



DELONG HOLDINGS LIMITED (REG NO. 199705215G)

INCORPORATION OF A JOINT VENTURE COMPANY

1. INTRODUCTION

The board of directors (the “**Board**”) of Delong Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Group’s indirect wholly-owned subsidiary, Delong Steel Singapore Projects Pte Ltd (“**Delong Steel**”), has today entered into a joint venture agreement (the “**Agreement**”) with Shanghai Decent Investment (Group) Co., Ltd (上海鼎信投资（集团）有限公司) (“**Shanghai Decent**”) and Shanghai Decent’s 66.25%-owned subsidiary, PT. Indonesia Morowali Industrial Park (印尼经贸合作区青山园区开发有限公司) (“**Morowali**”) (collectively referred to as the “**Parties**”), pursuant to which the Parties have agreed *inter alia* to invest and construct a steel project at Tshingshan Park (as defined herein) (the “**Steel Project**”), and to set up a joint venture company in Indonesia named PT. Dexin Steel Indonesia (the “**JV Co**”) for such purpose (the “**Proposed JV**”).

The Proposed JV is expected to constitute a very substantial transaction under Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and is subject to, amongst others, the approval of the SGX-ST and the approval of the shareholders of the Company (the “**Shareholders**”) at an extraordinary general meeting (the “**EGM**”) to be convened.

2. INFORMATION ON THE JV CO

Pursuant to the Agreement, the JV Co is intended to be incorporated in the Republic of Indonesia with an authorised capital of USD150 million (or such equivalent in Indonesian rupiah) divided equally into 150,000 ordinary shares (“**JV Co Shares**”) of USD1,000 (or such equivalent in Indonesian rupiah) each. The JV Co will be principally engaged in the business of manufacture and sale of steel bar, wire and slab.

As the JV Co has not been incorporated and the Steel Project has not commenced, there is no book value or net tangible asset value attributable to the JV Co.

A feasibility study was commissioned by WISDRI Engineering & Research Incorporation Limited Company in May 2017 in relation to the Steel Project. A copy of the findings of the feasibility study will be provided in the circular to be despatched to the Shareholders in due course.

Further salient information on the JV Co based on the terms of the Agreement are set out in detail below.

2.1 Shareholding Proportion

Delong Steel, Shanghai Decent and Morowali are expected to hold such number of JV Co Shares representing 45%, 43% and 12% in the total issued share capital of the JV Co, respectively.

2.2 Board Composition

The board of the JV Co (the “**JV Co Board**”) will comprise 5 members, of whom 2 directors (including the Chairman of the JV Co Board) shall be appointed by Delong Steel, 2 directors (including the finance director) shall be appointed by Shanghai Decent and 1 director shall be appointed by Morowali.

2.3 Board of Commissioners

The Board of Commissioners of the JV Co will comprise 5 members, of whom 2 shall be designated by Delong Steel, 2 (including the Chairman of the Board of Commissioners) shall be designated by Shanghai Decent, and 1 shall be designated by Morowali.

2.4 Profit Distribution

Pursuant to the Agreement, at least 30% of the net profits earned by the JV Co in each financial year will be distributed to the shareholders of the JV Co (“**JV Co Shareholders**”) in their respective shareholding proportion, and any distribution of the remaining profit or retained earnings shall be decided in a general meeting of the JV Co (“**Shareholders’ Meeting**”). The JV Co Shareholders shall bear any tax or foreign exchange gain/loss in relation to such profit distribution. If there are any other arrangements with the lending banks, such arrangement shall take precedence.

2.5 Share Transfer Restrictions

A JV Co Shareholder can transfer all or part of its JV Co Shares to any other JV Co Shareholder. In the event that a JV Co Shareholder wishes to transfer its JV Co Shares (the “**Transfer Shares**”) to any other persons (the “**Proposed Transfer**”), the unanimous consent of the other JV Co Shareholders shall first be obtained. Once unanimous consent is obtained, and provided that the other JV Co Shareholders do not offer to purchase the Transfer Shares on similar terms as that offered by the third party, the JV Co Shareholder can then transfer the Transfer Shares to the third party. However, in the event that any of the other JV Co Shareholders disagree with the Proposed Transfer, the disagreeing JV Co Shareholders shall, within 10 business days after the date of the notice of the Proposed Transfer, exercise its pre-emption right to purchase the Transfer Shares on similar terms as that offered by the third party, failing which such disagreeing JV Co Shareholder shall be deemed to have agreed to the Proposed Transfer.

