notices from the Company, Provided that a General Meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:-

- (a) in the case of an Annual General Meeting by all the members entitled to attend and vote thereat; and
- (b) in the case of an Extraordinary General Meeting by a majority in number of the members having a right to attend and vote thereat, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right;

Provided also that the accidental omission to give notice to or the non-receipt of notice by any person entitled thereto shall not invalidate the proceedings at any General Meeting. At least fourteen days' notice of any General Meeting shall be given by advertisement in the daily press and in writing to any stock exchange upon which the shares in the Company may be listed, Provided Always that in the case of any Extraordinary General Meeting at which it is proposed to pass a Special Resolution, at least twenty-one days' notice in writing of such Extraordinary General Meeting shall be given to any stock exchange upon which the shares in the Company may be listed.

50. (A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a member of the Company.

(B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.

(C) In the case of any General Meeting at which business other than routine business ("special business") is to be transacted, the notice shall specify the general nature of such business and the effect of any proposed resolutions in respect of such special business, and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.

51. Routine business shall mean and include only business transacted at an Annual General Meeting of the following classes, that is to say:-

- (a) declaring dividends;
- (b) receiving and adopting the accounts, the reports of the Directors and Auditors and other documents required to be attached or annexed to the accounts;

- (c) *appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise;*
- (d) *re-appointing the retiring Auditors (unless they were last appointed otherwise than by the Company in General Meeting);*
- (e) *fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed; and*
- (f) *fixing the Directors' fees.*

52. *Any notice of a General Meeting to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution on the Company in respect of such special business.*

PROCEEDINGS AT GENERAL MEETINGS

53. *The Chairman of the Board of Directors, failing whom the Deputy Chairman, shall preside as chairman at a General Meeting. If there be no such Chairman or Deputy Chairman, or if at any meeting neither be present within five minutes after the time appointed for holding the meeting and willing to act, the Directors present shall choose one of their number (or, if no Director be present or if all the Directors present decline to take the chair, the members present shall choose one of their number) to be chairman of the meeting.*

54. *No business other than the appointment of a chairman shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any General Meeting shall be two members present in person or by proxy.*

55. *If within thirty minutes from the time appointed for a General Meeting (or such longer interval as the chairman of the meeting may think fit to allow) a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if that day is a public holiday then to the next business day following that public holiday) at the same time and place or such other day, time or place as the Directors may by not less than ten days' notice appoint.*

56. *The chairman of any General Meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time (or sine die) and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. Where a meeting is adjourned sine die, the time and place for the adjourned meeting shall be fixed by the Directors. When a meeting is adjourned for thirty days or more or sine die, not less than seven days' notice of the adjourned meeting shall be given in like manner as in the case of the original meeting.*

57. *Save as hereinbefore expressly provided, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.*

58. *If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.*

59. *At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:-*

- (a) *the chairman of the meeting; or*
- (b) *not less than two members present in person or by proxy and entitled to vote; or*

- (c) *any member present in person or by proxy, or where such a member has appointed two proxies any one of such proxies, or any number or combination of such members or proxies, holding or representing as the case may be not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or*
- (d) *any member present in person or by proxy, or where such a member has appointed two proxies any one of such proxies, or any number or combination of such members or proxies, holding or representing as the case may be shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid on all the shares conferring that right,*

Provided Always that no poll shall be demanded on the choice of the chairman of the meeting or on a question of adjournment. A demand for a poll may be withdrawn only with the approval of the meeting.

60. Unless a poll is required, a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution. If a poll is required, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The chairman of the meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

61. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a casting vote.

62. A poll demanded on any question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the chairman of the meeting may direct. No notice need be given of a poll not taken immediately. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded.

VOTES OF MEMBERS

63. Subject to any special rights or restrictions as to voting attached by or in accordance with these presents to any class of shares, on a show of hands every member who is present in person or by proxy shall have one vote, the chairman of the meeting to determine which proxy shall be entitled to vote where a member is represented by two proxies, and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder. A member who is bankrupt shall not, while his bankruptcy continues, be entitled to exercise his rights as a member, or attend, vote or act at any meeting of the Company.

64. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members or, as the case may be, the order in which the names appear in the Depository Register in respect of the joint holding.

65. Where in Singapore or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any member on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such member, to vote in person or by proxy at any General Meeting, or to exercise any other right conferred by membership in relation to meetings of the Company.

66. No member shall be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum payable by him to the Company in respect of such shares remains unpaid.

67. No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the meeting whose decision shall be final and conclusive.

68. On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

69. (A) A member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting, Provided that if a member shall nominate two proxies then the member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

(B) A proxy need not be a member of the Company.

70. (A) An instrument appointing a proxy for any member shall be in writing in any usual or common form or in any other form which the Directors may approve and:-

(a) in the case of an individual member, shall be signed by the member or his attorney duly authorised in writing; and

(b) in the case of a member which is a corporation shall be either given under its common seal or signed on its behalf by an attorney duly authorised in writing or a duly authorized officer of the corporation.

(B) The signatures on an instrument of proxy need not be witnessed. Where an instrument appointing a proxy is signed on behalf of a member by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument of proxy may be treated as invalid.

71. An instrument appointing a proxy must be left at such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, at the Office) not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates, Provided that an instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not be required to be delivered again for the purposes of any subsequent meeting to which it relates.

72. An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll and to speak at the meeting.

73. A vote cast by proxy shall not be invalidated by the previous death or insanity of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office at least one hour before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.

CORPORATIONS ACTING BY REPRESENTATIVES

74. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company. The person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company and such corporation shall for the purposes of these presents be deemed to be present in person at any such meeting if a person so authorized is present thereat.

RESERVES

122. The Directors may from time to time set aside out of the profits of the Company and carry to reserve such sums as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Company may properly be applied and pending such application may either be employed in the business of the Company or be invested. The Directors may divide the reserve into such special funds as they think fit and may consolidate into one fund any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also, without placing the same to reserve, carry forward any profits. In carrying sums to reserve and in applying the same, the Directors shall comply with the provisions of the Statutes.

DIVIDENDS

123. The Company may by Ordinary Resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

124. If and so far as in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

125. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purposes of this Article, no amount paid on a share in advance of calls shall be treated as paid on the share.

126. No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes or, pursuant to Section 69 of the Act and in the form of stock dividends, out of the share premium account. Any dividend unclaimed after six (6) years from the date of declaration shall be made forfeit and revert to the Company.

127. No dividend or other monies payable on or in respect of a share shall bear interest as against the Company.

128. (A) The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

(B) The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares hereinbefore contained entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.

129. The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the member (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.

130. The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution. Where any difficulty arises with regard to such distribution, the Directors may settle the same as they think expedient and in particular, may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any member upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.

131. Any dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of the member or person entitled thereto (or, if two or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons) or to such person and such address as such member or person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.

132. If two or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable on or in respect of the share.

133. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in General Meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares.

CAPITALIZATION OF PROFITS AND RESERVES

134. The Directors may, with the sanction of an Ordinary Resolution of the Company (including any Ordinary Resolution passed pursuant to Article 4(A)), capitalize any sum standing to the credit of any of the Company's reserve accounts as representing profits available for distribution under the provisions of the Statutes or, pursuant to Sections 69 or 70 of the Act, the Company's share premium account or capital redemption reserve, by appropriating such sum to the persons registered as the holders of shares in the Register of Members or (as the case may be) the Depository Register at the close of business on the date of the resolution (or such other date as may be specified therein or determined as therein provided) in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full unissued shares or (subject to any special rights previously conferred on any shares or class of shares for the time being issued) unissued shares of any other class not being redeemable shares, for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid. The Directors may do all acts and things considered necessary or expedient to give effect to any such capitalization, with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the members concerned). The Directors may authorize any person to enter on behalf of all the members interested into an agreement with the Company providing for any such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

WINDING UP

145. The Directors shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up.

146. *If the Company shall be wound up (whether the liquidation is voluntary, under supervision, or by the court) the Liquidator may, with the authority of a Special Resolution, divide among the members in specie or in kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members of different classes of members. The Liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the Liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.*

147. *If the Company shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively. This Article is, however, subject to the rights of any shares which may be issued on special terms or conditions.*

148. *On a voluntary winding up of the Company, no commission or fee shall be paid to a Liquidator without the prior approval of the Members in General Meeting. The amount of such commission or fee shall be notified to all Members not less than seven days prior to the Meeting at which it is to be considered."*

APPENDIX IV

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

The audited consolidated financial statements of the Group for FY2018 which are set out below have been reproduced from the Company's annual report for FY2018, and were not specifically prepared for inclusion in this Circular.

All capitalised terms used in Note 2 to the audited consolidated financial statements of the Group for FY2018 set out below shall have the same meanings given to them in the annual report of the Company for FY2018.

A copy of the annual report of the Company for FY2018 is available for inspection at the registered address of the Company at 50 Raffles Place, #30-01 Singapore Land Tower, Singapore 048623, during normal business hours until the Closing Date.

DIRECTORS' STATEMENT

The directors present their statement with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2018.

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 8 to 75 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at December 31, 2018, and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1 DIRECTORS

The directors of the Company in office at the date of this report are:

Ding Liguo
Wu Yujie
Lai Hock Meng
Wang Tianyi
Wu Geng

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

	Shareholdings registered in the name of directors		Shareholdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
<u>Ordinary shares of the Company</u>				
Ding Liguo	—	5,130,000	64,163,500	84,647,099
Ultimate holding company <u>Honest Joy International Ltd</u> (Ordinary shares of US\$1 each)				
Ding Liguo	70	70	30	30
Immediate holding company <u>Best Decade Holdings Limited</u> (Ordinary shares of US\$1 each)				
Ding Liguo	—	—	1,000	1,000

DIRECTORS' STATEMENT

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (cont'd)

By virtue of Section 7 of the Singapore Companies Act, Mr Ding Liguu is deemed to have an interest in all the related corporations of the Company.

The directors' interests in the shares of the Company as at January 21, 2019 were the same as at December 31, 2018.

4 SHARE OPTIONS

(a) *Options to take up unissued shares*

During the financial year, no options to take up unissued shares of the Company or any corporation in the Group were granted.

(b) *Options exercised*

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

(c) *Unissued shares under options*

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

5 AUDIT AND RISK COMMITTEE

The Audit and Risk Committee of the Company is chaired by Mr Lai Hock Meng, an independent director, and includes Mr Wu Geng and Mr Wang Tianyi, who are all independent directors. The Audit and Risk Committee has met four times since the last Directors' report and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the Company:

- to review the scope, approach and results of the specific procedures carried out by third party valuer for financial assets at fair value through other comprehensive income;
- to review the scope, approach and results of the audit carried out by external auditors;
- to review the quarterly and audited financial statements, SGXNET announcements, and all related disclosures to shareholders, before submission to the Board of Directors (the "Board") for approval;
- to review and discuss with external auditors any suspected fraud or irregularities, or failure of internal controls or rule and regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review a framework for the policies and procedures of related party transaction ("RPT") or interested person transaction ("IPT");
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST listing Manual;

DIRECTORS' STATEMENT

- to review transactions constituting related party transactions;
- to review the scope of work of the internal auditors;
- to review annually the adequacy and effectiveness of the internal audit function to ensure that the internal audit resources are adequate and that the internal audits are performed effectively;
- to oversee the Company's risk management framework and policies, to determine the Company's overall levels of risk tolerance and risk policies;
- to review the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology annually, either internally or with the assistance of any competent third parties;
- to review and monitor on an on-going basis, the procedures implemented to ensure the legal and regulatory compliance of the Group's bill financing activities in the applicable jurisdictions;
- to review assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems; and
- perform such other functions as the Board may determine.

The Audit and Risk Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit and Risk Committee.

The Audit and Risk Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Group at the forthcoming Annual General Meeting of the Company.

6 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Ding Liguao
Director

Wu Yujie
Director

March 28, 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of Delong Holdings Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Delong Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 8 to 75.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards International ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at December 31, 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of *Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

To the Members of Delong Holdings Limited

Key Audit Matters	Our audit performed and responses thereon
Valuation of financial assets at fair value through other comprehensive income As at December 31, 2018, the Group's financial assets at fair value through other comprehensive income ("FVTOCI"), amounted to RMB425,753,000. The financial assets at FVTOCI balance mainly comprise of unquoted equity investments stated at fair value, determined by independent professional external valuer. The valuation of unquoted equity investments involves significant judgement in determining the appropriate valuation methods and use of subjective assumptions such as price/book ratio. The valuation is sensitive to underlying assumptions applied by the valuer such as market comparable used and liquidity reduction factor that may have a significant impact to the valuation.	We have discussed with the component auditors to understand the nature, extent and timing of procedures performed on the valuation of financial assets at fair value through other comprehensive income. We have also performed the following procedures: • Obtained an understanding of the relevant controls and processes that management has in place in respect of valuation of unquoted equity investments; • Obtained the external valuation report and evaluated the work scope, qualifications, competency, objectivity and independence of the external valuer; • Discussed with the external valuer to obtain understanding of their work performed on the unquoted equity investments covering amongst others, the valuation methodology and the appropriateness of assumptions applied; • Assessed the valuation methodology used is appropriate including comparison to methodology generally used by other valuers on similar unquoted equity investments; and • Performed independent assessment on the key assumptions by involving internal specialists who compared the key assumptions applied against data available in the market. The key judgement and estimation on the valuation of financial assets at FVTOCI is disclosed in Note 3 to the financial statements, and further information related to financial assets at FVTOCI is provided in Note 15 to the financial statements.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

To the Members of Delong Holdings Limited

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair view financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

To the Members of Delong Holdings Limited

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr Toh Yew Kuan Jeremy.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

March 28, 2019

STATEMENTS OF FINANCIAL POSITION

		<u>Group</u>			<u>Company</u>		
	Note	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000
ASSETS							
Current assets							
Cash and cash equivalents	6	2,766,631	2,135,871	966,932	5,138	2,127	7,585
Bank balances pledged	7	2,180,629	1,111,559	1,571,779	—	—	—
Held for trading investments	8	—	982,927	725,943	—	—	—
Financial assets at fair value through profit or loss	8	1,863,654	—	—	—	—	—
Held-to-maturity financial asset	9	—	30,000	371,050	—	—	—
Other financial assets at amortised cost	9	550,000	—	—	—	—	—
Trade and other receivables	10	193,380	928,412	570,020	1,050,213	188,603	220,270
Inventories	12	607,656	812,037	552,518	—	—	—
Other assets	13	325,114	972,150	672,066	93	225	88
Non-current assets held for sale	14	67,672	67,672	—	—	—	—
Financial assets at fair value through other comprehensive income	15	378,942	—	—	—	—	—
Total current assets		8,933,678	7,040,628	5,430,308	1,055,444	190,955	227,943
Non-current assets							
Other assets	13	572,762	6,000	—	—	—	—
Held-to-maturity financial asset	9	—	6,512	—	—	—	—
Available-for-sale financial assets	15	—	233,448	203,988	—	—	—
Financial assets at fair value through other comprehensive income	15	425,753	—	—	—	—	—
Investments in subsidiaries	16	—	—	—	2,010,492	2,010,492	1,984,916
Investment in an associate	17	2,784	3,395	4,001	—	—	—
Investment in a joint venture	18	458,447	446,400	—	—	—	—
Property, plant and equipment	19	2,743,925	2,181,129	2,229,273	13	33	63
Intangible asset	20	—	—	1,440	—	—	—
Deferred tax assets	21	14,886	8,480	6,508	—	—	—
Total non-current assets		4,218,557	2,885,364	2,445,210	2,010,505	2,010,525	1,984,979
Total assets		13,152,235	9,925,992	7,875,518	3,065,949	2,201,480	2,212,922

See accompanying notes to financial statements.

STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Note	<u>Group</u>			<u>Company</u>		
		December	December	January	December	December	January
		31, 2018	31, 2017	1, 2017	31, 2018	31, 2017	1, 2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES AND EQUITY							
Current liabilities							
Trade and other payables	22	3,135,491	2,563,115	1,442,102	7,014	7,580	5,280
Borrowings and notes payables	23	2,954,302	2,114,894	3,621,011	10	10	10
Provision for taxation		226,501	348,844	39,879	—	—	—
Total current liabilities		6,316,294	5,026,853	5,102,992	7,024	7,590	5,290
Non-current liabilities							
Borrowings	23	725,440	297,452	204,906	12	22	32
Deferred tax liabilities	21	22,889	22,889	23,249	—	—	—
Total non-current liabilities		748,329	320,341	228,155	12	22	32
Total liabilities		7,064,623	5,347,194	5,331,147	7,036	7,612	5,322
Net assets		6,087,612	4,578,798	2,544,371	3,058,913	2,193,868	2,207,600
Capital and reserves							
Share capital	25	406,644	406,644	406,644	2,112,480	2,112,480	2,112,480
Capital reserve	26	261,613	261,613	261,613	249,218	249,218	249,218
Fair value reserve	26	(58,849)	(23,536)	(304)	—	—	—
Currency translation reserve		53,497	11,177	23,424	—	—	—
Statutory reserve	26	141,072	141,072	141,072	—	—	—
Retained earnings (Accumulated losses)	26	5,274,866	3,781,828	1,711,922	697,215	(167,830)	(154,098)
Equity attributable to owners of the Company		6,078,843	4,578,798	2,544,371	3,058,913	2,193,868	2,207,600
Non-controlling interests		8,769	—	—	—	—	—
Total equity		6,087,612	4,578,798	2,544,371	3,058,913	2,193,868	2,207,600

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Group	
	Note	2018 RMB'000	2017 RMB'000
Revenue	27	14,287,453	12,831,279
Cost of sales	30	(11,940,378)	(10,102,751)
Gross profit		2,347,075	2,728,528
Other income	28	228,740	141,240
Other gains - net	29	16,292	302,748
Distribution and marketing costs	30	(33,520)	(87,990)
Administrative expenses	30	(402,741)	(374,298)
Finance costs	31	(163,194)	(153,066)
Share of loss of an associate	17	(611)	(606)
Share of loss of a joint venture	18	(5,727)	—
Profit before tax		1,986,314	2,556,556
Income tax expenses	32	(285,438)	(486,650)
Profit for the year	33	1,700,876	2,069,906
Other comprehensive income (loss)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Net fair value loss on financial assets at fair value through other comprehensive income		(25,339)	—
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		42,320	(12,247)
Fair value changes on available-for-sale financial assets	15	—	(23,232)
Net fair value loss on financial assets at fair value through other comprehensive income of notes receivables		(11,297)	—
Deferred tax relating to changes in fair value of notes receivables		2,823	—
		33,846	(35,479)
Other comprehensive income (loss) for the year, net of tax		8,507	(35,479)
Total comprehensive income for the year		1,709,383	2,034,427
Profit attributable to:			
Owners of the Company		1,702,707	2,069,906
Non-controlling interests		(1,831)	—
		1,700,876	2,069,906
Total comprehensive income attributable to:			
Owners of the Company		1,711,214	2,034,427
Non-controlling interests		(1,831)	—
		1,709,383	2,034,427
Earnings per share			
(expressed in RMB per share)	34		
- Basic		15.45	18.79
- Diluted		15.45	18.79

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Group	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at January 1, 2017	406,644	261,613	(304)	23,424	141,072	1,711,922	2,544,371	-	2,544,371
Total comprehensive (loss) income for the year:									
Profit for the year	-	-	-	-	-	2,069,906	2,069,906	-	2,069,906
Other comprehensive loss	-	-	(23,232)	(12,247)	-	-	(35,479)	-	(35,479)
Total	-	-	(23,232)	(12,247)	-	2,069,906	2,034,427	-	2,034,427
Balance as at December 31, 2017	406,644	261,613	(23,536)	11,177	141,072	3,781,828	4,578,798	-	4,578,798
Adjustment on initial application of SFRS(I) 9 (Note 40)	-	-	(1,500)	-	-	95,000	93,500	-	93,500
Adjusted balance as at January 1, 2018	406,644	261,613	(25,036)	11,177	141,072	3,876,828	4,672,298	-	4,672,298
Total comprehensive income (loss) for the year:									
Profit (loss) for the year	-	-	-	-	-	1,702,707	1,702,707	(1,831)	1,700,876
Other comprehensive (loss) income	-	-	(33,813)	42,320	-	-	8,507	-	8,507
Total	-	-	(33,813)	42,320	-	1,702,707	1,711,214	(1,831)	1,709,383
Transactions with owners, recognised directly in equity:									
Dividend paid (Note 36)	-	-	-	-	-	(304,669)	(304,669)	-	(304,669)
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	10,600	10,600
Total	-	-	-	-	-	(304,669)	(304,669)	10,600	(294,069)
Balance as at December 31, 2018	406,644	261,613	(58,849)	53,497	141,072	5,274,866	6,078,843	8,769	6,087,612

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY (CONT'D)

	Share capital RMB'000	Capital reserve RMB'000	Retained earnings (Accumulated losses) RMB'000	Total RMB'000
<u>Company</u>				
Balance at January 1, 2017	2,112,480	249,218	(154,098)	2,207,600
Loss for the year, representing total comprehensive loss for the year	—	—	(13,732)	(13,732)
Balance at December 31, 2017	2,112,480	249,218	(167,830)	2,193,868
Profit for the year, representing total comprehensive income for the year	—	—	1,169,714	1,169,714
Dividend paid (Note 36), representing transaction with owners, recognised directly in equity	—	—	(304,669)	(304,669)
Balance at December 31, 2018	2,112,480	249,218	697,215	3,058,913

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Group	
	Note	2018	2017
		RMB'000	RMB'000
Operating activities			
Profit for the year		1,700,876	2,069,906
Adjustments for:			
Income tax expenses	32	285,438	486,650
Depreciation	19	222,361	321,919
Amortisation of intangible assets	20	–	1,440
Loss allowance	10, 29	1,343	–
Loss on disposal of property, plant and equipment	29	6,663	47,493
Fair value gain on FVTPL	29	(3,600)	(3,479)
Impairment loss for available-for-sale financial assets	29	–	50,000
Share of loss of an associate	17	611	606
Share of loss of a joint venture	18	5,727	–
Interest income	28	(207,260)	(120,398)
Dividend income	28	(832)	(13,137)
Interest expenses	31	163,194	153,066
Operating cash flow before movements in working capital		2,174,521	2,994,066
Receivables		1,003,347	(649,207)
Inventories		204,381	(259,519)
Payables (Note A)		516,663	1,251,204
Cash generated from operations		3,898,912	3,336,544
Income taxes paid		(414,187)	(180,017)
Net cash from operating activities		3,484,725	3,156,527
Investing activities			
Payments for property, plant and equipment (Note A)		(739,374)	(620,098)
Proceeds from disposal of property, plant and equipment		2,464	103,995
Purchase of investments held for trading		(870,615)	(253,505)
Purchase of available-for-sale financial assets	15	–	(102,692)
Purchase of unquoted equity shares		(132,618)	–
(Purchase) proceeds of unquoted debt security		(520,000)	334,538
Investment in joint venture		–	(446,400)
Capital contribution by non controlling interest (Note B)		10,000	–
Loan to a joint venture		(572,762)	–
Interest received		184,985	120,398
Dividend received		832	13,137
Net cash used in investing activities		(2,637,088)	(850,627)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

	Note	Group 2018 RMB'000	2017 RMB'000
Financing activities (Note C)			
Bank balances pledged		(1,069,070)	460,220
Proceeds from borrowings from banks, non-controlling shareholders and other financial institutions		3,672,840	1,731,952
Repayment of borrowings from banks and other financial institutions		(2,405,440)	(3,145,525)
Interest paid		(163,194)	(153,066)
Dividend paid		(304,669)	—
Net cash used in financing activities		(269,533)	(1,106,419)
Net increase in cash and cash equivalents		578,104	1,199,481
Cash and cash equivalents at the beginning of the year		2,135,871	966,932
Effects of currency translation on cash and cash equivalents		52,656	(30,542)
Cash and cash equivalents at the end of the year (Note 6)		2,766,631	2,135,871

Note A:

In 2018, total additions of property, plant and equipment was RMB794,251,000 (2017 : RMB492,964,000) and an amount of RMB56,656,000 (2017 : RMB1,779,000) remained unpaid as at end of the reporting period.

Note B:

In 2018, capital contribution by non-controlling interests of RMB600,000 (2017 : RMB Nil) remained unpaid as at end of the reporting period.

Note C:

The cash flows make up the net amount of proceeds and repayment of borrowings in the consolidated statement of cash flows. There are no non-cash changes in the cash flows from financing activities.

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL

The Company (Registration Number 199705215G) is incorporated in Singapore with its principal place of business and registered office at 55 Market Street, Level 10, Singapore 048941. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Chinese Renminbi.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries and associate are disclosed in Notes 16 and 17 to the financial statements respectively.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2018 were authorised for issue by the Board of Directors on March 28, 2019.

For all periods up to and including the year ended December 31, 2017, the financial statements were prepared in accordance with the previous framework, Financial Reporting Standards in Singapore ("FRSs"). These financial statements for the year ended December 31, 2018 are the first set that the Group and the Company have prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). Details of first-time adoption of SFRS(I) are included in Note 40.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards (International) ("SFRS(I)s").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of SFRS(I) 2 *Share-based Payments*, leasing transactions that are within the scope of SFRS(I) 1-17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(I) 1-36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BASIS OF CONSOLIDATION - Pursuant to the reverse acquisition ("Reverse Acquisition") of the Company by Asia Paragon International Limited ("Asia Paragon") effected on January 1, 2005, the Group's consolidated statements of comprehensive income, consolidated statement of financial position, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2005 and after the business combination have been prepared as continuation of Asia Paragon's financial statements.

Since such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary (i.e. Asia Paragon Group), the assets and liabilities and equity (including issued equity and retained profits) at the date of Acquisition are accounted for as follows:

- (i) the assets and liabilities of Asia Paragon Group are recognised and measured in the consolidated statement of financial position at their pre-combination carrying amounts; and
- (ii) the retained profits and equity balances recognised in those consolidated financial statements are the retained profits and equity balances of the Asia Paragon Group immediately before the business combination. However, the equity structure appearing in those consolidated financial statements (i.e. the number and type of equity instruments issued) reflects the equity structure of the Company as the legal parent.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS(I)s). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's financial statements, investments in subsidiaries, an associate and a joint venture are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATIONS - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the SFRS(I) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with SFRS(I) 1-12 *Income Taxes* and SFRS(I) 1-19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in SFRS(I) 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another SFRS(I).

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year from acquisition date.

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets (Before January 1, 2018)

All financial assets are recognised and de-recognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss"; "held-to-maturity investments"; "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- On initial recognition, it is a part of an identified portfolio of financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and FRS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in 'other gains - net' line in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 4.

Held-to-maturity investments

Bonds with fixed or determinable payments and fixed maturity dates where the Group has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Subsequent to initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Available-for-sale financial assets

Certain shares and debt securities held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 4. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the available-for-sale monetary asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables (including trade and other receivables) are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated under the heading of fair value reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial assets (from January 1, 2018)

All financial assets are recognised and de-recognised on a trade date basis where the purchase or sale of financial assets is under a contract whose terms require delivery of assets within the time frame established by the market concerned.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "other income" line item.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which SFRS(I) 3 applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of SFRS(I) 9 (see Note 15).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value as at each reporting date, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains – net" line item (Note 29). Fair value is determined in the manner described in Note 4(vi).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate as at each reporting date. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the “other gains - net” line item;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the “other gains - net” line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the fair value reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (“ECL”) on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, contract assets, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory or economic of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate Group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 months ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. The loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Gains or losses on financial guarantee contracts and loan commitments issued by the Group that are designated by the Group as at fair value through profit or loss are recognised in profit or loss.

Fair value is determined in the manner described in Note 4(vi).

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with SFRS(I) 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost as at each reporting date, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "other gains - net" line item in profit or loss (Note 29) for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting arrangements

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

LEASES - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NON-CURRENT ASSETS HELD FOR SALE - Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT - Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Depreciation is charged so as to write off the cost of assets, other than assets under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Prepaid leases	-	over the terms of leases which are from 21 to 50 years
Leasehold buildings	-	the shorter of 20 years or the lease term
Plant and equipment	-	10 years
Motor vehicles	-	5 years

Prepaid lease pertains to the prepayment of land rental for the total land rental period. Prepaid lease is measured at the total land rental cost less any accumulated impairment loss and is charged to profit or loss on a straight-line basis over their rental period.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION - Intangible assets acquired in a business combination are identified and recognised separately from goodwill. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ASSOCIATES AND JOINT VENTURE - An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with SFRS(I) 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the group's share of losses of an associate or a joint venture exceeds the group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of SFRS(I) 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with SFRS(I) 1-36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with SFRS(I) 1-36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with SFRS(I) 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

PROVISIONS - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

GOVERNMENT GRANTS - Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

REVENUE RECOGNITION – The Group recognises revenue from manufacture and sale of hot-rolled steel coils and billet.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Manufacture and sale of hot-rolled steel coils and billets

For sale of hot-rolled steel coils and billets, revenue is recognised when control of the goods has transferred, being when the goods have been collected by the customer (collection). Upon collection, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are shipped to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Under the Group's standard contract terms, customers do not have have a right of return or other variable consideration.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund and social security bureaus in People's Republic of China ("PRC") as described below, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

The Group participates in retirement insurance scheme organised by the social security bureau in the PRC pursuant to the relevant provisions. The subsidiaries in PRC are required to make monthly contribution in respect of the above insurance schemes to the PRC social security bureau based on the monthly salaries of its employees.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

INCOME TAX - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the company and subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Chinese Renminbi, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Chinese Renminbi using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of currency translation reserve.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents in the statement of cash flows, comprise cash on hand and demand deposits, bank overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

Apart from those involving estimations (see below), management is of the view that there are no other critical judgements that have a significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The Board of Directors of the Company has set up an Investment Committee, which is headed up by the Chief Investment Officer of the Company. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Investment Committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Investment Committee reports to the Board of Directors of the Company yearly to explain the cause of fluctuations in the fair value of the assets.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed in Note 4(vi).

Allowance for inventories

The carrying amount of inventories is progressively reduced based on the age and type of stocks. These estimates of realisable values are made by management after taking into account historical and forecast selling prices. The carrying amount of inventories of the Group is set out in Note 12 to the financial statements.

Allowance for expected credit losses

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising from default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive.

The carrying amounts of the Group's and Company's trade and other receivables are disclosed in Note 10 to the financial statements.

