



SALE OF SUBSIDIARY'S PRODUCTION CAPACITY

1. INTRODUCTION

Reference is made to the announcement made by Delong Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on 18 January 2017 (the “**Announcement**”) in relation to the plans by the Hebei Province’s 12th National People Congress to reduce steelmaking capacity in the Hebei Province in the PRC by 31.86 million tonnes in 2017, and to accelerate steelmaking capacity reduction efforts in the cities of Langfang, Baoding and Zhangjiakou, which are located in the Hebei Province, in 2017 (the “**Capacity Reduction Plans**”).

All capitalised terms used and not defined herein shall have the same meanings given to them in the Announcement.

Further to the Announcement, the Board of Directors (the “**Board**”) of the Company wishes to announce that its indirect wholly-owned subsidiary, Aoyu Steel, has entered into a conditional agreement with Tsing Tuo Group Co., Ltd (青拓集团有限公司) (the “**Purchaser**”) (the “**Agreement**”), pursuant to which Aoyu Steel has agreed to transfer, and the Purchaser has agreed to purchase, Aoyu Steel’s pig iron production capacity of 1.08 million tonnes (currently generated from its 2 blast furnaces) and steel production capacity of 1.21 million tonnes (currently generated from its 2 converter furnaces), for an aggregate consideration of RMB 400 million, which is approximately S\$81.1 million¹ (the “**Consideration**”) (the “**Production Capacity Transfer**”).

2. INFORMATION ON AOYU STEEL

Aoyu Steel is a company incorporated in the People’s Republic of China (“**PRC**”) and is principally engaged in the business of manufacturing and sale of hot rolled coils and steel billets. The annual manufacturing production capacity of Aoyu Steel is 1,200,000 tonnes per annum.

3. INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in the PRC and engaged in the business of iron ore and steel production. The shareholders of the Purchaser are independent third parties who are not related to the Group or any Director or substantial shareholder of the Company.

¹ Based on the exchange rate of SGD1:RMB4.93 as at the date of this announcement, i.e. 3 April 2017 (source: Reuters)

4. RATIONALE FOR THE PRODUCTION CAPACITY TRANSFER AND THE USE OF PROCEEDS

Based on the latest announced unaudited consolidated financial statements of the Group for the financial year ended 31 December 2016 (“FY2016”), the net book value of the property, plant and equipment (excluding prepaid leases) of Aoyu Steel was approximately RMB 94.9 million. This is after taking into consideration the impairment charge of RMB 600 million recognised for FY2016.

The Group had earlier engaged an independent external valuer, 河北恒裕资产评估事务所有限公司 (Hebei Hengyu Assets Appraisal Co., Ltd) (the “Valuer”), to assess and determine the market value of the property, plant and equipment of Aoyu Steel. Based on the valuation report dated 21 February 2017 (the “Valuation Report”) issued by the Valuer, the market value of the property, plant and equipment (excluding prepaid leases) of Aoyu Steel as at 31 December 2016 was RMB 100.0 million. The Valuer had adopted the replacement cost method in arriving at the market value of the assets to be disposed of.

However, as announced in the Announcement, Aoyu Steel may be ordered to cease its steelmaking output in view of the Capacity Reduction Plans. As such, the aforementioned property, plant and equipment (excluding prepaid leases) will no longer be used once the Hebei People’s Government orders Aoyu Steel to cease production completely as the Group will unlikely be able to realise any value from those assets in such an event.

Given these circumstances, the Board is of the view that the Production Capacity Transfer is in the interest of the Group as it will allow the Group to realise the value of Aoyu Steel’s assets, which will otherwise no longer be able to generate any revenue once the Capacity Reduction Plans are implemented. Further, it is also uncertain whether the PRC government will compensate the Group in the event that Aoyu Steel is ordered to shut down its operations.

The proceeds from the Production Capacity Transfer will be used for paying *inter alia* (i) the value-added tax on the Consideration; (ii) severance pay for affected workers and management of Aoyu Steel; and (iii) other expenses to be incurred upon cessation of the operations of Aoyu Steel such as dismantling of the whole production facility. As it is not possible, as at the date of this announcement, to fully determine the exact amounts that might be incurred or gained from the complete cessation of Aoyu Steel’s operations, whether as a result of the Production Capacity Transfer or otherwise, the net loss or gain from the disposal of the intangible asset (i.e. the production capacities of the furnaces mentioned above) cannot be realistically ascertained.

5. SALIENT TERMS OF THE AGREEMENT

The salient terms of the Agreement include, *inter alia*, the following:

(a) **Consideration**

The aggregate value of the consideration for the Production Capacity Transfer is RMB 400 million (the “**Consideration**”).

Basis of Consideration

The Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser on a willing-buyer willing-seller basis, and taking into consideration, *inter alia*, the following factors:

- (i) the applicable value-added tax on the Consideration;
- (ii) severance pay for affected workers and management of Aoyu Steel; and
- (iii) other expenses to be incurred upon cessation of the operations of Aoyu Steel.

Satisfaction of Consideration

- (1) Under the Agreement, the Purchaser shall pay a sum of RMB 100 million (the “**Deposit**”) to Aoyu Steel within 10 working days of the date of the Agreement. The Deposit has been paid by the Purchaser to Aoyu Steel on 28 March 2017 (the “**Deposit Date**”);
- (2) Within 10 working days after receipt of approval from, or registration with, the Hebei People’s Government and Ministry of Industry and Information Technology of the Production Capacity Transfer, the Purchaser shall pay the remaining balance of the Consideration to Aoyu Steel in cash.