3. **OTHER SALIENT TERMS OF THE PROPOSED JV**

The other salient terms of the Proposed JV, based on the terms of the Agreement, are set out below.

3.1 Amount of Initial Investment

Under the Agreement, the estimated total initial investment amount of the Proposed JV is approximately USD950 million, of which USD285 million will be contributed by the Parties and

the remaining USD665 million is intended to be funded through mid-term or long-term bank financing (if obtained).

The total investment amount was arrived at based on the estimated initial investment outlay required for the Steel Project, including but not limited to the amount needed for the purchase of land, the construction of the plant, equipment engineering, equipment installation and other expenses.

The financing structure of the Proposed JV pursuant to the Agreement is set out below.

(1) Capital contribution towards the JV Co

Pursuant to the Agreement, after (a) approval in-principle from the Badan Koordinasi Penanaman Modal, the Investment Coordinating Board of the Republic of Indonesia, has been obtained, (b) the legalization of the JV Co as a legal entity by the Ministry of Law and Human Rights of Indonesia has been completed, and (iii) the other general licenses have been obtained, and within 15 business days after the opening of a bank account by the JV Co, the Parties shall contribute to the capital of the JV Co in the following proportions by way of immediately available funds:

	Amount of contribution (USD)	Number of ordinary shares	Shareholding Proportion (%)
Delong Steel	16,875,000	16,875	45
Shanghai Decent	16,125,000	16,125	43
Morowali	4,500,000	4,500	12
Total	37,500,000	37,500	100

Subsequently, within 15 business days after the receipt of a duly endorsed notification by the JV Co for additional capital injection, the notified Party shall further contribute to the capital of the JV Co for the following amount:

	Amount of further contribution (USD)	Number of ordinary shares	Shareholding Proportion (%)
Delong Steel	50,625,000	50,625	45
Shanghai Decent	48,375,000	48,375	43
Morowali	13,500,000	13,500	12
Total	112,500,000	112,500	100

(2) Shareholders' loans

After the Parties have fully contributed to the issued and paid-up capital of the JV Co (as set out above), they shall provide shareholders' loans amounting to an aggregate of USD135 million in accordance with their respective shareholding proportion in the JV Co. Each Party shall provide the loan within 15 business days after the receipt of a duly endorsed notification by the JV Co. Accordingly, Delong Steel, Shanghai Decent and Morowali will be expected to provide a shareholder's loan of USD60.75 million, USD58.05 million and USD16.2 million, respectively, to the JV Co pursuant to the Agreement.

The interest rate chargeable on the shareholders' loans shall be determined in a Shareholders' Meeting based on the performance of the Steel Project. Such shareholders' loans shall be subordinated to bank loans. The Parties will be repaid concurrently based on their respective shareholding proportion in the JV Co.

(3) Mid-term or long-term bank financing

In addition to the modes of financing mentioned above, any further financing requirement of the Steel Project shall be satisfied by way of mid-term or long-term project financing from banks. In the event that the banks require security for the provision of financing, Delong Steel and Shanghai Decent shall each provide a corporate guarantee amounting to 45% and 55% of the relevant bank loan respectively.

During the construction of the Steel Project, if the JV Co urgently requires funds and subject to any objection from the lending banks, the Parties shall provide the requested funds according to their respective shareholding proportion in the JV Co. Any repayment of such urgent funds shall be made to the Parties based on their respective shareholding proportion in the JV Co, within 10 business days after the lending banks approve of financing for the Steel Project.

Subject to the total initial investment amount being USD950 million, in the event that bank financing is not obtained or is insufficient for the Steel Project, the Parties shall advance further shareholders' loans for such amount which bank financing is not obtained, according to their respective shareholding proportion in the JV Co. Such advancement shall be made within 15 business days after the JV Co gives a duly endorsed written notification to the Parties of the foregoing. The interest rate payable on such shareholders' loans shall be determined in a Shareholders' Meeting based on the performance of the Steel Project. Any repayment shall be made to the Parties concurrently based on their respective shareholding proportion in the JV Co.