Useful lives of property, plant and equipment

Management exercises their judgement in estimating the useful lives of the depreciable assets.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The carrying amounts of property, plant and equipment are disclosed in Note 19 to the financial statements.

Income taxes

The Group has exposure to income tax in different jurisdictions. Significant assumption is required in determining the provision for income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises deferred tax assets for tax losses and other temporary differences based on estimates of whether the deferred tax assets can be realised. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of deferred tax liabilities are disclosed in Notes 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

The following table sets out the financial instruments as at the end of the reporting period:

	Group			Company		
	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000
Financial assets						
Loans and receivables (including cash and cash equivalents)	–	4,802,193	3,488,778	–	190,795	227,920
Financial assets at amortised cost	5,822,750	–	–	1,055,419	–	–
Held for trading investments	–	982,927	725,943	–	–	–
Held-to-maturity financial assets	–	36,512	371,050	–	–	–
Available-for-sale financial assets	–	233,448	203,988	–	–	–
Financial assets at fair value through profit or loss	1,863,654	–	–	–	–	–
Other financial assets at amortised cost	550,000	–	–	–	–	–
Financial assets at fair value through other comprehensive income	804,695	–	–	–	–	–
Total	9,041,099	6,055,080	4,789,759	1,055,419	190,795	227,920
Financial liabilities						
Financial liabilities at amortised cost	5,114,742	3,851,145	4,690,778	7,036	7,612	5,322

(i) Foreign exchange risk management

The Group is exposed to foreign exchange risk as it transacts business in various foreign currencies, mainly the Hong Kong dollar, United States dollar and Singapore dollar.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	HKD RMB'000	USD RMB'000	SGD RMB'000
Group			
<i>At December 31, 2018</i>			
Assets	118,761	1,858,182	14,279
Liabilities	20	–	7,290
<i>At December 31, 2017</i>			
Assets	61,649	573,078	13,020
Liabilities	188	7,530	7,810
<i>At January 1, 2017</i>			
Assets	60,474	593,641	10,909
Liabilities	–	37,591	6,288

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(i) Foreign exchange risk management (cont'd)

	USD RMB'000	SGD RMB'000
Company		
<i>At December 31, 2018</i>		
Assets	148	5,091
Liabilities	—	7,036
<i>At December 31, 2017</i>		
Assets	79	2,246
Liabilities	—	7,612
<i>At January 1, 2017</i>		
Assets	5,976	1,705
Liabilities	—	5,322

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their transactions at the period end for a 3% change in the foreign currency rates.

If the value of HKD, USD and SGD had changed against the RMB by 3% (2017 : 3%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position (net of tax) would have been as follows:

	2018 Profit after tax RMB'000	2017 Profit after tax RMB'000
Group		
HKD against RMB		
- strengthened	2,672	1,383
- weakened	(2,672)	(1,383)
USD against RMB		
- strengthened	41,809	12,725
- weakened	(41,809)	(12,725)
SGD against RMB		
- strengthened	157	117
- weakened	(157)	(117)
Company		
USD against RMB		
- strengthened	4	2
- weakened	(4)	(2)
SGD against RMB		
- strengthened	(48)	(134)
- weakened	48	134

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(ii) Interest rate risk management

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are to a certain extent dependent on changes in market interest rates. The Group has not entered into any hedging activity during the year. Nevertheless, the Group's exposure to interest rate risk is controlled and monitored on a regular basis. The Group's borrowings are at variable rates on which effective hedges have not been entered into are denominated mainly in RMB and USD. If the interest rates had increased/decreased by 1% (2017 : 1%) with all other variables including tax rate being held constant, the profit after tax would have been higher/lower (net of tax) by RMB19,930,000 (2017 : RMB9,399,000) as a result of higher/lower interest expense on these borrowings.

(iii) Equity price risk management

The Group is exposed to equity securities price risk due to its investments which are classified on the consolidated statement of financial position either as financial assets at fair value through other comprehensive income or through profit or loss (2017 : available-for-sale financial assets or at fair value through profit or loss). The Group continually monitors its price risk exposure arising from its investments.

If prices for the equity securities at fair value through profit or loss (2017 : held for trading investments) had increased/decreased by 5% with all other variables including tax rate being held constant, the effect on profit after tax (net of tax) would have increased/decreased by RMB69,887,000 (2017 : RMB36,860,000).

If prices for the equity securities at fair value through other comprehensive (2017 : available-for-sale financial assets) had increased/decreased by 5% with all other variables including tax rate being held constant, the effect on fair value reserves would have increased/decreased by RMB21,288,000 (2017 : RMB1,999,000).

(iv) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group and the Company do not hold any collateral except for the finance leased assets. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position grossed up for any allowance for losses, except as follows:

	Group			Company		
	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000
Corporate guarantees provided to banks on:						
- Third parties' loans	255,779	295,050	475,050*	—	—	—
- Interested party's loan	—	—	50,000	—	—	—

* Including guarantees amounting to RMB 140 million was signed in December 2016 with a third party but the guarantees were utilised only in January 2017 and subsequently rescinded in March 2017.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(iv) Credit risk management (cont'd)

The Group's credit exposure to a third party at the end of the reporting period was as follows:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
Finance lease receivables (Note 11)	—	—	1,256
Corporate guarantees provided to banks (Note 35): for a third party	219,779	60,000	145,050
	219,779	60,000	146,306

The Group develops and maintains its credit risk gradings to categorise exposures according to their degree of risk of default. The Group uses its own trading records to rate its major customers and other debtors.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 months ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(iv) Credit risk management (cont'd)

The tables below detail the credit quality of the Group's financial assets and other items, as well as maximum exposure to credit risk by credit risk rating grades:

	Note	Internal credit rating	12 months or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Group						
<u>December 31, 2018</u>						
Trade receivables	10	(Note)	Lifetime ECL (simplified approach)	214,085	(20,705)	193,380
Other financial assets	13	Performing	12 months ECL	682,110	— (20,705)	682,110
Company						
<u>December 31, 2018</u>						
Trade receivables	10	(Note)	Lifetime ECL (simplified approach)	33	—	33
Due from subsidiaries	10	Performing	12 months ECL	1,050,180	—	1,050,180
Other financial assets	13	Performing	12 months ECL	68	—	68

Note:

The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix, grouping by internal credit rating. Notes 10 and 13 include further details on the loss allowance for these assets respectively.

The credit risk for trade and other receivables and other assets based on the information provided to key management is as follows:

	Group			Company		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>By geographical areas</i>						
People's Republic of China	293,619	1,550,173	911,512	896,482	29,697	55,167
Indonesia	572,762	—	—	—	—	—
Singapore	4,210	4,099	38,555	153,799	158,971	165,168
Hong Kong	4,899	491	—	—	—	—
	875,490	1,554,763	950,067	1,050,281	188,668	220,335
<i>By types of customers</i>						
Non-related parties	302,728	1,554,763	950,067	101	198	96
Joint Venture	572,762	—	—	—	—	—
Subsidiaries	—	—	—	1,050,180	188,470	220,239
	875,490	1,554,763	950,067	1,050,281	188,668	220,335

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(iv) Credit risk management (cont'd)

Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks in the People's Republic of China, Hong Kong and Singapore. Trade and other receivables that are neither past due nor impaired are substantially companies with a good collection record with the Group.

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and invests in financial instruments, where the counterparties have minimum BBB- credit rating, as these are considered to have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the group uses other publicly available financial information and its own trading records to rate its major customers. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Other than as disclosed in the financial statements, there was no significant concentration of credit risk at the end of the reporting period.

(v) Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits.

As at December 31, 2018, the Group has available committed credit facilities amounting to RMB1,986.5 million (December 31, 2017 : RMB2,089.2 million, January 1, 2017 : RMB1,128.7 million) which are not yet utilised and all conditions precedent have been met. These facilities will be available for draw down for the purpose of meeting working capital needs or replacing its short-term borrowings when they fall due.

The Group had satisfactorily maintained its credit facilities with the financial institutions in the PRC and had successfully renewed or rolled over its short-term borrowings when they fall due during the financial year. The Group and Company have met with all covenants imposed by the financial institutions. Management is not aware of any circumstances that may cause the financial institutions not to continue with the credit facilities.

Based on the above, management and the directors are of the view that the Group and Company are able to continue to operate as going concerns.

Management monitors rolling forecasts of the liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flow of the Group and the Company. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet the needs, monitoring liquidity ratios, and maintaining debt financing plans.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(v) Liquidity risk management (cont'd)

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows (including interest payments).

	Weighted average effective interest rate % per annum	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Group			
<i>At December 31, 2018</i>			
Notes payables	—	1,022,442	—
Trade and other payables	—	1,435,000	—
Borrowings	4%	1,985,759	779,962
Financial guarantee contracts	—	255,779	—
<i>At December 31, 2017</i>			
Notes payables	—	1,159,092	—
Trade and other payables	—	1,438,799	—
Borrowings	5%	996,537	317,704
Financial guarantee contracts	—	295,050	—
<i>At January 1, 2017</i>			
Notes payables	—	2,288,711	—
Trade and other payables	—	864,861	—
Borrowings	4%	1,396,433	217,544
Financial guarantee contracts	—	525,050	—
Company			
<i>At December 31, 2018</i>			
Trade and other payables	—	7,014	—
Borrowings	4%	10	12
<i>At December 31, 2017</i>			
Trade and other payables	—	7,580	—
Borrowings	4%	12	24
<i>At January 1, 2017</i>			
Trade and other payables	—	5,280	—
Borrowings	4%	12	36

The Group and the Company manage the liquidity risk by maintaining sufficient cash to meet the normal operating commitments and maintaining adequate amount of committed credit facilities.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group				
At December 31, 2018				
Assets				
<u>Financial assets at FVTPL (Note 8)</u>				
Quoted equity shares	8,638	—	—	8,638
Managed funds	—	1,803,931	51,085	1,855,016
<u>Financial assets at FVTOCI (Note 15)</u>				
Unquoted equity shares	—	—	384,259	384,259
Quoted equity shares	41,494	—	—	41,494
Notes receivables	—	—	378,942	378,942

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

Fair value measurements (cont'd)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group				
At December 31, 2017				
Assets				
<u>Held for trading investments</u> (Note 8)				
Quoted equity shares	9,160	—	—	9,160
Managed funds	—	35,362	938,405	973,767
<u>Available-for-sale financial assets</u> (Note 15)				
Unquoted equity shares	—	—	193,476	193,476
Quoted equity shares	39,972	—	—	39,972
At January 1, 2017				
Assets				
<u>Held for trading investments</u> (Note 8)				
Quoted equity shares	8,578	—	—	8,578
Managed funds	—	14,960	702,405	717,365
<u>Available-for-sale financial assets</u> (Note 15)				
Unquoted equity shares	—	—	143,852	143,852
Quoted equity shares	60,136	—	—	60,136

Level 3 financial assets at FVTPL are measured based on net assets of the unquoted funds as provided by the fund managers. The Level 3 financial assets at FVTOCI are determined by independent professional external valuer (2017 : discounted cash flow analysis).

The carrying amounts of cash and cash equivalents, trade and other receivables and payables, notes payables, and other borrowings approximate their fair values. There were no transfers into or out of Level 3 in 2017 and 2018, aside from the reclassification of its notes receivables as a financial asset at FVTOCI as disclosed in Note 40.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL RMB'000	Financial assets at FVTOCI RMB'000	Total RMB'000
Group			
<i>2018</i>			
Opening balance	938,405	193,476	1,131,881
Total gains			
- In profit or loss	368	—	368
- In other comprehensive income	—	58,165	58,165
Purchases	44,205	132,618	176,823
Disposals	(931,893)	—	(931,893)
Closing balance	51,085	384,259	435,344
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	3,600	—	3,600
<i>2017</i>			
Opening balance	702,405	143,852	846,257
Total losses			
- In profit or loss	—	—	—
- In other comprehensive income	—	(53,068)	(53,068)
Purchases	869,027	102,692	971,719
Disposals	(633,027)	—	(633,027)
Closing balance	938,405	193,476	1,131,881
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	3,479	—	3,479

Some of the Group's financial assets are measured at fair value as at each reporting date. The following table gives information about how the fair values of financial assets are determined.

	Fair values as at December 31, 2018 RMB'000	Fair value hierarchy	Valuation techniques and key inputs
<i>Financial assets at fair value through other comprehensive income (See Note 15)</i>			
Quoted equity shares	41,494	Level 1	Quoted bid prices in an active market
Unquoted equity shares	384,259	Level 3	Price/Book ratio of comparable listed companies adjusted for liquidity reduction factor ⁽¹⁾
Notes receivables	378,942	Level 3	Discounted present value

(1) Any significant isolated increases (decreases) the unobservable input (liquidity reduction factor) can result in a significantly lower (higher) fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

Capital management policies and objectives

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group's overall strategy remains unchanged from prior year.

5a HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The Company is a subsidiary of Best Decade Holdings Limited, incorporated in the British Virgin Islands. The Company's ultimate holding company is Honest Joy International Ltd, incorporated in the British Virgin Islands. The controlling shareholder of Honest Joy International Ltd is Mr Ding Ligu. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the Company's transactions and arrangements are between members of the Group and the effect of these on the basis determined between parties is reflected in these financial statements. The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

5b OTHER RELATED PARTY TRANSACTIONS

Some of the Company's transactions and arrangements are with related parties or related companies and the effect of these on the basis determined between the parties is reflected in these financial statements. The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

Trading transactions

There were no significant transactions with related parties for the year ended December 31, 2018 and 2017.

Compensation of directors and key management personnel

	Group	
	2018	2017
	RMB'000	RMB'000
Salaries and other short term employee benefits	6,879	7,166
Post-employment benefits - defined contributions plans	1,550	1,501
	8,429	8,667

The remuneration of directors and key management is determined by the remuneration committee having regard to the Group's performance and individual performance.

NOTES TO THE FINANCIAL STATEMENTS

6 CASH AND CASH EQUIVALENTS

	<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	1,889,790	1,941,404	961,040	5,138	2,127	1,693
Fixed deposits	876,841	194,467	5,892	–	–	5,892
Cash and cash equivalents in the statement of cash flows	2,766,631	2,135,871	966,932	5,138	2,127	7,585

The average effective interest rate of the fixed deposits is at 3.1% (2017 : 0.6% to 1.20%) per annum and for a tenure of approximately 90 days (2017 : 30 days).

The remittance of funds denominated in Renminbi (“RMB”) out of the People's Republic of China (“PRC”) is subject to the restrictions imposed by the State Administration of Foreign Exchange of China in PRC.

7 BANK BALANCES PLEDGED

These bank balances were pledged as security for certain bank borrowings and notes payables (Note 23) and letter of credit facilities (Note 22) amounting to RMB2,180,629,000 as at December 31, 2018 (2017 : RMB1,111,559,000).

Bank balances pledged bear average effective interest rate ranging from 1.30% to 1.95% (2017 : 1.30% to 1.55%) per annum.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / HELD FOR TRADING INVESTMENTS

	<u>Group</u>		
	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000
Quoted equity shares, at fair value	8,638	9,160	8,578
Managed funds	1,855,016	973,767	717,365
	1,863,654	982,927	725,943

The quoted equity shares represent investments in listed equity securities that offer the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities were based on quoted market prices on the last market day of the financial year.

Investments in managed funds offer the Group and the Company the opportunity for return through fair value gains.

