



德龙控股
DELONG HOLDINGS

DELONG HOLDINGS LIMITED (REG. NO 199705215G)

- (I) THE PROPOSED DIVERSIFICATION OF CORE BUSINESS OF THE GROUP TO INCLUDE THE INVESTMENT BUSINESS; AND
 - (II) THE PROPOSED INVESTMENT
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1. INTRODUCTION

The Board of Directors (the “**Board**” or the “**Directors**”) of Delong Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Group proposes to diversify its core business (the “**Proposed Business Diversification**”) to include investing in quoted and/or unquoted securities, as well as providing seed and mezzanine capital to private companies with growth potential and undertaking business incubation and angel investments (the “**Investment Business**”).

2. PROPOSED BUSINESS DIVERSIFICATION

In venturing into the Investment Business, the Company intends to carry on the following activities, as and when an appropriate opportunity arises:

- (i) to invest, directly or indirectly, in companies and other entities through equity, securities and other instruments such as partnership interests, bonds or convertible bonds as long term investments for capital growth potential;
- (ii) to invest, acquire or dispose of, or trade, directly or indirectly, from time to time any such quoted securities and instruments such as, without limitation, funds and bonds; and
- (iii) to provide, directly or indirectly, seed and mezzanine capital to private companies with growth potential and undertaking business incubation and angel investments.

The Group does not plan to restrict the Investment Business to any specific business sector, industry or geographical market as each major allocation of funds (for a certain investment class) or major investment under the Investment Business would be evaluated and assessed by the Board on its own merits. In making its assessment on each such allocation or investment, the Group will consider the relevant market conditions, growth potential, projected returns and value enhancements of such allocation/investment to the Group. The Company will remain prudent by taking into account the financial condition and cash flow requirements of the Group in deciding the amount for each allocation/investment and to ensure that the financial exposure of the Group is monitored and managed.

The Group may also collaborate with external consultants and/or advisors for the Investment Business. These collaborations may be on a profit-sharing basis, fee-based, or on such other terms acceptable to the Group, including in respect of profit distribution and investment realisation. In agreeing on the terms with the external consultants and/or advisors, the Group will take into consideration various factors including the adequacy of the Group's working capital and the projected returns on equity.

In order to undertake the Investment Business more effectively and efficiently, the Group may also explore joint ventures and/or strategic alliances with third parties as and when the opportunity arises.

3. RATIONALE FOR THE PROPOSED BUSINESS DIVERSIFICATION

The Group is principally engaged in the manufacture and sale of hot-rolled steel coil in the People's Republic of China (the "PRC"). The Board expects the Group's business to remain challenging due to an industry-wide excess of production capacities following 20 years of accelerated growth, resulting in a reduction of investment opportunities and low investment efficiency in the steel industry.

Whilst maintaining its existing steel production capacities and investing in environment protection, the Group aims to leverage on the strong growth potential and vast opportunities in various other industries identified through the Investment Business. Accordingly, following a strategic review by the Board, subject to the receipt of the approval from the shareholders of the Company ("**Shareholders**"), the Group proposes to venture into the Investment Business.

The Group believes that the Proposed Business Diversification to include the Investment Business will provide the following benefits to the Group:

- (i) reduce the Group's reliance on its existing business, which remains competitive and challenging;
- (ii) provide the Group with diversified returns and would contribute an additional stream of revenue and earnings for the Group;
- (iii) allow the Group to expand its network of contacts and business opportunities;
- (iv) place the Group in a better position to capitalise on the growth prospects of both local and overseas markets; and
- (v) afford the Group flexibility to enter into transactions relating to the Investment Business in the ordinary course of business.

4. PROPOSED INVESTMENT IN 青岛酷特智能股份有限公司 (QINGDAO KUTESMART CO., LTD.)

In connection with the Proposed Business Diversification and in line with the Group's strategic plans and on-going efforts to pursue suitable new investment opportunities, the Board, after careful consideration, would like to propose for the Company to undertake the Proposed Investment (as defined below) as its initial investment under the Investment Business.

In this regard, the Company has, today, through its wholly-owned subsidiary, Delong Steel Limited (“**Delong Steel**”), entered into a conditional sale and purchase agreement (the “**Sale and Purchase Agreement**”) with Mr Zhang Daili (the “**Vendor**”), pursuant to which the Company will acquire 771,318 ordinary shares (the “**Target Shares**”) representing 2% of the issued and paid-up share capital of 青岛酷特智能股份有限公司 (Qingdao Kutesmart Co., Ltd.) (the “**Target**”) from the Vendor for an aggregate consideration of RMB60.0 million (equivalent to approximately S\$12.2 million¹) (the “**Consideration**”), upon the terms and conditions of the Sale and Purchase Agreement (the “**Proposed Investment**”).