Any changes to the financing structure set out in the Agreement that is decided in a Shareholders' Meeting shall prevail.

In light of the above, the aggregate initial amount that the Group may likely contribute to the Proposed JV is approximately USD427.5 million, comprising USD67.5 million contribution to the paid-up capital of the JV Co, USD60.75 million in shareholders' loans, and USD299.25 million in corporate guarantee and/or additional shareholders' loans (as the case may be).

3.2 Undertaking relating to Infrastructures

Shanghai Decent and Morowali undertake to ensure the availability of the infrastructures necessary for the Steel Project (including without limitation, water, electricity, land, and port and jetty) in accordance with the "Letter of Confirmation in relation to Co-operation Arrangement for Steel Project" ("**Letter of Confirmation**") to be signed by Morowali at the time of signing of the Agreement. Any adverse effect suffered by Delong Steel as a result of any untrue representation or any breach of the arrangements in the Letter of Confirmation shall be borne by Shanghai Decent and Morowali jointly and severally.

3.3 Pre-Incorporation Expenses

If the JV Co is not successfully incorporated, all relevant pre-incorporation expenses shall be borne by the Parties based on their proposed subscription proportion.

3.4 Undertaking

Any employee designated by a JV Co Shareholder to work in the JV Co (the “**Designated Employee**”) shall not be employed or effectively engaged by any other JV Co Shareholders or their related companies. Upon the exit of a JV Co Shareholder from the JV Co, its Designated Employees shall also exit the JV Co. The other non-exiting JV Co Shareholders undertake not to, and shall procure that the JV Co does not, offer employment to any of such Designated Employees. If any Party breaches the foregoing undertakings, liquidated damages of US\$500,000 per person shall be imposed on the defaulting Party.

3.5 Hostile Act

If any JV Co Shareholder uses illegal or unusual means to cause man-made events so as to force the other JV Co Shareholders to compromise or accept its position, such JV Co Shareholder shall compensate the other JV Co Shareholders for all the losses suffered by them, and shall also pay a penalty equivalent to 100% of the capital already contributed by the other JV Co Shareholders.

3.6 Default in Investment

Pursuant to the Agreement, if a Party fails to pay for its subscribed JV Co Shares (the amount that is not paid shall be referred to as the “**Overdue Amount**”), such defaulting Party shall, for each day outstanding, pay to the other non-defaulting Parties 0.03% of the Overdue Amount as liquidated damages. If the Overdue Amount remains unpaid for more than 60 days, any non-defaulting Parties shall have the right to make an offer for the JV Co Shares held by the defaulting Party or to request to wind up the Company (which shall not be objected to by the defaulting Party). In such event, all the expenses incurred during the incorporation of the JV Co shall be borne by the defaulting Party, which shall also pay an additional sum equivalent to 20% of the Overdue Amount as liquidated damages to the other non-defaulting Parties.

Each Party shall perform its obligations under the Agreement. If, by the acts of any Party, loss is incurred by the other Parties, the Party which caused the loss shall compensate for the losses incurred, in addition to the liquidated damages payable pursuant to the immediately preceding paragraph.

3.7 Effectiveness of the Agreement

The Agreement shall take effect upon, *inter alia*, the Group obtaining approval from the SGX-ST and the Shareholders.

4. **RATIONALE FOR THE PROPOSED JV**

As Morowali had previously constructed an industrial park with full ancillary facilities at Bahadopi Village, Morowali County, Mid-Sulawesi, Indonesia for nickel mining and smelting and stainless steel manufacturing (the “**Tshingshan Park**”), the Parties would like to collaborate and jointly invest and construct a steel plant with an annual capacity of 3.5 million tonnes at Tshingshan Park. The Proposed JV will enable the Group to leverage on Shanghai Decent and Morowali’s extensive experience and expertise, and also facilitate the Group’s expansion into other markets in Southeast Asia.

Apart from the above, the Group is also seeking to enter into the Proposed JV because of the situation in the People’s Republic of China (“**PRC**”). As announced by the Company on 18 January 2017, there are 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**”). Accordingly, the Company understands that steel mills which are located in the Hebei Province (and especially those located within the affected cities under the Capacity Reduction Plans) are not permitted to expand their existing production capacity.