Changes in the fair value of financial assets at fair value through profit or loss, amounting to RMB3,600,000 (2017: RMB3,479,000) have been included in profit or loss for the year as part of “other gains - net”.

NOTES TO THE FINANCIAL STATEMENTS

9 OTHER FINANCIAL ASSETS AT AMORTISED COST / HELD-TO-MATURITY FINANCIAL ASSET

	<u>Group</u>		
	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000
Unquoted debt security, at amortised cost	550,000	36,512	371,050
Analysed as:			
- Current	550,000	30,000	371,050
- Non-current	—	6,512	—
Unquoted debt security, at amortised cost	550,000	36,512	371,050

Unquoted debt security previously classified as “held-to maturity financial asset” were reclassified to “other financial assets at amortised cost” at January 1, 2018. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest.

The coupon rate of the unquoted debt security ranges from 7.1% to 7.5% (2017 : 5% to 7.5%) per annum and matures within the next 12 months (2017 : 3 to 13 months).

For purpose of impairment assessment, the investments in debt securities are considered to have low credit risk. The credit ratings of the investments are monitored for credit deterioration. Accordingly, for the purpose of impairment assessment for these debt instruments, the loss allowance is measured at an amount equal to 12 months expected credit losses (ECL).

In determining the ECL, management has taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers of these debt instruments obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. Management is of the view that the ECL relating to these financial assets is not significant.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

10 TRADE AND OTHER RECEIVABLES

	<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 11)	—	—	1,256	—	—	—
Trade receivables - Third parties	193,380	106,551	135,280	33	133	31
Notes receivables ^(a)	—	821,861	433,484	—	—	—
Loans to subsidiaries ^(b)	—	—	—	1,050,180	188,470	220,239
	193,380	928,412	570,020	1,050,213	188,603	220,270

(a) Notes receivables was interest-free and repayable within 180 days. In 2018, Notes receivables that were classified as ‘loans and receivables’ under FRS 39 and were measured at amortised cost had been reclassified to ‘financial assets at fair value through other comprehensive income’. Please refer to Note 40.

(b) Loans to subsidiaries in 2017 and 2018 are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

10 TRADE AND OTHER RECEIVABLES (cont'd)

The average credit period on sales of goods ranges from 90 days to 120 days (2017 : 90 days to 120 days). No interest is charged on the outstanding trade receivables. For purpose of impairment assessment, the trade receivables are considered to have low credit risk as the Group only transacts with a few credit-worthy counterparties. Loss allowance for trade receivables has always been measured at an amount equal to lifetime expected credit losses (ECL).

The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The group has recognised a loss allowance of 100% against all receivables over 3 years past due because historical experience has indicated that these receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

A trade receivable is written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

Previous accounting policy for impairment of trade receivables

In 2017, doubtful debt allowances for trade receivables were determined based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Included in the Group's trade receivable balance were debtors which were past due at the end of the reporting period for which the Group had not provided as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances.

The table below is an analysis of trade receivables as at December 31:

	<u>Group</u>			<u>Company</u>		
	December	December	January	December	December	January
	31, 2018	31, 2017	1, 2017	31, 2018	31, 2017	1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables ^(b)	214,085	125,913	154,642	33	133	31
Less: Loss allowance/allowance for doubtful debts	(20,705)	(19,362)	(19,362)	–	–	–
Total trade receivables, net ^(a)	193,380	106,551	135,280	33	133	31

NOTES TO THE FINANCIAL STATEMENTS

10 TRADE AND OTHER RECEIVABLES (cont'd)

Previous accounting policy for impairment of trade receivables (cont'd)

(a) Aging of trade receivables that are past due:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
1 to 90 days	87,789	84,155	36,564
91 to 180 days	—	—	25,124
> 180 days	—	—	35,148
Total	87,789	84,155	96,836

(b) These receivables are arising from third parties and are stated before any reduction for impairment losses and are not secured by any collateral or credit enhancements.

11 FINANCE LEASE RECEIVABLES

	Group			Present value of minimum lease payments		
	Minimum lease payments			Minimum lease payments		
	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000
Amounts receivable under finance leases:						
- Within one year	—	—	1,430	—	—	1,256
- In the second to fifth year inclusive	—	—	—	—	—	—
	—	—	1,430	—	—	1,256
Less: Unearned finance income	—	—	(174)	—	—	—
- Present value of minimum lease payments receivable	—	—	1,256	—	—	1,256

The finance lease arrangements entered into by the Group were mainly for the leasing of plant and equipment to third parties. The leases were denominated in the Chinese Renminbi and the term of the finance leases ranged from a period of 2 to 5 years. The effective interest rates contracted was 9.63% per annum for balances as at January 1, 2017.

Finance lease receivable balances were secured over the plant and equipment leased to these third parties. The fair value of the Group's finance lease receivables approximated their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

12 INVENTORIES

		<u>Group</u>	
	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000
Raw materials	509,441	636,056	374,126
Work-in-progress	53,550	128,524	133,192
Finished goods	44,665	47,457	45,200
	607,656	812,037	552,518

13 OTHER ASSETS

	<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	187,638	330,073	239,701	25	160	23
Deposits	587	556	65	68	65	65
Entrusted loans to third parties ^(a)	—	52,667	107,667	—	—	—
VAT	28,128	21,726	52,318	—	—	—
Other receivables from Delong Thailand ^(b)	—	—	251,902	—	—	—
Commitment sum and bidding deposit for the proposed acquisition of Anhui Shoukuang ^(c)	—	541,850	—	—	—	—
Loan to PT Dexin Steel Indonesia ^(d)	572,762	—	—	—	—	—
Interest receivables	22,275	4,883	4,455	—	—	—
Others	86,486	26,395	15,958	—	—	—
	897,876	978,150	672,066	93	225	88
Analysed as:						
Current	325,114	972,150	672,066	93	225	88
Non-current	572,762	6,000	—	—	—	—
	897,876	978,150	672,066	93	225	88

- (a) As at December 31, 2017, the Group advanced RMB52.7 million through a bank to third parties. The loans were unsecured, bear interest rate ranging from 7.47% to 10% per annum. Entrusted loan amounting to RMB22.7 million was received in 2018 while entrusted loan amounting to RMB30 million had been fully eliminated upon consolidation in 2018, as they were due from Xingtai Degui Nano Material Technology Limited, a newly acquired subsidiary of the Group in 2018.
- (b) Other receivables comprised the sale consideration for the disposal of the Group's 55% shareholding in Delong (Thailand) Co., Ltd ("Delong Thailand") and the shareholder loan owing by Delong Thailand in 2016. Please refer to Note 24 for the detail. The sale consideration and shareholder loan were fully received in February 2017.
- (c) The commitment sum and bidding deposit were fully refunded on January 8, 2018 and January 16, 2018 respectively.
- (d) Loan to PT Dexin Steel Indonesia comprised shareholder's loan granted to the Group's Joint Venture for working capital purposes. This loan is unsecured and bears interest at market rate. Repayment of this loan is dependent upon the financial performance of the Joint Venture and is not expected to be repaid within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS

13 OTHER ASSETS (cont'd)

For purpose of impairment assessment, the other receivables are considered to have low credit risk as there has been no significant increase in the risk of default on the receivables since initial recognition. Accordingly, for the purpose of impairment assessment for these receivables, the loss allowance is measured at an amount equal to 12 months expected credit losses (ECL).

In determining the ECL, management has taken into account the historical default experience and the financial position of the counterparties, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for other receivables.

14 NON-CURRENT ASSETS HELD FOR SALE

At the fifth meeting of Hebei Province's 12th National People Congress, there are reforms introduced in relation to plans to reduce steelmaking capacity by 31.86 million tonnes in 2017, and the acceleration of reducing steelmaking capacity in cities of Langfang, Baoding and Zhangjiakou in 2017 (the "Capacity Reduction Plans").

The Group's subsidiary, Laiyuan County Aoyu Steel Co., Ltd. ("Aoyu Steel"), is located in Baoding, one of the affected cities under the Capacity Reduction Plans. The operations of Aoyu Steel had been suspended and ceased since August 2017. On August 30, 2017, Aoyu Steel entered into an agreement with the People's Government of Laiyuan County ("PGLC") in relation to the terms of the compensation to be given pursuant to the Capacity Reduction Plans (the "Compensation Agreement").

Under the Compensation Agreement, Aoyu Steel shall transfer its property, plant and equipment to PGLC. Upon signing of Compensation Agreement, the property, plant and equipment were classified as "non-current assets held for sale" and presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the property, plant and equipment and, accordingly, no impairment loss has been recognised on the classification of these assets as held for sale.

As PGLC is a government authority, the processes may be subject to bureaucratic considerations at various levels of government departments and the transfer had yet to be completed as at December 31, 2018.

The Group has received RMB239.5 million from the PGLC (2017 : RMB160 million) which is classified as trade and other payables (Note 22). RMB520.5 million remained unpaid from PGLC as at year end (2017 : RMB600 million).

NOTES TO THE FINANCIAL STATEMENTS

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE-FOR-SALE FINANCIAL ASSETS

At January 1, 2018, the Group designated the investments shown below as equity investments as at FVOCI because these equity investments represent investments that the Group intends to hold for the long-term for strategic purposes. In 2017, these investments were classified as available-for-sale.

As of January 1, 2018, the Group has also redesignated notes receivables previously classified as 'loans and receivables' under FRS 39 and were measured at amortised cost to 'financial assets at fair value through other comprehensive income'. Please refer to Note 40.

	Group 2018 RMB'000
Unquoted equity shares	384,259
Quoted equity shares	41,494
Notes receivables ^(a)	378,942
	804,695
Analysed as:	
- Current	378,942
- Non-current	425,753
Financial assets at fair value through other comprehensive income	804,695

(a) Notes receivables in 2018 was interest-free and repayable within 180 days.

Previous accounting policy for available-for-sale investments

	Group	
	December 31, 2017 RMB'000	January 1, 2017 RMB'000
Unquoted equity shares, at cost	288,476	188,852
Less: Accumulated impairment	(95,000)	(45,000)
	193,476	143,852
Quoted equity shares, at fair value	39,972	60,136
	233,448	203,988

Movement of available-for-sale investments:

	Group 2017 RMB'000
Beginning of financial year	203,988
Additions	102,692
Impairment loss	(50,000)
Change in fair value	(23,232)
End of financial year	233,448

NOTES TO THE FINANCIAL STATEMENTS

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE-FOR-SALE FINANCIAL ASSETS (cont'd)

The unquoted equity shares were carried at cost as the management and directors were of the view that the fair value cannot be reliably measured. There were no active markets for these unlisted equity investments and their fair values could not be estimated within a reasonable range. There was no intention to dispose of these investments in the foreseeable future.

Management had assessed the impairment loss of the investment based on the operating and financial performance of the investee. The impairment loss was determined by comparing the carrying amount of cost against the Company's share in the net asset of the investee, which according to management, was the best estimate of the recoverable amount. As of December 31, 2017, impairment loss of RMB50 million had been provided.

16 INVESTMENTS IN SUBSIDIARIES

	December 31, 2018 RMB'000	Company December 31, 2017 RMB'000	January 1, 2017 RMB'000
Unquoted equity shares, at cost	2,010,492	2,010,492	1,984,916

Details of the Company's subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting power held			Principal activity
		December 31, 2018	December 31, 2017	January 1, 2017	
		%	%	%	

<u>Held by the Company</u>					
Asia Paragon International Limited ^(a)	British Virgin Islands	100	100	100	Investment holding
Delong Asset Management (Hong Kong) Limited ^(f)	Hong Kong	100	100	—	Assets management
Dexin Steel Pte Ltd ^(b)	Singapore	100	100	100	Procurement and sale of iron ore
<u>Held by Asia Paragon International Limited</u>					
Delong Steel Limited ^(c)	PRC	100	100	100	Production and sales of hot-rolled coils
Dezhong International Finance Leasing Co., Ltd ^(c)	PRC	100	100	100	Finance leasing activities
<u>Held by Dezhong International Finance Leasing Co., Ltd</u>					
Xingtai Delei Fuel Trading Co., Ltd ^(c)	PRC	83	83	—	Construction and operation of petrol gas stations

NOTES TO THE FINANCIAL STATEMENTS

16 INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting power held			Principal activity
		December 31, 2018 %	December 31, 2017 %	January 1, 2017 %	
<u>Held by Dexin Steel Pte Ltd</u>					
Xingtai Xinlong Coal-Gas Co., Ltd ^(c)	PRC	100	100	100	Coal gas recycling
Xingtai Delong Machinery and Mill Roll Co., Ltd ^(c)	PRC	100	100	100	Design, development, manufacturing and sale of large diameter steel mill rollers and cast steel articles
Dexin Holdings Pte Ltd ^(b)	Singapore	100	100	100	Investment holding
<u>Held by Delong Steel Limited</u>					
Delong International Trading (Tianjin) Co., Ltd ^(c)	PRC	100	100	100	Investment in resource-related projects and trading in steel and steel-related products
Beijing Longyuan Weide Energy Technology Co., Ltd ^(a)	PRC	100	100	100	Technology development, technology advisory and technology related investments
Delong Steel Singapore Projects Pte Ltd ^(b)	Singapore	100	100	100	Investment holding
Baoding Delong Technology Enterprise Co., Ltd ^(d)	PRC	—	—	100	Production and sales of hot-rolled coils
Xingtai Degui Nano Material Technology Limited ^(e)	PRC	80	—	—	Trading of limestone, lime, and the research and development on nanocalcium carbonate
<u>Held by Delong International Trading (Tianjin) Co., Ltd</u>					
Laiyuan County Aoyu Steel Co., Ltd ^(c)	PRC	100	100	100	Production and sales of hot-rolled coils

(a) Not required to be audited under the laws of the country of incorporation.

(b) Audited by Deloitte & Touche LLP, Singapore.

(c) Audited by overseas practices of Deloitte Touche Tohmatsu Limited for consolidation purpose.

(d) Deregistered in 2017.

(e) Newly acquired in 2018.

(f) Not material to the results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

16 INVESTMENTS IN SUBSIDIARIES (cont'd)

The Company has provided financial support to certain subsidiaries for a period of twelve months from the end of the reporting period so as to enable the subsidiaries to continue to operate as a going concern and meet their contractual obligations when they fall due.

17 INVESTMENT IN AN ASSOCIATE

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
At beginning of the year	3,395	4,001	4,340
Share of post-acquisition loss, net of dividend received	(611)	(606)	(339)
At end of the year	2,784	3,395	4,001

Summarised financial information in respect of the Group's associate is set out below.

Name of associate	Country of incorporation	Proportion of ownership interest and voting power held			Principal activity
		December 31, 2018	December 31, 2017	January 1, 2017	
		%	%	%	
<u>Held by Dezhong International Finance Leasing Co., Ltd</u>					
Xingtai Xilan Zhongde Natural Gas Co., Ltd.	PRC	49	49	49	Constructing and operating liquefied natural gas (LNG) fueling stations

At the end of the financial year, the associate has a total current asset of RMB26,000 (2017 : RMB49,000), non-current asset of RMB7,204,000 (2017 : RMB7,699,000) and current liabilities of RMB1,548,000 (2017 : RMB819,000). The associate reported a net loss of RMB1,247,000 (2017 : RMB1,237,000) for the year ended December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS

18 INVESTMENT IN JOINT VENTURE

	December 31, 2018 RMB'000	December 31, 2017 RMB'000	January 1, 2017 RMB'000
Cost of investment in joint venture	446,400	446,400	—
Share of post-acquisition loss, net of dividend received	(5,727)	—	—
Foreign exchange difference	17,774	—	—
	458,447	446,440	—

Details of the Group's joint venture is set out below:

Name of joint venture	Country of incorporation	Proportion of ownership interest and voting power held			Principal activity
		December 31, 2018	December 31, 2017	January 1, 2017	
		%	%	%	
<u>Held by Delong Steel Singapore Projects Pte Ltd</u>					
P.T. Dexin Steel Indonesia ^(a)	Indonesia	45	45	—	Manufacture and sale of steel bar, wire and slab

(a) Newly incorporated in 2017.