The Proposed Investment constitutes a major transaction. Accordingly, it is conditional upon and subject to the approval of Shareholders under Rule 1014 of the listing manual of the SGX-ST (“**Listing Manual**”). The Board will convene an extraordinary general meeting (“**EGM**”) to seek Shareholders’ approval for (1) the Proposed Business Diversification; and (2) subject to and contingent upon the passing of the ordinary resolution for the Proposed Business Diversification, the Proposed Investment. The Proposed Business Diversification and the Proposed Investment are hereinafter collectively referred to as the “**Proposed Transactions**”. A circular (“**Circular**”), setting out the relevant information on the Proposed Transactions, will be despatched to Shareholders in due course.

5. INFORMATION ON THE TARGET AND THE VENDOR

The Target is a private limited company which was incorporated in the PRC in 2007. It is engaged in the business of design and customisation of clothing and apparel through digital platforms and technological processes. Its business relies on information technology and advanced data collection and measurement processes, and operates a flexible assembly line which manufactures apparel based on customers’ demands and specifications.

Through its automated customisation, design and production platform, the Target is able to undertake mass production of personalised products at lower cost, higher efficiency and with minimal human error. The Target’s unique business is aimed at providing an upgrade from the traditional tailoring process for bespoke products in the apparel industry and to achieve greater customer satisfaction.

The Vendor, Mr Zhang DaiLi, is the founder of the Target. He had also founded 红领集团 (the “**Red Collar Group**”) in 1995, which engages in the production and distribution of premium suits, trousers, shirts and fashion accessories. He is integral to the development of industrial techniques with a view to upgrading the traditional apparel industry. Through his strong commitment and stewardship, the Target and the Red Collar Group have achieved notable success in the apparel industry in the PRC, and have received numerous awards in this respect. For further information on the Vendor and his business, please visit <http://redcollar.com.cn>.

As at the date of this announcement, the Vendor and his immediate family collectively own approximately 58.49% shareholding interests in the Target. The Vendor does not have any shareholding interests (direct or indirect) in the Company, and is not related to any of the Directors, chief executive officer or controlling shareholders of the Company, or their respective associates.

¹ Based on the current exchange rate of RMB4.9209:S\$1.000 (the “**Exchange Rate**”) on 22 August 2016, being the last full market day on which the Shares were traded on the SGX-ST prior to the date of the Sale and Purchase Agreement (the “**Last Trading Day**”).

6. PRINCIPAL TERMS OF THE PROPOSED INVESTMENT

6.1 Consideration

The Consideration for the Target Shares of RMB60.0 million (equivalent to approximately S\$12.2 million based on the Exchange Rate) was arrived at on a willing buyer willing seller basis, after taking into consideration the price-to-earnings ratio of approximately 92 and 49 times of the profit after tax of the Target based on its audited financial statements for the previous financial years ended 31 December 2014 and 2015 respectively, and the business prospects of the Target.

The Consideration will be satisfied in cash in the following manner:

- (a) a refundable deposit of 20% of the Consideration (the “**Deposit**”) to be paid to the Vendor’s designated bank account within 10 days from the date of execution of the Sale and Purchase Agreement; and
- (b) the remaining of 80% of the Consideration (the “**Balance Consideration**”) to be deposited into an escrow account on the date on which the Deposit is paid, which shall be transferred to the Vendor’s designated bank account upon the Company obtaining Shareholders’ approval for the Proposed Investment at the EGM.

6.2 Completion

The Sale and Purchase Agreement is conditional upon, *inter alia*, approval by the Shareholders at the EGM for the Proposed Investment being obtained. The completion date for the Proposed Investment shall be the date on which the Shareholders’ approval is obtained for the Proposed Investment. (the “**Completion Date**”).

In the event that Shareholders’ approval for the Proposed Investment is not obtained and the Sale and Purchase Agreement does not come into effect, the Deposit shall be refunded to Delong Steel.

6.3 Other Salient Terms

Pursuant to the Sale and Purchase Agreement, Delong Steel shall not, *inter alia*,

- (a) transfer any of the Target Shares to, or hold the same in trust for, any third party (including any individual, company or other economic organisation which engages in a similar or competing business with the Target), without the consent of the controlling shareholder(s) of the Target;
- (b) effect any transfer of the Target Shares which may have a material adverse effect on the operations of the Target; and
- (c) create any pledge or other encumbrance over the Target Shares without the consent of the controlling shareholder(s) of the Target,

for a period starting from the Completion Date to (i) 31 December 2017; or (ii) the date on which the Target is listed on a recognised stock exchange, whichever is earlier.

7. RATIONALE FOR THE PROPOSED INVESTMENT

In addition to the reasons as mentioned in paragraph 3 above, the Group aims to leverage on the strong growth potential of the Target. The Group has identified the Target based on, amongst others, its strong track record in recent years, its unconventional and advanced business model, its established channels and wide customer base and its leadership by a core team of experienced management personnel. The Target has also attracted substantial capital injections by reputable investors, which has significantly raised its market valuation in the last two years.

Accordingly, following a strategic review by the Board, the Group intends to undertake the Proposed Investment as the initial investment under the Investment Business. It is intended for the Group to be a passive investor and will not be involved in the management of the Target. The Group may subsequently exit as a shareholder from the Target upon the completion of an initial public offering or trade sale by the Target which is expected to take place within 2 years from the date hereof.