In view of the above, the Company is anticipating that its indirect wholly-owned subsidiary, Laiyuan County Aoyu Steel Co., Ltd. (“**Aoyu Steel**”), will cease its steel-making operations in the near future. Please refer to the Company’s previous announcements for further details on the foregoing. Once the PRC government orders the cessation of Aoyu Steel’s operations, the Company expects that the Group’s steel production capacity will be significantly reduced. Accordingly, the Proposed JV presents a good opportunity for the Group to expand its core business, and serves as a new engine of growth for the Group, so as to enhance long-term shareholders’ value. In particular, the Proposed JV will benefit the Group’s existing business by allowing the Group to increase its manufacturing and sales capacity, as well as improve the product structure.

The Proposed JV will enable the Group to offer a wider range of products, allow the Group to reach out to a broader spectrum of customers, and strengthen the existing customer base of the Group. In addition, the Group also seeks to enter into the Proposed JV to capitalise on the growing demand for steel amid strong economic growth in Indonesia. The Parties are anticipating that demand for steel bar, wire and slab in the Indonesia market will be high, due to an excess of demand over supply.

Specifically, as the Steel Project is supported by good transportation infrastructure, there might be some cost savings for the Group in entering into this Proposed JV as no initial investment outlay in respect of infrastructure is required.

In addition to the above, the Company also proposes to enter into the Proposed JV in response to the PRC government’s “go out” or “going global” strategy, which is a policy that encourages enterprises to make offshore investments.

The Group’s contribution to the Proposed JV will be funded from internal resources and/or external borrowings.

5. FINANCIAL EFFECTS OF THE PROPOSED JV

For illustrative purposes only and based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 (“**FY2016**”), the financial effects of the Proposed JV on (i) the net tangible assets (“**NTA**”); and (ii) the earnings per share (“**EPS**”) of the Group are as follows, assuming that completion of the Proposed JV took place, in respect of profit and loss statements, on 1 January 2016, and in respect of balance sheets, on 31 December 2016:

5.1 NTA

	Before the Proposed JV	After the Proposed JV
NTA (RMB’000)	2,542,931	2,542,931
Number of Shares (‘000)	110,183	110,183
NTA per Share (RMB)	23.08	23.08

5.2 EPS

	Before the Proposed JV	After the Proposed JV
Net profit attributable to equity holders (RMB'000)	213,030	213,030
Weighted average number of shares ('000)	110,183	110,183
EPS (RMB)	1.93	1.93

6. **RELATIVE FIGURES PURSUANT TO RULE 1006 OF THE SGX-ST LISTING MANUAL**

The relative figures for the Proposed JV computed on the base set out in Rule 1006(c)⁽¹⁾ of the SGX-ST Listing Manual (the “**Listing Manual**”) are as follows:

Rule 1006(c)	The aggregate initial consideration for the Proposed JV, compared with the Group's market capitalisation ⁽²⁾	336.7%
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Notes:

- (1) Rules 1006(a) and (e) of the Listing Manual are not applicable as they only apply to a disposal of assets. Rule 1006(b) of the Listing Manual is not applicable as the JV Co has not been incorporated and the Steel Project has not commenced and Rule 1006(d) of the Listing Manual is not applicable as the Company will not be issuing equity securities as consideration for the Proposed JV.
- (2) The market capitalisation of the Company of approximately S\$175,741,421 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\$1.595 on 9 June 2017 (being the immediate market day preceding the date of signing of the Agreement). The calculation is based on the exchange rate of S\$1.00:USD1.384 as at 9 June 2017.

7. **PRO FORMA FINANCIAL INFORMATION**

As mentioned above, the JV Co has not been incorporated and the Steel Project has not commenced. Hence, the latest 3 years of proforma financial information as required under Rule 1015(1) of the Listing Manual is not available.

Further, the Company intends to apply to the SGX-ST for a waiver from compliance with certain requirement(s) in the Listing Manual. The Company will apprise Shareholders of the outcome of such application (if made) 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 JV, 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 JV. 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 annual report of the Company for FY2016 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. FURTHER ANNOUNCEMENT

The Company will make further announcements as and when there are material developments in respect of the Proposed JV.

12. CAUTIONARY STATEMENT

Shareholders should note that there is no certainty or assurance as at the date of this announcement that the Proposed JV 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
12 June 2017