The above joint venture is accounted for using the equity method in these consolidated financial statements and is audited by an overseas practice of Deloitte Touche Tohmatsu Limited.

Subsequent to the financial year end, on January 23 2019, a subsidiary of the Group, Delong Steel Singapore Projects Pte Ltd, has provided an additional loan of US\$31.95 million to fund the Joint Venture.

At the end of the financial year, the joint venture has a total current asset of US\$34,530,000 (2017 : US\$65,628,000), non-current asset of US\$298,965,000 (2017 : US\$84,371,000), current liabilities of US\$418,000 (2017 : US\$ Nil) and non-current liabilities of US\$185,000,000 (2017 : US\$ Nil). The joint venture reported a net loss of US\$1,922,000 (2017 : US\$2,000) for the year ended December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS

19 PROPERTY, PLANT AND EQUIPMENT

	Prepaid leases RMB'000	Leasehold buildings RMB'000	Plant and equipment RMB'000	Motor vehicles and others RMB'000	Construction –in–progress RMB'000	Total RMB'000
<u>Group</u>						
<i>Cost</i>						
At January 1, 2017	325,286	1,486,567	4,988,584	184,415	119,619	7,104,471
Additions	85,928	6,031	31,508	10,130	359,367	492,964
Disposals	(92,369)	(45,777)	(128,041)	(16,629)	(6,051)	(288,867)
Reclassification (Note 14)	(40,350)	(531,065)	(789,599)	(10,287)	(1,242)	(1,372,543)
Transfer in (out)	–	31,938	287,925	10,529	(330,392)	–
Exchange difference	–	(22)	(8)	–	–	(30)
At December 31, 2017	278,495	947,672	4,390,369	178,158	141,301	5,935,995
Additions	–	48,266	47,615	10,307	688,063	794,251
Disposals	–	(13,651)	(58,587)	(13,677)	(933)	(86,848)
Transfer in (out)	–	55,309	82,600	20,261	(158,170)	–
Exchange difference	–	25	12	–	–	37
At December 31, 2018	278,495	1,037,621	4,462,009	195,049	670,261	6,643,435
<i>Accumulated depreciation</i>						
At January 1, 2017	32,945	551,207	3,451,298	103,524	–	4,138,974
Charge for the year	771	79,704	231,558	9,886	–	321,919
Disposals	(1,105)	(26,068)	(98,086)	(12,120)	–	(137,379)
Reclassification (Note 14)	(10,759)	(235,498)	(450,052)	(8,114)	–	(704,423)
Exchange difference	–	(1)	–	–	–	(1)
At December 31, 2017	21,852	369,344	3,134,718	93,176	–	3,619,090
Charge for the year	457	59,913	152,176	9,815	–	222,361
Disposals	–	(5,045)	(60,225)	(12,451)	–	(77,721)
Exchange difference	–	3	1	–	–	4
At December 31, 2018	22,309	424,215	3,226,670	90,540	–	3,763,734
<i>Accumulated impairment</i>						
At January 1, 2017	–	292,692	442,650	579	303	736,224
Reclassification (Note 14)	–	(260,901)	(339,547)	–	–	(600,448)
At December 31, 2017 and December 31, 2018	–	31,791	103,103	579	303	135,776
<i>Carrying amounts</i>						
At January 1, 2017	292,341	642,668	1,094,636	80,312	119,316	2,229,273
At December 31, 2017	256,643	546,537	1,152,548	84,403	140,998	2,181,129
At December 31, 2018	256,186	581,615	1,132,236	103,930	669,958	2,743,925

NOTES TO THE FINANCIAL STATEMENTS

19 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Office equipment RMB'000
<u>Company</u>	
<i>Cost</i>	
At January 1, 2017	153
Additions	22
At December 31, 2017	175
Additions	—
At December 31, 2018	175
<i>Accumulated depreciation</i>	
At January 1, 2017	90
Charge for the year	52
At December 31, 2017	142
Charge for the year	20
At December 31, 2018	162
<i>Carrying amounts</i>	
At January 1, 2017	63
At December 31, 2017	33
At December 31, 2018	13

At December 31, 2018, certain property, plant and equipment of the Group with a total carrying amount of approximately RMB1,204 million (December 31, 2017 : RMB1,098 million, January 1, 2017 : RMB1,935 million), are pledged as security for certain bank borrowings (Note 23(a)).

20 INTANGIBLE ASSET

	Customer Relationship RMB'000
<u>Group</u>	
<i>Cost</i>	
At January 1, 2017 and December 31, 2017 and December 31, 2018	28,800
<i>Accumulated amortisation</i>	
At January 1, 2017	27,360
Charge for the year	1,440
At December 31, 2017 and December 31, 2018	28,800
<i>Carrying amount</i>	
At December 31, 2018	—
At December 31, 2017	—
At January 1, 2017	1,440

The intangible asset acquired during the acquisition of a subsidiary is amortised over five years.

NOTES TO THE FINANCIAL STATEMENTS

21 DEFERRED TAX ASSETS (LIABILITIES)

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior reporting periods:

	Unremitted profits RMB'000	Revaluation of assets RMB'000	Deferred government grant RMB'000	Total RMB'000
At January 1, 2017	(22,889)	(360)	6,508	(16,741)
Charged to profit or loss (Note 32)	—	360	1,972	2,332
At December 31, 2017	(22,889)	—	8,480	(14,409)
Charged to profit or loss (Note 32)	—	—	3,583	3,583
Arising from fair value of financial assets at FVTOCI	—	—	2,823	2,823
At December 31, 2018	(22,889)	—	14,886	(8,003)

No deferred tax liability has been recognised in respect of undistributed earnings of foreign subsidiaries which would be subject to withholding tax if transferred out of the country. The Group is in a position to control the timing of the transfer of these retained earnings and earnings to be remitted such as to attract withholding tax in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relates to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the consolidated statement of financial position as follows:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
Deferred tax liabilities	22,889	22,889	23,249
Deferred tax assets	(14,886)	(8,480)	(6,508)
	8,003	14,409	16,741

Subject to the agreement by the tax authorities, at the end of the reporting period, one of the Group's subsidiaries has unutilised tax losses of RMB131.7 million (December 31, 2017 : RMB135.1 million, January 1, 2017 : RMB183.4 million) available for offset against future profits. No deferred tax asset has been recognised in respect of this due to unpredictability of future profit streams of this subsidiary. The tax losses arising from subsidiaries in PRC have an expiry period of five years.

NOTES TO THE FINANCIAL STATEMENTS

22 TRADE AND OTHER PAYABLES

	<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables - Third parties ^(a)	1,185,956	1,272,356	497,467	12	—	—
VAT and other taxes payable	122,560	95,153	75,678	—	—	—
Payable to contractors for construction-in-progress	56,656	1,779	128,913	—	—	—
Advances from customers - Third parties ^(c)	1,246,495	800,368	439,208	—	—	—
Other accrual for operating expenses	4,913	4,243	14,697	4,639	3,834	3,112
Accrual for interest expense	—	—	19,616	—	—	—
Accrual for staff cost	49,407	46,689	109,203	—	—	—
Due to directors (non-trade) ^(b)	2,363	2,697	2,138	2,363	2,697	2,138
Deferred income	—	—	17,848	—	—	—
Deferred government grant	91,966	68,795	44,507	—	—	—
Compensation from PGLC (Note 14)	239,470	160,000	—	—	—	—
Rental from customers	22,047	—	819	—	—	—
Other payables	113,658	111,035	92,008	—	1,049	30
	3,135,491	2,563,115	1,442,102	7,014	7,580	5,280

- (a) Included in trade payables are outstanding balances of RMB487 million (December 31, 2017 : RMB691 million, January 1, 2017 : RMB146 million) guaranteed by letters of credit from banks. As at December 31, 2018, the letters of credit bear an average interest rate of 3.45% to 7.03% per annum (2017 : 4.35% to 5.00%) and are repayable within 180 days to 360 days (2017 : 90 to 180 days).
- (b) Amounts due to directors (non-trade) are unsecured, interest-free and repayable within the next 12 months.
- (c) Advances from customers represent prepayments made by customers. These advance payments are to be offset against the purchases when the goods are collected by the customers. A contract liability arises from these advances received from third party customers when payment is initially received. Revenue is recognised at the point of shipment, when control of goods has transferred to the customer.

Group's revenue recognised that was included in the contract liability balance at the beginning of the period:

	2018 RMB'000	2017 RMB'000
Amounts received in advance of delivery	1,246,495	800,368

The significant increase in the Group's contract liabilities arose from the improved sales to its customers.

The average credit period on purchases of goods is 60 days (2017 : 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

NOTES TO THE FINANCIAL STATEMENTS

23 BORROWINGS AND NOTES PAYABLES

	<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>						
Notes payables	1,022,442	1,159,092	2,288,711	—	—	—
Finance lease liabilities	10	10	10	10	10	10
Bank borrowings (a)						
- Unsecured	657,950	—	—	—	—	—
- Secured (b)	577,550	855,792	691,000	—	—	—
- Guaranteed (c)	696,350	100,000	641,290	—	—	—
	2,954,302	2,114,894	3,621,011	10	10	10
<i>Non-current</i>						
Finance lease liabilities	10	22	32	12	22	32
Bank borrowings (a)						
- Unsecured	4,966	—	9,966	—	—	—
- Secured (b)	720,464	200,430	95,908	—	—	—
- Guaranteed (c)	—	97,000	99,000	—	—	—
	725,440	297,452	204,906	12	22	32
Total borrowings and notes payables	3,679,742	2,412,346	3,825,917	22	32	42

(a) Bank borrowings

Bank borrowings bear an average interest rate of 4% per annum (2017 : 5%). Bank borrowings amounting to RMB1,931,850,000 (December 31, 2017 : RMB955,792,000, January 1, 2017 : RMB1,332,290) are repayable within 12 months from the financial year end and have been classified as current. The remaining balances of RMB725,430,000 (December 31, 2017 : RMB297,430,000, January 1, 2017 : RMB204,874,000) are not expected to be repaid within 12 months and have been classified as non-current.

(b) Security pledged

As at December 31, 2018 and 2017, the Group's bank loans were secured by certain property, plant and equipment (Note 19), pledged bank balances (Note 7) and a subsidiary's trade receivables.

(c) Guarantees provided

The bank loans were guaranteed by third parties, and Mr Ding Ligu, a director of the Company. In return, the Group has provided guarantees to banks for borrowings of these third parties as at December 31, 2018, December 31, 2017 and January 1, 2017 (see Note 35).

As at January 1, 2017, guarantee provided to a bank in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Ligu and his spouse, Ms Zhao Jing, amounted to RMB50 million.

Following the repayment of bank borrowing by Hebei Delong in March 2017, the corporate guarantee given to the bank for the bank borrowing of Hebei Delong was subsequently terminated.

NOTES TO THE FINANCIAL STATEMENTS

24 DISPOSAL OF A SUBSIDIARY

In November 2016, the Group ceased to control the financial and operation of Delong (Thailand) Co., Ltd. ("Delong Thailand") following disagreements with the non-controlling interests of Delong Thailand. On December 21, 2016, the Group's wholly-owned subsidiary, Delong Steel Singapore Projects Pte. Ltd. ("DSL Singapore"), entered into a memorandum of understanding with the non-controlling interests of Delong Thailand for the disposal of the Group's entire equity interest in Delong Thailand for a consideration of THB 385 million (equivalent to RMB76 million).

On January 25, 2017, DSL Singapore entered into a share purchase agreement with the non-controlling interests for the disposal of its 55% shareholding in Delong Thailand. The sale consideration and shareholder loan of USD25.3 million (equivalent to RMB176 million) that the Group previously extended to Delong Thailand were fully received in February 2017.

25 SHARE CAPITAL

	<u>Group and Company</u>			<u>Group</u>			<u>Company</u>		
	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
	Number of ordinary shares ('000)			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning and end of the financial year	110,183	110,183	110,183	406,644	406,644	406,644	2,112,480	2,112,480	2,112,480

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the Company. The newly issued shares rank pari passu in all respect with the previously issued shares.

26 RESERVES

Capital reserve

Capital reserve amounting to RMB249,218,000 pertains to equity component of the Old Convertible Bonds issued in June 2007. The Old Convertible Bonds were extinguished in November 2009.

Capital reserve amounting to RMB12,395,000 pertains to the cumulative fair value change in gross obligation of the purchase consideration and the discount arising from the acquisition of remaining 20% equity interest of Aoyu Steel in May 2015.

Fair value reserve

Fair value reserve amounting to RMB58,849,000 (December 31, 2017 : RMB23,536,000, January 1, 2017 : RMB304,000) at December 31, 2018 pertains to fair value losses on financial assets at FVOCI/ available-for-sale financial assets (Note 15).

NOTES TO THE FINANCIAL STATEMENTS

26 RESERVES (cont'd)

Statutory reserve

The subsidiaries in the People's Republic of China ("PRC") are required to provide for certain statutory reserve fund, which are appropriated from net profit after tax (based on the financial statements prepared in accordance with the generally accepted accounting principles of the PRC) but before dividend distribution. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital.

Retained earnings

As at December 31, 2018, approximately RMB126,974,000 (December 31, 2017 : RMB126,974,000, January 1, 2017 : RMB126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Reverse Acquisition (Note 2).

27 REVENUE

The Group derives its revenue from the transfer of goods at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment under SFRS(I) 8 (see Note 39).

	Group	
	2018	2017
	RMB'000	RMB'000
Sale of products – hot rolled coils, steel billets and other steel products	14,287,453	12,831,279

28 OTHER INCOME

	Group	
	2018	2017
	RMB'000	RMB'000
Government grants	18,318	7,097
Finance lease income	2,330	608
Dividend income from financial asset at FVTPL	832	13,137
Interest income		
- bank deposits	96,348	68,768
- amount due from an investee company	832	1,474
- entrusted loans to third parties (Note 13)	–	2,881
- other assets at amortised cost / held-to-maturity financial assets (Note 9)	110,080	47,275
	207,260	120,398
	228,740	141,240

NOTES TO THE FINANCIAL STATEMENTS

29 OTHER GAINS - NET

Other gains include the following:

	Group	
	2018	2017
	RMB'000	RMB'000
Fair value gain on financial assets at FVTPL	3,600	3,479
Loss on disposal of property, plant and equipment	(6,663)	(47,493)
Net foreign exchange gain (loss)	16,800	(20,697)
Gain on disposal of Production Capacity ^(a)	–	377,358
Loss allowance	1,343	–
Impairment loss on available-for-sale financial assets	–	(50,000)

- (a) In year 2017, Aoyu Steel was approached by Tsing Tuo Group Co., Ltd (青拓集团有限公司) (the “Purchaser”) and they entered into a conditional agreement with the Purchaser, pursuant to which Aoyu Steel had agreed to transfer, and the Purchaser had agreed to purchase, Aoyu Steel's production capacity of 1.08 million tonnes and steel production capacity of 1.21 million tonnes, for an aggregate consideration of RMB400 million (the “Production Capacity Transfer”).