Subsequent investments undertaken by the Group in pursuance of the Investment Business may take other forms, including without limitation undertaking investments through private equity firms, investing in quoted and/or unquoted securities, providing seed and mezzanine capital to private companies with growth potential, amongst others. In the event that the Group enters into any agreements and/or arrangements in connection with the Investment Business from time to time, as and when an appropriate opportunity arises, the Group will make an announcement containing relevant details of the new agreement and/or arrangement, as required under the Listing Manual.

8. FUNDING FOR THE PROPOSED INVESTMENT

The Proposed Investment will be funded through the internal resources of the Company.

9. MAJOR TRANSACTION UNDER CHAPTER 10 OF THE LISTING MANUAL

The relative figures for the Proposed Investment computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

Rule 1006	Bases	Relative Figure (%)
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits.	0.4% ⁽¹⁾
(c)	The aggregate value of the consideration given ⁽²⁾ or received, compared with the Company's market capitalisation based on the total number of issued shares in the share capital of the Company excluding treasury shares.	30.3% ⁽³⁾

(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable ⁽⁴⁾
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

Notes:

- (1) Under Rule 1002(3)(b) of the Listing Manual, “net profits” is defined as profit or loss before income tax, minority interest and extraordinary items. The relative figure is based on the unaudited net profits of approximately RMB1.6 million attributable to 2% shareholding interests in the Target for the six months ended 30 June 2016 (“**1H2016**”) and the Group’s unaudited net profits of approximately RMB382.4 million for 1H2016.
- (2) Based on the Consideration of RMB60.0 million (equivalent to S\$12.2 million based on the Exchange Rate).
- (3) The market capitalisation of the Company of approximately S\$40.22 million is calculated on the basis of 110,182,709 ordinary shares in the capital of the Company in issue (“**Shares**”) multiplied by the weighted average price of the Shares transacted on the Last Trading Day.
- (4) Rule 1006(d) is not applicable as no shares in the Company will be issued as consideration for the Proposed Investment.

As the relative figure under Rule 1006(c) of the Listing Manual exceeds 20%, the Proposed Investment constitutes a major transaction under Rule 1014 of the Listing Manual and the Company will be seeking approval of Shareholders at the EGM to be convened.

10. FINANCIAL EFFECTS OF THE PROPOSED INVESTMENT

The financial effects of the Group after the Proposed Investment set out in this announcement below are for illustrative purposes only and should not be taken as an indication of the actual future financial performance or position of the Group following the Proposed Investment, nor a projection of the future financial performance or position of the Group after completion of the Proposed Investment.

- 10.1 The financial effects of the Proposed Investment on the Group are based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2015 (“**FY2015**”), and the assumptions set out below:
 - (a) The financial effects of the Proposed Investment are based on the terms of the Sale and Purchase Agreement as at 23 August 2016, in particular, the Consideration of RMB60.0 million (equivalent to S\$12.2 million based on the Exchange Rate).
 - (b) The Proposed Investment will be funded through internal cash resources of the Company.

10.2 Net tangible assets (“NTA”)

Assuming that the Proposed Investment had been completed on 31 December 2015, the financial effects on the consolidated NTA per Share as at 31 December 2015 are as follows:

	As at 31 December 2015	
	Before the Proposed Investment	After the Proposed Investment
NTA (RMB' 000)	2,286,573	2,286,573
Number of Shares	110,182,709	110,182,709
NTA per Share (RMB)	20.75	20.75

10.3 Losses per Share

Assuming that the Proposed Investment had been completed on 1 January 2015, the financial effects on the losses per share for FY2015 are as follows:

	FY2015	
	Before the Proposed Investment	After the Proposed Investment
Net loss after tax (RMB)	(392,845)	(392,845)
Weighted average number of issued Shares	110,182,709	110,182,709
Losses per Share (RMB)	(3.57)	(3.57)

11. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or the controlling Shareholders of the Company has an interest, direct or indirect, in the Proposed Transactions, other than through their respective shareholding interests, direct or indirect, in the Company.

12. SERVICE CONTRACT

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transactions. Accordingly, no service contract for such appointment is proposed to be entered into between the Company and any such person.

13. CIRCULAR AND DOCUMENTS AVAILABLE FOR INSPECTION

The Circular containing information on the Proposed Transactions and enclosing the notice of EGM to seek Shareholders' approval for the Proposed Transactions will be despatched by the Company to Shareholders in due course.

A copy of the Sale and Purchase Agreement will be made available for inspection by the Shareholders at the registered office of the Company at 55 Market Street, Level 10, Singapore 048941 during normal business hours for three (3) months from the date of this Announcement.

14. CAUTIONARY STATEMENT

Shareholders are advised to exercise caution in trading their Shares as there is no certainty or assurance as at the date of this Announcement that the Proposed Transactions will be completed. Shareholders are advised to read this Announcement and any further announcements and the Circular by the Company carefully. Shareholders should consult their stockbrokers, solicitors or other professional advisors if they have any doubts about the action they should take.

BY ORDER OF THE BOARD

Ding Ligu
Executive Chairman

23 August 2016