Pursuant to the Agreement, if the relevant amount of the Consideration is not paid within the periods specified above, an amount equivalent to 1% of the outstanding balance of the Consideration shall be levied on the Purchaser for each day after the relevant period that payment is not made. In the event that the Purchaser has delayed making the required payment for more than 10 consecutive days immediately after the relevant period, the Deposit shall be forfeited and Aoyu Steel shall be entitled to elect to terminate the Agreement.

In addition, in the event that the Production Capacity Transfer is not approved by:

- (1) the relevant authorities of Laiyuan County and Baoding City within 30 days after the Deposit Date; and/or
- (2) the Hebei People’s Government and Ministry of Industry and Information Technology within 90 days after the Deposit Date,

either Aoyu Steel or the Purchaser is entitled to elect to terminate the Agreement by giving prior written notice to the other party of its election. The Deposit shall be refunded within 10 working days from the date of such written notice, failing which an amount equivalent to 1% of the Deposit shall be levied on Aoyu Steel for each day after the aforementioned period that payment is not made.

(b) Continuity of Production

Under the Agreement, Aoyu Steel is entitled to continue production until the Hebei People’s Government orders Aoyu Steel to cease production completely and has notified Aoyu Steel of the same.

6. FINANCIAL EFFECTS OF THE PRODUCTION CAPACITY TRANSFER

Since the Consideration will be used to offset the expenses to be incurred in relation to the cessation of Aoyu Steel's operations as set out in paragraphs 5(a)(i) to (iii) above, the Company is of the view that, as at the date of this announcement, the Production Capacity Transfer is not expected to have any material impact on the net tangible asset value per share and earnings per share of the Company for the financial year ending 31 December 2017.

7. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

Based on the latest announced unaudited consolidated financial statements of the Group for FY2016, the relative figures in respect of the Production Capacity Transfer, as computed on the bases set out in Rule 1006 of the listing manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") ("Listing Manual"), are as follows:

| Bases of calculation | Relative figure |
|---|-------------------------------------|
| <u>Rule 1006(a)</u> Net asset value of the assets to be disposed of, compared with the Group's net asset value | Cannot be determined ⁽¹⁾ |
| <u>Rule 1006(b)</u> Net profits attributable to the assets disposed of, compared with the Group's net profits | Cannot be determined ⁽²⁾ |
| <u>Rule 1006(c)</u> Aggregate value of the consideration received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares | 100.7% ⁽³⁾ |
| <u>Rule 1006(d)</u> Number of equity securities issued by the Company as consideration for the disposal, compared with the number of equity securities previously in issue | Not Applicable ⁽⁴⁾ |
| <u>Rule 1006(e)</u> 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 | Not Applicable ⁽⁴⁾ |

Notes:

- (1) Subject to obtaining the relevant approvals, as mentioned above, the production capacities of the furnaces are being sold to the Purchaser and not the furnaces themselves. As the asset to be disposed of is an intangible asset, it is not possible to quantify the net asset value of the production capacities of the furnaces. Accordingly, the relative figure for Rule 1006(b) of the Listing Manual cannot be determined.

- (2) As it is not possible, as at the date of this announcement, to fully determine the exact amounts that might be incurred or gained from the complete cessation of Aoyu Steel's operations, whether as a result of the Production Capacity Transfer or otherwise, the net loss or gain from the disposal of the intangible asset (i.e. the production capacities of the furnaces mentioned above) cannot be realistically ascertained.
- (3) The market capitalisation of the Company of approximately S\$76,026,069 is determined by multiplying the 110,182,709 shares in issue as at the date of this announcement by the volume-weighted average price of the Shares of S\$0.69 on 20 March 2017 (being the immediate market day preceding the date of signing of the Agreement).
- (4) Rule 1006(d) of the Listing Manual is not applicable as the Company will not be issuing equity securities as consideration for the Production Capacity Transfer. Rule 1006(e) of the Listing Manual is not applicable as this is not a disposal of mineral, oil or gas assets by a mineral, oil and gas company.

As the relative figure under Rule 1006(c) exceeds 20%, the Production Capacity Transfer constitutes a major transaction pursuant to Rule 1014 of the Listing Manual. Accordingly, the Production Capacity Transfer is subject to the approval of the Shareholders in a general meeting.

In view of the circumstances of the Capacity Reduction Plans, the cessation of production by Aoyu Steel is mandated by PRC laws and regulations. Therefore, the Company intends to apply to the SGX-ST for a waiver from compliance with Rule 1014(2) of the Listing Manual, which requires a major transaction to be conditional upon approval by shareholders in general meeting, in due course.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

As at the date of this announcement, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Disposal, other than through their respective shareholdings in the Company (if any).

9. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a Director of the Company or any of its subsidiaries in connection with the Proposed Disposal. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Agreement and the Valuation Report are available for inspection during normal business hours at the registered office of the Company at 55 Market Street, Level 10, Singapore 048941 for a period of three (3) months from the date of this announcement.

11. FUTURE UPDATES

The Board will update shareholders on any material developments in due course and the Company will make further announcements as and when there are any subsequent developments.

12. CAUTIONARY STATEMENT

Shareholders should note that there is no certainty or assurance as at the date of this announcement that the Production Capacity Transfer will be completed. Accordingly, Shareholders and potential investors of the Company should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

BY ORDER OF THE BOARD

Ding Liguo
Executive Chairman
3 April 2017