The Production Capacity Transfer was approved by the relevant authorities of Laiyuan County and Baoding City, as well as the Hebei People's Government and Ministry of Industry and Information Technology. Accordingly, the consideration was received during the financial year 2017, with a gain of RMB377 million (net of tax) recognised in profit or loss.

30 EXPENSES BY NATURE

Cost of sales, distribution and marketing and administrative expenses have been arrived at after charging:

	Group	
	2018	2017
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 19)	222,361	321,919
Amortisation of intangible assets (Note 20)	–	1,440
Staff costs	389,855	367,014
Rental on operating leases	350	352
Repairs and maintenance	211,445	134,652

31 FINANCE COSTS

	Group	
	2018	2017
	RMB'000	RMB'000
Interest expenses:		
- Bank borrowings	141,805	128,389
- Finance lease liabilities	2	3
Bills discounting charges - net	162	3,434
Bank charges	21,225	21,240
	163,194	153,066

NOTES TO THE FINANCIAL STATEMENTS

32 INCOME TAX EXPENSES

	Group	
	2018	2017
	RMB'000	RMB'000
Tax expense is made up of:		
Current tax:		
- Singapore	182	1,025
- Foreign	288,847	492,273
Withholding tax:		
- Foreign	62,683	–
Deferred tax (Note 21)	(3,583)	(2,332)
	348,129	490,966
Adjustment in respect of the preceding financial years:		
Current income tax	(62,691)	(4,316)
	285,438	486,650

The Group's operations are mainly in the People's Republic of China ("PRC"). The tax expense on the profit differs from the amount that would arise using the PRC income tax rate of 25% (2017 : 25%) due to the following:

	Group	
	2018	2017
	RMB'000	RMB'000
Profit before tax	1,986,314	2,556,556
Tax calculated at tax rate of 25% (2017 : 25%)	496,578	639,139
Effects of:		
Different tax rates in other countries	1,230	445
Lower tax rates arising from tax incentives ^(a)	(189,189)	(189,323)
(Income) expenses not taxable/ deducted for tax	(11,273)	38,241
Effect of utilisation of deferred tax assets not recognised	(7,451)	(1,501)
Deferred tax (Note 21)	(3,583)	(2,332)
Others	(874)	1,981
Tax charge	285,438	486,650

With effect from January 1, 2008, any profit to be remitted out of China in the form of dividend to foreign enterprises is subject to withholding tax. Dividends declared out of profits earned prior to January 1, 2008 are exempted from such withholding tax.

- (a) A subsidiary in the People's Republic of China ("PRC"), of statutory tax rate of 25%, has been granted for the High and New Technology Enterprise ("Hi-Tech") qualification and is taxed at a concessionary tax rate of 15% for three years commencing on September 9, 2014. The concessionary tax rate of 15% has been extended to September 9, 2020.

NOTES TO THE FINANCIAL STATEMENTS

33 PROFIT FOR THE YEAR

Other than items disclosed in other notes to the financial statements, profit for the year has been arrived at after charging:

	Group	
	2018	2017
	RMB'000	RMB'000
Directors' remuneration:		
- of the Company	1,100	1,097
- of the subsidiaries	4,551	4,413
Total directors' remuneration	5,651	5,510
Audit fees:		
- paid to auditors of the Company	1,064	1,140
- paid to other auditors	3,132	2,410
Non-audit fees:		
- paid to auditors of the Company	273	268
- paid to other auditors	136	2,006

34 EARNINGS PER SHARE

The following data are used in computing basic and fully diluted earnings per share disclosed in the consolidated statement of comprehensive income.

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2018	2017
Net profit attributable to equity holders of the Company (RMB'000)	1,702,707	2,069,906
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	110,183	110,183
Basic earnings per share (RMB)	15.45	18.79

(b) Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share as there are no dilution potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

35 CONTINGENT LIABILITIES

Guarantees given to banks by the Group in respect of bank loans granted to related party (Note 5) and third parties are as follow:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
Guarantees granted to:			
- Third parties ⁽¹⁾	255,779	295,050	475,050
- Related party ⁽²⁾	—	—	50,000
Total guarantees	255,779	295,050	525,050

⁽¹⁾ These include the following:

- Guarantees amounting to RMB220 million (2017 : RMB60 million) were given to the financial institutions for the banking facilities extended to third parties and in return, these third parties also provided guarantees for the Group's borrowings (Note 23); and
- As at January 1, 2017, guarantees amounting to RMB140 million was signed in December 2016 with a third party but the guarantees were utilised only in January 2017 and subsequently rescinded in March 2017.

⁽²⁾ As at January 1, 2017, guarantees given to a bank by the Group in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Liguang and his spouse, Ms Zhao Jing amounted to RMB50.0 million (Note 5b).

Following the repayment of bank borrowing by Hebei Delong in March 2017, the corporate guarantee given to the bank for the bank borrowing of Hebei Delong was subsequently terminated.

The directors are of the view that the fair value of these financial guarantee contracts at the date of inception was minimal and that no material losses will arise from the guarantees given to banks at the date of these financial statements.

As at December 31, 2018, December 31, 2017 and January 1, 2017, there were no guarantees given to banks by the Company in respect of bank loans granted to subsidiaries.

36 DIVIDENDS

During the financial year, the Company declared and paid a tax exempt one-tier interim dividend of S\$0.55 (approximately RMB2.77) per share on the ordinary shares of the Company totaling S\$60.6 million (approximately RMB304.7million).

The Company does not recommend that a final dividend be paid for the financial year ended December 31, 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

37 COMMITMENTS

Expenditures contracted for at the end of the reporting period but not recognised in the financial statements are as follows:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
Property, plant and equipment	668,321	334,511	260,563

38 OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2018 RMB'000	Group 2017 RMB'000
Payment recognised as an expense during the year	350	352

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	December 31, 2018 RMB'000	Group December 31, 2017 RMB'000	January 1, 2017 RMB'000
Within one year	233	233	231

39 SEGMENT INFORMATION

The Group is primarily operating in one single operating segment i.e. the manufacture and sale of hot-rolled steel coils and billet. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the executive directors of the Group who are the chief operating decision makers. Substantially all the Group's operations were carried out in the People's Republic of China. No other individual country contributed 10% or more of the consolidated sales and assets, and no single customer contributed 10% or more of the consolidated revenue.

Other operations of the Group, including investment holding, financial investments and finance leasing, do not constitute a separate reportable segment and are included in the "Other" column.

The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in Note 2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

39 SEGMENT INFORMATION (cont'd)

The segment information for the reportable segments for the year ended December 31, 2018 is as follows:

	Manufacturing RMB'000	Others RMB'000	Total RMB'000
December 31, 2018			
REVENUE			
External sales	16,510,852	–	16,510,852
Inter-segment sales	(2,223,399)	–	(2,223,399)
Sales to external parties	14,287,453	–	14,287,453
Adjusted EBITDA*			
Depreciation and amortisation	(221,760)	(601)	(222,361)
Loss on disposal of property, plant and equipment	(6,663)	–	(6,663)
Fair value gain (loss) on financial assets at FVTPL	6,616	(3,016)	3,600
Loss allowance	(1,343)	–	(1,343)
Unallocated:			
Finance costs			(163,194)
Share of loss of an associate company			(611)
Share of loss of a joint venture company			(5,727)
Profit before income tax			1,986,314
Total assets	11,650,413	1,501,822	13,152,235
Total assets includes:			
Additions to property, plant and equipment	791,084	3,167	794,251
Total liabilities	7,048,311	16,312	7,064,623

* EBITDA refers to earnings before interest, tax, depreciation and amortisation

NOTES TO THE FINANCIAL STATEMENTS

39 SEGMENT INFORMATION (cont'd)

	Manufacturing RMB'000	Others RMB'000	Total RMB'000
December 31, 2017			
REVENUE			
External sales	15,264,947	–	15,264,947
Inter-segment sales	(2,433,668)	–	(2,433,668)
Sales to external parties	12,831,279	–	12,831,279
Adjusted EBITDA*	3,156,994	(29,393)	3,127,601
Depreciation and amortisation	(323,050)	(309)	(323,359)
Loss on disposal of property, plant and equipment	(47,493)	–	(47,493)
Fair value gain on held for trading investments	–	3,479	3,479
Impairment loss on available-for-sale financial assets	(50,000)	–	(50,000)
Unallocated:			
Finance costs			(153,066)
Share of loss of an associate company			(606)
Profit before income tax			2,556,556
Total assets	9,682,695	243,297	9,925,992
Total assets includes:			
Additions to property, plant and equipment	491,610	1,354	492,964
Total liabilities	5,331,890	15,304	5,347,194

* EBITDA refers to earnings before interest, tax, depreciation and amortisation

	Manufacturing RMB'000	Others RMB'000	Total RMB'000
January 1, 2017			
Total assets	7,060,379	815,139	7,875,518
Total assets includes:			
Additions to property, plant and equipment	232,464	160	232,264
Total liabilities	5,315,515	15,632	5,331,147

NOTES TO THE FINANCIAL STATEMENTS

40 ADOPTION OF A NEW FINANCIAL REPORTING FRAMEWORK

The Group and the Company adopted the new financial reporting framework – Singapore Financial Reporting Standards (International) (“SFRS(I)”) for the first time for financial year ended December 31, 2018 and SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) has been applied in the first set of SFRS(I) financial statements. SFRS(I) is identical to the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB).

As a first-time adopter of SFRS(I), the Group and the Company have applied retrospectively, accounting policies based on each SFRS(I) effective as at end of the first SFRS(I) reporting period (December 31, 2018), except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the financial year ended December 31, 2018, an additional opening statement of financial position as at date of transition (January 1, 2017) is presented, together with related notes. Reconciliation statements from previously reported FRS amounts are not presented for equity as at date of transition (January 1, 2017) and as at end of last financial period under FRS (December 31, 2017), and for total comprehensive income and cash flows reported for the last financial period under FRS (for the year ended December 31, 2017) as there were no changes compared to amounts previously reported except as disclosed below. Additional disclosures are made for specific transition adjustments if applicable.

There is no change to the Group’s and the Company’s previous accounting policies under FRS or material adjustments on the initial transition to the new framework, other than those arising from the application of SFRS(I) 9 and SFRS(I)15 which are effective at the same time. Management has not elected to take up any transition options available under SFRS(I)1, except for the below.

- a) In accordance with the exemption in SFRS(I) 1, the Group elected not to restate information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under FRS 39 Financial Instruments: Recognition and Measurement. For quoted financial assets held at FVTOCI, the effect on adoption of SFRS(I) 9 has resulted in a decrease of RMB95 million in fair value reserve and a corresponding increase in retained earnings of the Group as at January 1, 2018. For unquoted equity held at FVTOCI, the difference in the carrying amount of RMB93.5 million resulting from the adoption of SFRS(I) 9 are recognised in fair value reserve as at January 1, 2018.
- b) Notes receivables that were classified as ‘loans and receivables’ under FRS 39 and were measured at amortised cost had been reclassified to ‘financial assets at fair value through other comprehensive income’ as they are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- c) SFRS(I) 3 Business Combinations has not been applied to acquisitions of subsidiaries that are considered businesses under SFRS(I) that occurred before January 1, 2017. The FRS carrying amounts of assets and liabilities determined in that business combination, that are required to be recognised under SFRS(I), are the deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with SFRS(I). Assets and liabilities that do not qualify for recognition under SFRS(I) are excluded from the opening SFRS(I) statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of SFRS(I) recognition requirements.

SFRS(I) 1 also requires that the FRS carrying amount of goodwill must be used in the opening SFRS(I) statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). There was no goodwill that had arose from the previous acquisitions.

The transition to SFRS(I) and the initial application of SFRS(I) 9 and SFRS(I) 15 have not had a material impact on the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

41 STANDARDS ISSUED BUT NOT EFFECTIVE

At the date of authorisation of these financial statements, the following SFRS(I) pronouncements were issued but not effective and are expected to have an impact to the Group and the Company in the periods of their initial application.

SFRS(I) 16 Leases

Effective for annual periods beginning on or after January 1, 2019

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the existing framework.

SFRS(I)1-17 does not require the recognition of any right-of-use asset or liability for future payments for the operating leases the Group enters into. Under SFRS(I)16, the Group may be required to recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of SFRS(I)16. Additional disclosures may also be made with respect to leases, including any significant judgement and estimation made in distinguishing between leases and service contracts, on the basis of whether an identified asset controlled by the customer exists. Management has performed a detailed analysis of the requirements of the initial application of SFRS(I)16.

As at December 31, 2018, the Group and the Company have non-cancellable operating lease commitments as disclosed in Note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under SFRS(I)16, and hence the Group and the Company will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon application of SFRS(I)16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's and the Company's financial statements and management is currently assessing its potential impact.

APPENDIX V

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP
FOR HY2019**



DELONG HOLDINGS LIMITED

(REG. NO. 199705215G)

UNAUDITED SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2019

Statement Pursuant to SGX Listing Rule 705(5) of the Listing Manual

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors, which may render the unaudited interim consolidated financial results of Delong Holdings Limited for the second quarter ended 30 June 2019 to be false or misleading in any material respect.

On behalf of the Board of Directors

Mr. Ding Liguo
Chairman

Mr. Wu Yujie
Executive Director

Singapore
26 July 2019

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF – YEAR AND FULL RESULTS

1(a) **An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	Note	The Group					
		2 nd Quarter Ended		Increase (Decrease) %	Half Year Ended		Increase (Decrease) %
		30/06/2019 RMB'000	30/06/2018 RMB'000		30/06/2019 RMB'000	30/06/2018 RMB'000	
Sales		3,454,820	3,760,950	(8.1)	6,908,151	6,710,943	2.9
Cost of sales		(2,994,792)	(3,096,178)	(3.3)	(6,102,825)	(5,605,590)	8.9
Gross Profit		460,028	664,772	(30.8)	805,326	1,105,353	(27.1)
Other income	1	50,343	32,125	56.7	90,817	63,356	43.3
Other gains (losses)-net	2	37,381	(18,598)	n.m	41,745	(24,842)	n.m
Expenses							
-Distribution and marketing		(8,541)	(5,859)	45.8	(23,845)	(12,734)	87.3
-Administrative		(109,889)	(84,737)	29.7	(216,881)	(183,848)	18.0
-Finance		(63,972)	(26,422)	142.1	(146,156)	(56,011)	160.9
Share of loss of an associate ¹		(225)	(132)	70.5	(323)	(260)	24.2
Share of loss of a joint venture ²		(7,201)	(1,236)	482.6	(9,637)	(1,505)	540.3
Profit before tax	3	357,924	559,913	(36.1)	541,046	889,509	(39.2)
Income tax expense	4	(57,662)	(75,593)	(23.7)	(89,764)	(124,412)	(27.8)
Net Profit		300,262	484,320	(38.0)	451,282	765,097	(41.0)
Profit attributable to:							
Equity holders of the Company		299,617	484,320	(38.1)	450,689	765,097	(41.1)
Non-controlling interest		645	-	n.m	593	-	n.m
		300,262	484,320	(38.0)	451,282	765,097	(41.0)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Net profit	300,262	484,320	(38.0)	451,282	765,097	(41.0)
Other comprehensive income:						
Financial asset at FVTOCI						
-Fair value gain	2,813	10,550	(73.3)	4,832	4,973	(2.8)
Currency translation differences	22,784	18,755	21.5	(3,448)	15,292	(122.5)
Other comprehensive income for the period, net of tax	25,597	29,305	(12.7)	1,384	20,265	(93.2)
Total comprehensive income	325,859	513,625	(36.6)	452,666	785,362	(42.4)
Total comprehensive income attributable to:						
Equity holders of the Company	325,214	513,625	(36.7)	452,073	785,362	(42.4)
Non-controlling interest	645	-	n.m	593	-	n.m
	325,859	513,625	(36.6)	452,666	785,362	(42.4)

nm-not meaningful

¹ This refers to Xingtai Xilan Zhongde Natural Gas Sales Co., Ltd

² This refers to PT Dexin Steel Indonesia

Notes:-

1 Other income

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Government Grant ^(a)	-	250	-	250
Finance lease income	808	1,407	1,062	1,672
Interest income ^(b)	49,535	30,468	89,755	61,434
	<u>50,343</u>	<u>32,125</u>	<u>90,817</u>	<u>63,356</u>

Note:

- (a) Government grant received in recognition of the Group's technological improvement and energy-saving emission reduction projects in the PRC.
- (b) Interest earned on bank deposits, financial assets at amortised costs, financial assets at fair value through profit or loss ("FVTPL") and financial assets at fair value through other comprehensive income ("FVTOCI").

2 Other gains (losses) -net

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Currency translation gains (losses) –net ⁽¹⁾	5,455	11,474	2,836	(807)
Fair value gain on FVTPL	356	363	1,162	60
Loss on disposal of FVTPL	-	-	(23)	-
(Loss) gain on disposal of property, plant and equipment ("PPE")	(957)	13	(1,119)	(836)
Impairment charges on PPE	-	(34,616)	-	(34,616)
Others ⁽²⁾	32,527	4,168	38,889	11,357
	<u>37,381</u>	<u>(18,598)</u>	<u>41,745</u>	<u>(24,842)</u>

Notes:

- (1) The currency translation gains was mainly due to the revaluation of bank balances and intercompany balances denominated in USD and SGD which strengthened against RMB for the financial period ended 30 June 2019 ("2Q2019") and the first half of 2019 ("1H2019").
- (2) Others comprised of sale of gas, oxygen, electricity.

3. Profit before tax includes the following items:-

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation ^(a)	65,894	53,772	124,102	106,806
Staff costs ^(b)	196,146	134,235	315,859	233,456
Operating lease rental	105	85	193	171

Notes:

- (a) The increase in depreciation in 2Q2019 and 1H2019 was mainly due to an increase in capital expenditure.

(b) The increase in staff costs was mainly due to higher headcounts and payroll related expenses in 2Q2019 and 1H2019 as compared to previous corresponding period.

4. Income Tax Expense

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Tax expense is made up of:				
Provision on the profit for the financial year				
Current income tax				
-Foreign	57,662	75,488	89,766	124,266
-Singapore	-	105	-	146
Adjustments in respect of the preceding financial years				
-Current income tax	-	-	(2)	-
	<u>57,662</u>	<u>75,593</u>	<u>89,764</u>	<u>124,412</u>

Note:-

The effective tax rate for 2Q2019 and 1H2019 was lower than the amount obtained by applying the People's Republic of China ("PRC") statutory rate of 25% on profit before tax mainly due to a subsidiary in the PRC being granted for High and New Technology Enterprise ("Hi-Tech") qualification and is taxed at a concessionary tax rate of 15% from 9 September 2014 to 9 September 2020.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

		The Group RMB '000		The Company RMB '000	
	Note	As at 30/06/2019	As at 31/12/2018	As at 30/06/2019	As at 31/12/2018
Current assets					
Cash and cash equivalents		1,652,620	2,766,631	2,926	5,138
Bank balances pledged		2,213,535	2,180,629	-	-
Financial assets at fair value through profit or loss ("FVTPL")	1	4,454,017	1,863,654	-	-
Other financial assets at amortised cost	2	572,624	550,000	-	-
Trade receivables	3	354,192	193,380	1,045,589	1,050,180
Inventories	4	740,409	607,656	-	-
Non-current assets held for sale	5	67,672	67,672	-	-
Other assets	6	697,107	325,114	427	126
Financial assets at fair value through other comprehensive income ("FVTOCI")	7	89,792	378,942	-	-
Total current assets		10,841,968	8,933,678	1,048,942	1,055,444
Non-current assets					
Other assets	6	791,302	572,762	-	-
Financial assets at fair value through other comprehensive income ("FVTOCI")	7	515,276	425,753	-	-
Investments in subsidiaries		-	-	2,010,492	2,010,492
Investment in an associate	8	2,461	2,784	-	-
Investment in a joint venture	9	447,894	458,447	-	-
Property, plant and equipment		3,190,314	2,743,925	17	13
Deferred tax assets		12,063	14,886	-	-
Total non-current assets		4,959,310	4,218,557	2,010,509	2,010,505
Total assets		15,801,278	13,152,235	3,059,451	3,065,949
Current liabilities					
Trade and other payables	10	3,714,748	3,135,491	3,830	7,014
Notes payables		2,032,888	1,022,442	-	-
Borrowings		1,936,903	1,931,860	13	10
Income tax liabilities		143,092	226,501	-	-
Total current liabilities		7,827,631	6,316,294	3,843	7,024
Non-current liabilities					
Borrowings		1,410,480	725,440	50	12
Deferred income tax liabilities		22,889	22,889	-	-
Total non-current liabilities		1,433,369	748,329	50	12
Total liabilities		9,261,000	7,064,623	3,893	7,036
Net Assets		6,540,278	6,087,612	3,055,558	3,058,913
Capital reserves and non-controlling interests					
Share capital		406,644	406,644	2,112,480	2,112,480
Reserves		6,124,272	5,672,199	943,078	946,433
Equity attributable to owners of the Company		6,530,916	6,078,843	3,055,558	3,058,913
Non-controlling interests		9,362	8,769	-	-
Total equity		6,540,278	6,087,612	3,055,558	3,058,913

Notes:

1. This mainly relates to cash placed with the financial institutions for a tenor of 7 days. The interest rate on FVTPL is approximately 2.5% per annum.

2. Financial assets at amortised cost

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Bohai International Trust Co., Ltd	570,146	550,000
Rural Commercial Bank Co., Ltd	2,478	-
	<u>572,624</u>	<u>550,000</u>

The interest rate of financial assets at amortised cost ranges from 2.9% to 7.5% per annum.

3. Trade receivables - current

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Trade receivables ⁽¹⁾	<u>354,192</u>	<u>193,380</u>

⁽¹⁾After taking into account of the allowance for doubtful debts for trade receivables which were overdue for over 360 days.

The increase in trade receivable was in line with higher revenue in 1H2019.

4. Inventories

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Raw materials	478,486	358,690
Work-in-progress	167,717	53,550
Finished goods	70,227	44,665
Production supplies	23,979	150,751
	<u>740,409</u>	<u>607,656</u>

The increase in inventories was primarily due to higher raw materials prices in 1H2019.

5. This refers to the property, plant and equipment of Aoyu Steel that are pending disposal.

6. Other assets

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Deposits for offices	675	587
Prepayments ^(a)	357,724	187,638
Entrusted loan to third party ^(b)	177,741	-
VAT and tax recoverable	2,785	28,128
Loans to PT Dexin Steel Indonesia ^(c)	791,302	572,762
Interest receivables	31,432	22,275
Others	126,750	86,486
	<u>1,488,409</u>	<u>897,876</u>
Analysed as:		
-Current	697,107	325,114
-Non-current	791,302	572,762
	<u>1,488,409</u>	<u>897,876</u>

Notes:

- (a) Prepayments relate to advance payments made to suppliers for the purchase of raw materials.
- (b) The loan was unsecured, bears interest rate of 7.5 % per annum.
- (c) These loans were made in accordance with the terms & conditions of the shareholders' agreement entered into in FY2017.

7. Financial assets at fair value through other comprehensive income ("FVTOCI")

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd	10,000	10,000
1.6% equity interest in Hengshi Mining Investments Ltd	38,162	41,494
Shan Nan De Lian Heng Tong Investment	49,626	49,626
Qingdao Kutesmart Co., Ltd	12,220	12,220
CEG Ventures I, L.P	88,364	88,459
Shunwei Technology Equity Investment L.P	41,247	41,247
Tai You Fund I, LP	6,869	6,880
LDV Partners Fund I, LP	9,006	9,020
Ocean Imagination LP	40,423	38,453
Alpha Global Investment LP	67,213	46,683
MicRx Pharmaceutical Inc	15,476	15,501
Xin Yi Tai Fund Management LP	15,000	9,000
Tibet Boren Yutai Investment Centre LP	3,000	3,000
Citic Private Equity RMB Fund III	69,170	54,170
Rural Commercial Bank Co., Ltd	49,500	-
Notes receivable	89,792	378,942
	<u>605,068</u>	<u>804,695</u>

FVTOCI is made up of:

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Unquoted equity shares	477,114	384,259
Quoted equity shares	38,162	41,494
Notes receivable	89,792	378,942
	<u>605,068</u>	<u>804,695</u>
Analysed as:		
-Current	89,792	378,942
-Non-current	515,276	425,753
	<u>605,068</u>	<u>804,695</u>

8. This refers to the Company's 49% equity stake in Xingtai Xilan Zhongde Natural Gas Sales Co., Ltd.

9. This refers to the Company's 45% shareholdings in P.T Dexin Steel Indonesia.

10. Trade and other payables

	The Group	
	30/06/2019 RMB'000	31/12/2018 RMB'000
Trade payables to third parties	1,083,192	699,121
Letters of credit	487,721	486,835
VAT and other taxes payable	22,914	122,560
Payable to contractors for construction-in-progress	36,942	56,656
Advances from customers ⁽¹⁾	1,399,735	1,246,495
Other accrual for operating expenses	1,841	4,913
Accrual for staff cost	48,201	49,407
Due to directors (non-trade)	2,141	2,363
Deferred government grant	88,947	91,966
Compensation from PGLC ⁽²⁾	312,000	239,470
Deposit from customers	21,387	22,047
Other payables	209,727	113,658
	<u>3,714,748</u>	<u>3,135,491</u>

Notes:

⁽¹⁾ Advances from customers represent prepayments made by customers. These advance payments are to be offset against the purchases when the goods are collected by the customers.

⁽²⁾ Please refer to the Company's announcement dated 12 December 2017, 4 April 2018, 29 June 2018, 18 January 2019 and 9 July 2019 for further details.

The Company will continue following up with PGLC on the necessary payment, and will keep shareholders informed of any material developments on this matter.

Compensation from PGLC will be recognized as an income upon completion of the transfer of property, plant and equipment of Aoyu Steel to PGLC.

1(b)(ii) In relation to the aggregate amount of the Group's borrowings and debts securities, specify the following as at the end of the financial period reported on with comparative figures as at the end of the immediately preceding financial year

Amount repayable in one year or less, or on demand

As at 30/06/2019	As at 31/12/2018
------------------	------------------

Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
1,235,003	701,900	577,560	1,354,300

Amount repayable after one year

As at 30/06/2019	As at 31/12/2018
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Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
1,405,514	4,966	720,474	4,966

Details of any collateral

The Group's borrowings are secured by certain property, plant and equipment and pledged bank balances.

As at 30 June 2019, the Group's bank borrowings of approximately RMB3,533.0 million (2018: RMB2,786.8 million) were guaranteed by third parties. The Group has also provided guarantees to banks for borrowings of third parties amounted to approximately RMB255.8 million (2018: RMB255.8 million).

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB '000	RMB '000	RMB '000	RMB '000
Cash flows from operating activities:				
Profit after income tax	300,262	484,320	451,282	765,097
Adjustments for:				
Depreciation	65,894	53,772	124,102	106,806
Impairment loss for property, plant and equipment	-	34,616	-	34,616
Loss (gain) on disposal of property, plant and equipment	957	(13)	1,119	836
Loss on disposal of financial assets at FVTPL	-	-	23	-
Fair value gain on financial assets at FVTPL	(356)	(363)	(1,162)	(60)
Share of loss of an associate company	225	132	323	260
Share of loss of a joint venture	7,201	1,236	9,637	1,505
Interest income	(49,535)	(30,468)	(89,755)	(61,434)
Interest expense	63,972	26,422	146,156	56,011
Income tax expense	57,662	75,593	89,764	124,412
Unrealised currency translation loss (gain)	302	17,826	(27,531)	14,390
	146,322	178,753	252,676	277,342
Operating cash flow before working capital changes	446,584	663,073	703,958	1,042,439
Receivables	(181,806)	(1,051)	(249,333)	189,809
Inventories	55,907	80,083	(132,753)	13,950
Payables	(95,049)	(91,996)	579,257	102,929
	(220,948)	(12,964)	197,171	306,688
Cash provided by operating activities	225,636	650,109	901,129	1,349,127
Income tax paid	(70,965)	(85,345)	(173,173)	(212,712)
Net cash provided by operating activities	154,671	564,764	727,956	1,136,415
Cash flows from investing activities:				
Payments for property, plant and equipment ("PPE")	(105,690)	(223,417)	(546,609)	(337,676)
Purchase of unquoted equity shares	(74,216)	(106,147)	(76,190)	(122,695)
(Purchase) proceeds of financial assets at FVTPL	(4,275,026)	167,377	(2,589,224)	(66,805)
(Purchase) proceeds from disposal of financial assets at amortised cost	(22,624)	(334)	(22,624)	29,885
Interest received	49,535	30,468	89,755	61,434
Loan to joint venture	(17,337)	-	(218,540)	-
Capital contribution by non-controlling interest	-	10,000	-	10,000
Net cash used in investing activities	(4,445,358)	(122,053)	(3,363,432)	(425,857)
Cash flows from financing activities:				
Bank balances pledged	547,153	(493,010)	(32,906)	(996,688)
Proceeds from borrowings	871,611	1,322,940	3,254,489	1,777,940
Repayment of borrowings (including notes payables)	(982,950)	(993,323)	(1,553,962)	(1,774,063)
Interest paid	(63,972)	(26,422)	(146,156)	(56,011)
Net cash provided by (used in) by financing activities	371,842	(189,815)	1,521,465	(1,048,822)
Net (decrease) increase in cash and cash equivalents	(3,918,845)	252,896	(1,114,011)	(338,264)
Cash and cash equivalents at beginning of the period	5,571,465	1,544,711	2,766,631	2,135,871
Cash and cash equivalents at end of the period	1,652,620	1,797,607	1,652,620	1,797,607

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

<u>The Group</u>	Share Capital RMB '000	Capital reserve RMB '000	Fair value reserve RMB '000	Translation reserve RMB '000	Statutory reserve RMB '000	Retained earnings RMB '000	Non- controlling interest RMB '000	Total RMB '000
Balance as at 1 January 2019	406,644	261,613	(58,849)	53,497	141,072	5,274,866	8,769	6,087,612
Total comprehensive income (loss) for the period	-	-	2,019	(26,232)	-	151,072	(52)	126,807
Balance as at 31 March 2019	406,644	261,613	(56,830)	27,265	141,072	5,425,938	8,717	6,214,419
Total comprehensive income for the period	-	-	2,813	22,784	-	299,617	645	325,859
Balance as at 30 June 2019	406,644	261,613	(54,017)	50,049	141,072	5,725,555	9,362	6,540,278

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<u>The Group</u>	Share Capital RMB '000	Capital reserve RMB '000	Fair value reserve RMB '000	Translation reserve RMB '000	Statutory reserve RMB '000	Retained earnings RMB '000	Non- controlling interest RMB '000	Total RMB '000
Balance as at 1 January 2018	406,644	261,613	(23,536)	11,177	141,072	3,781,828	-	4,578,798
Effect of adoption Singapore Financial Reporting Standards (international) ("SFRS(1)") 9	-	-	(95,000)	-	-	95,000	-	-
Total comprehensive (loss) income for the period	-	-	(5,577)	(3,463)	-	280,777	-	271,737
Balance as at 31 March 2018	406,644	261,613	(124,113)	7,714	141,072	4,157,605	-	4,850,535
Total comprehensive income for the period	-	-	10,550	18,755	-	484,320	-	513,625
Capital contribution by non-controlling interest	-	-	-	-	-	-	10,000	10,000
Balance as at 30 June 2018	406,644	261,613	(113,563)	26,469	141,072	4,641,925	10,000	5,374,160

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

The Company

Balance as at 1 January 2019

Total comprehensive loss for the period

Balance as at 31 March 2019

Total comprehensive income for the period

Balance as at 30 June 2019

Share capital RMB '000	Capital reserve RMB '000	Retained earnings RMB '000	Total RMB '000
2,112,480	249,218	697,215	3,058,913
-	-	(4,676)	(4,676)
2,112,480	249,218	692,539	3,054,237
-	-	1,321	1,321
2,112,480	249,218	693,860	3,055,558

The Company

Balance as at 1 January 2018

Total comprehensive loss for the period

Balance as at 31 March 2018

Total comprehensive loss for the period

Balance as at 30 June 2018

Share capital RMB '000	Capital reserve RMB '000	Retained earnings RMB '000	Total RMB '000
2,112,480	249,218	(167,830)	2,193,868
-	-	(5,004)	(5,004)
2,112,480	249,218	(172,834)	2,188,864
-	-	(1,265)	(1,265)
2,112,480	249,218	(174,099)	2,187,599

- 1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

Changes in the Share Capital of the Company for 2nd Quarter Ended	30/06/2019	30/06/2018
Number of ordinary shares as at 1 April	110,182,709	110,182,709
Shares arising from conversion of convertible shares	-	-
Number of ordinary shares as at 30 June	110,182,709	110,182,709

There were no outstanding convertibles as at 30 June 2019.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

The Company has no treasury shares.

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not Applicable

- 2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)**

The figures have not been reviewed or audited by our auditors.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not Applicable

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The Group has followed the same accounting policies and methods of computation in the financial statements for the current period with those adopted in the most recent audited financial statements for the year ended 31 December 2018.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Not Applicable except as those stated in paragraph 4

6. **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividend**

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	299,617	484,320	450,689	765,097
Basic earnings per share (in RMB)	2.72	4.40	4.09	6.94
Diluted earnings per share (in RMB)	2.72	4.40	4.09	6.94

Explanatory Notes:

Basic earnings per share is calculated based on the weighted average number of shares in issue of 110,182,709 (post consolidation) for both periods.

There is no difference between the basis and diluted earnings per share.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	The Group		The Company	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Net Asset Value per share (RMB)	59.27	55.17	27.73	27.76

Net asset value per share for the Group and Company is calculated based on 110,182,709 ordinary shares (post share consolidation) for both periods.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

(a) **Financial Review for the second quarter and six months ended 30 June 2019**

2Q2019 vs 2Q2018

Revenue

Group revenue decreased by RMB306.2 million or 8.1% from RMB3,761.0 million in 2Q2018 to RMB3,454.8 million in 2Q2019. The decrease in revenue was principally attributed to a decrease in the average selling price of hot rolled coil ("HRC") in 2Q2019, despite an increase in the volume of HRC sold.

In 2Q2019, the Group sold 1,058,268 tonnes of HRC as compared to 1,029,544 tonnes of HRC and 6,456 tonnes of steel billets in 2Q2018. Overall sales quantity increased by 22,268 tonnes or 2.1%.

Cost of sales

Total cost of sales decreased by RMB101.4 million or 3.3%, from RMB3,096.2 million in 2Q2018 to RMB2,994.8 million in 2Q2019, primarily due to the RMB66.0 million provision for staff bonus provided in 2Q2018. The decrease also due to the reversal of repair and maintenance expenses overprovided in 1Q2019.

Gross profit

Gross profit decreased by RMB204.8 million or 30.8%, from RMB664.8 million in 2Q2018 to RMB460.0 million in 2Q2019.

Gross profit margin decreased by 4.4 percentage points from 17.7% in 2Q2018 to 13.3% in 2Q2019. The decrease was primarily due to the decrease in average selling prices of products sold, which significantly outpaced the decrease in production cost per tonne during the period under review .

Distribution and marketing expenses

Distribution and marketing expenses increased by RMB2.6 million, from RMB5.9 million in 2Q2018, to RMB8.5 million in 2Q2019. This was mainly due to an increase in transportation costs associated with the delivery of products to customers of Xingtai Delong Machinery and Mill Roll Co., Ltd (the "Mill Roll") and expenses incurred in relation to the customer sourcing for the Mill Roll. The increase is in line with the higher sales volume recorded in Mill Roll.

Administrative expenses

Administrative expenses increased by RMB25.2 million, from RMB84.7 million in 2Q2018 to RMB109.9 million in 2Q2019, primarily due to an increase in research and development expenses incurred on products development as well as higher headcounts in Xingtai Degui Nano Material Technology Limited ("Degui Nano"), the Group's newly set up 80% owned subsidiary in the PRC.

Finance expenses

Finance expenses increased by RMB37.6 million, from RMB26.4 million in 2Q2018 to RMB64.0 million in 2Q2019. The increase was primarily due to an increase in bank borrowings (including notes payable) as well as higher bill discounting charges during the period under review.

Net profit

As a result of the above, the Group reported a net profit of RMB300.3 million in 2Q2019, compared to RMB484.3 million in 2Q2018. The net profit margin was 8.7% and 12.9% in 2Q2019 and 2Q2018, respectively.

1H2019 vs 1H2018**Revenue**

Group revenue increased by RMB197.3 million or 2.9%, from RMB6,710.9 million in 1H2018, to RMB6,908.2 million in 1H2019. The increase in revenue was principally attributed to an increase in the volume of hot rolled coil (“HRC”) sold amid growing demand from the construction and infrastructure sectors, despite a decrease in average selling price.

In 1H2019, the Group sold 1,999,584 tonnes of HRC as compared to 1,847,208 tonnes of HRC and 6,456 tonnes of steel billets in 1H2018. Overall sales quantity increased by 145,920 tonnes or 7.9%.

Cost of sales

Total cost of sales increased by RMB497.2 million or 8.9%, from RMB5,605.6 million in 1H2018 to RMB6,102.8 million in 1H2019. The increase was primarily due to higher volume of products sold as mentioned above, as well as higher raw material prices (i.e., coke, coal and steel scrap) for production, compared to the corresponding period.

Gross profit

Gross profit decreased by RMB300.1 million or 27.1%, from RMB1,105.4 million in 1H2018, to RMB805.3 million in 1H2019.

Gross profit margin decreased by 4.8 percentage points, from 16.5% in 1H2018 to 11.7% in 1H2019. The decrease was primarily due to the decrease in average selling prices of products sold, coupled with higher cost of sales per tonne.

Distribution and marketing expenses

Distribution and marketing expenses increased by RMB11.1 million, from RMB12.7 million in 1H2018, to RMB23.8 million in 1H2019. This was mainly due to an increase in transportation costs associated with the delivery of products to customers of Xingtai Delong Machinery and Mill Roll Co., Ltd (the “Mill Roll”) and expenses incurred in relation to the customer sourcing for the Mill Roll. The increase is in line with the higher sales volume recorded in Mill Roll.

Administrative expenses

Administrative expenses increased by RMB33.1 million, from RMB183.8 million in 1H2018, to RMB216.9 million in 1H2019, primarily due to an increase in research and development expenses incurred on products development as well as higher headcounts in Xingtai Degui Nano Material Technology Limited (“Degui Nano”), the Group’s newly set up 80% owned subsidiary in the PRC. The increase was also due to an overall increase in staff costs for the financial year ending 2019.

Finance expenses

Finance expenses increased by RMB90.2 million, from RMB56.0 million in 1H2018, to RMB146.2 million in 1H2019, primarily due to an increase in bank borrowings (including notes payable) as well as higher bill discounting charges during the period under review.

Net profit

As a result of the above, the Group reported a net profit of RMB451.3 million in 1H2019, compared to a net profit of RMB765.1 million in 1H2018. The net profit margin was 6.5% and 11.4% in 1H2019 and 1H2018, respectively.

Review of balance sheet of the Group as at 30 June 2019

Current assets

Current assets increased by RMB1,908.3 million, from RMB8,933.7 million as at 31 December 2018 to RMB10,842.0 million as at 30 June 2019, primarily due to the increase in FVTPL. The Group deploying part of its cash and cash equivalents (generated from operating activities and the drawdown of credit facilities) towards purchasing FVTPL during the period under review.

Current liabilities

Current liabilities increased by RMB1,511.3 million, from RMB6,316.3 million as at 31 December 2018 to RMB7,827.6 million as at 30 June 2019, primarily due to an overall increase in trade and other payables (including notes payables) during the period under review.

Working capital

The working capital position improved by RMB396.9 million, from RMB2,617.4 million as at 31 December 2018, to RMB3,014.3 million as at 30 June 2019.

The Group has satisfactorily maintained its credit facilities with financial institutions in PRC during the period under review and the credit facilities have constantly been renewed and/or rolled-over by these financial institutions.

Non-current assets – Property, plant and equipment

Property, plant and equipment increased by RMB446.4 million, from RMB2,743.9 million as at 31 December 2018 to RMB3,190.3 million as at 30 June 2019, primarily due to the capital expenditure incurred for ongoing technological and environmental enhancement programmes to the production facilities in the PRC.

The increase was partially offset by depreciation charges for the period under review.

Non-Current liabilities

Non-current liabilities increased by RMB685.1 million, from RMB748.3 million as at 31 December 2018 to RMB1,433.4 million as at 30 June 2019, primarily due to the drawdown of long term bank borrowings for working capital purposes during the period under review.

(c) Review of cash flow statement of the Group

2Q2019 vs 2Q2018

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes decreased by RMB216.5 million, from RMB663.1 million in 2Q2018 to RMB446.6 million in 2Q2019, primarily due to the decrease in operating profit. Net cash from operating activities decreased by RMB410.1 million from RMB564.8 million in 2Q2018 to RMB154.7 million in 2Q2019, attributable mainly to an overall increase in trade and other receivable (including advance payment to suppliers for the purchase of raw materials, loan to PT Dexin Steel Indonesia and entrusted loan to a third party) during the period under review.

Net Cash Used in Investing Activities

Net cash used in investing activities was RMB4,445.4 million in 2Q2019. This comprised principally the payment for the purchase of financial assets at FVTPL and the progress payments for on-going technical enhancements to the upgrade production facilities in the PRC

The decrease was partially offset by interest received from banks.

Net Cash Generated From Financing Activities

Net cash generated from financing activities was RMB371.8 million in 2Q2019. This was mainly attributable to the drawdown of bank borrowing (including bank balances pledged) of RMB1,418.8 million for working capital purposes, loan principal and interest repayments of RMB1,046.9 million.

1H2019 vs 1H2018

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes decreased by RMB338.4 million, from RMB1,042.4 million in 1H2018 to RMB704.0 million in 1H2019, primarily due to the decrease in operating profit. Net cash from operating activities decreased by RMB408.4 million from RMB1,136.4 million in 1H2018, to RMB728.0 million in 1H2019, attributable mainly to the overall increase in trade and other receivables, and inventories.

Net Cash Used In Investing Activities

Net cash used in investing activities was RMB3,363.4 million in 1H2019. This comprised principally the progress payments for the technical enhancements to the upgrade production facilities in the PRC, payments for the purchases of FVTPL, unquoted equity shares and other financial assets at amortised cost.

The Group has also advanced an aggregate sum of RMB218.5 million to P.T. Dexin Steel Indonesia-a 45%-owned joint-venture company, during the period under review.

Net Cash From Financing Activities

Net cash from financing activities was RMB1,521.5 million in 1H2019. This was mainly attributable to the drawdown of bank borrowings (net off against bank balances pledged) of RMB3,221.6 million, loan principal and interest repayments of RMB1,700.1 million.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

The Company is of the view that its financial results for 2Q2019 are in line with the commentary in the results announcement for the financial period ended 31 March 2019.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period for the next 12 months

According to the National Bureau of Statistics, China's economic growth slowed to 6.2% in the second quarter of 2019, below the 6.4% reported in the preceding quarter. While this remains rangebound of China's target growth rate of 6.0% to 6.5%, market watchers expect the ongoing trade war with the United States may continue to pressure on China's economic growth.

The overall business environment for steel players remains highly uncertain, as authorities push forward with efforts to curb overcapacity, with a view towards reducing domestic steel capacity to less than 1 billion tonnes by 2025.

Within Hebei Province, a three-year industry capacity reduction work plan for the period from 2018 to 2020 continues unabated. With the purpose of keeping total annual provincial capacity within 200 million tonnes, the work plan targets a reduction of steelmaking capacity by 14 million tonnes per year in 2019 and 2020 respectively.

In addition to capacity reductions, the following targets have also been put in place, to be achieved by 2020: (i) phase out blast furnaces with capacities lower than 1,000 cubic meters, (ii) phase out converters with capacities below 1 million tonnes, (iii) relocation of steel mills from the cities, (iii) compliance with a tougher set of emission targets, (iv) as well as further consolidation within the industry, reducing from 14 steel producers to just 5-6 producers.

While the abovementioned measures have not affected Delong's operations, the Group does not discount the possibility that the implementation of any further tightening measures may invariably impact its operations and commercial viability.

To be in line with the industry's rising environmental standards, the Group continually invests in technological upgrades and enhancements to reduce emission, improve energy efficiency and recycling of waste material.

In relation to the Group's 45%-owned joint-venture (JV) steel project in Indonesia, the Group expects the facility to be operational by end-October 2019 instead of end-June 2019 as previously anticipated. The delay is due to a shortage of steel-related skilled labour in Sulawesi Indonesia, as well as disruption in construction activities due to a recent earthquake in Sulawesi and the 2019 Indonesian general election.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? No

(C) Date payable and Book Closure Date

N.A.

12. If no dividend has been declared/recommended, a statement to that effect

The Board of Directors of the Company does not recommend that a dividend be paid for the second quarter 30 June 2019.

13. Interested person transactions

There was no interested party transaction for the financial period ended 30 June 2019.

PART II-ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2,Q3 or Half Year Results)

14. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparative information for the immediately preceding year.

N.A

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments

N.A

16. A breakdown of Sales

N.A

17. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

N.A

18. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the form set out in Appendix 7.7) under Rule 720(1).

Undertakings under Rule 720(1) Appendix 7.7 have been obtained from all directors and executive officers.

BY ORDER OF THE BOARD

Ding Liguao
Executive Chairman

