DECLOUT LIMITED
(Incorporated in the Republic of Singapore on 21 August 2010)
(Company Registration No. 201017764W)

CORPORATE AND BUSINESS UPDATE

The Board of Directors (the "Board") of **DeClout Limited** ("DeClout" or the "Company", and together with its subsidiaries, the "Group") wishes to provide shareholders with a corporate and business update ("CBU") which outlines the Group's forward growth strategies.

Background and Overview

Listed on the Catalist Board of the Singapore Exchange Securities Trading Limited (the "SGX") since 2012, DeClout's business is to identify disruptive trends, incubate, scale and harvest high-growth technology companies. This strategy led to significant successes in 2016 via the spin-off of Procurri Corporation Limited ("Procurri", and together with its subsidiaries, the "Procurri Group") on the SGX Mainboard and the trade sale of Acclivis Technologies and Solutions Pte. Ltd. ("Acclivis").

On 1 March 2018, DeClout announced its unaudited results for the financial year ended 31 December ("FY") 2017[1]. The key aspects of the FY2017 results, including its first net loss attributable to owners of the Company since listing of S$16.4 million (FY2016 net profit: S$7.8 million) were:

a) The **absence of fresh "harvests"** such as those recorded in FY2016 (FY2017 results included a one-off downward adjustment of S$4.9 million in relation to the total consideration received for the divestment of Acclivis[2]);

b) Under the **IT Infrastructure Sales and Services** segment, the change in business strategy of the Group's 46.83%-held Procurri's Lifecycle Services segment (from outsourcing to using in-house capabilities to provide maintenance services) to obtain resilient recurring income through an order book had led to the change in accounting principle of revenue recognition from upfront to straight-line recognition. Two new subsidiaries incurred higher administrative expenses (mostly sales-related) while the formation of a Global Parts Centre under the Procurri Group led to higher depreciation. DeClout's share of losses from Procurri for FY2017 was S$1.3 million (FY2016: share of profit was S$2.6 million);

c) Under the **Vertical Domain Cloud ("VDC")** segment, Corous360 Pte. Ltd. ("Corous360", and together with its subsidiaries the "Corous360 Group") restructured its e-commerce and e-payment unit in September 2017. The deconsolidation of two subsidiaries, Epicsoft Asia Pte Ltd ("EPA") and Play-E Pte Ltd ("PlayE")[3] (e-commence sector), led to lower revenues (compared to FY2016), a one-off net charge of S$6.6

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[1] DeClout's announcement dated 1 March 2018:
http://infopub.sgx.com/FileOpen/SGXnet%20-%204Q2017%20AC%20280218%20Final.ashx?App=Announcement&FileID=491331

[2] DeClout's announcement dated 22 July 2017:
http://infopub.sgx.com/FileOpen/Project%20Alpha%20-%20Final%20Payment.ashx?App=Announcement&FileID=462522

[3] DeClout's announcement dated 5 September 2017:
http://infopub.sgx.com/FileOpen/DeClout%20-%20Corous360%20Restructuring%20Exercise%20Announcement.ashx?App=Announcement&FileID=469695

million and operational loss of S$5.0 million for FY2017. The VDC segment now focuses on e-logistics and e-trade businesses which are at early stage of growth; and

d) Total one-off charges and gains due to write-offs and impairments amounting to S$11.5 million and cost rationalisation initiatives amounting to S$5.8 million for FY2017, are part of a Group-wide effort to build a stronger foundation for corporate recovery in FY2018.

e) To summarise and elaborate the above:

	FY2017	**Comments**
Acclivis	S$4.9 million downward adjustment of disposal consideration#	One-off, non-recurring item
	No profit contribution in FY2017	In FY2016, Acclivis contributed net profit of S$4.5 million
Corous360	S$6.6 million net charge# (comprising S$5.8 million impairment loss on intangible assets; and S$1.4 million net gain from the Corous360 restructuring transaction, S$1.8 million charge for de-recognition of deferred tax assets and S$0.4 million for write-off of plant and equipment, that arose from the Corous360 restructuring exercise	One-off, non-recurring items
	S$5.0 million share of losses	The losses are mainly from the e-commerce sector. Post-restructuring, barring unforeseen circumstances, the Group does not expect further significant losses from the Corous360 Group.
Procurri	S$1.3 million share of losses	Negative swing of S$3.9 million (from share of profit of S$2.6 million in FY2016)

#Excluding the one-off items, DeClout's FY2017 net loss attributable to owners of the company would have been S$4.9 million instead of S$16.4 million.

Operating Environment and Forward Strategy

Under the leadership of Mr Vesmond Wong Kok Khun, DeClout's Chairman and Group Chief Executive Officer ("Group CEO"), the Board has reviewed the strategic direction post-FY2017, taking into account the following:

1. DeClout's shareholder returns – as measured by quarterly or yearly results required of a listed company – may not reflect its intrinsic value; its strategy to pursue unconventional high-growth strategies will require continued investments; and

2. For a company of DeClout's nature, return to shareholder value may be better enhanced in future "harvests"; through possible in-specie share distribution to shareholders, corporate actions, or recycling capital to incubate more portfolio companies.

The Group's strategy moving forward seeks to leverage on major IT industry trends which have gained momentum recently, including:

a) **Artificial Intelligence (“AI”)** – While this is critical for enterprise transformation, many companies lack the ability and tools to develop AI;

b) **Internet of Things (“IOT”)** – Sensors embedded in buildings, cars, electronics and surveillance systems are able to extract new streams of Big Data; yet there is a dearth of specialised companies who can offer solutions that deliver tangible value;

c) **Online-to-Offline (“O2O”) Commerce** – Retailers, brand owners and mall owners need viable O2O strategies to remain relevant, and to share new forms of data to improve customer interaction;

d) **Trade Facilitation** – Trade issues have reached an inflection point due to growing volumes at regional and global levels, leading to emphasis on fully transparent paperless transactions; and

e) **Blockchain** – Despite its promise, many enterprises lack the tools to host or migrate data to distributed digital ledgers which could improve transparency and productivity.

In line with the push for Singapore’s Future Economy, which includes the adoption of disruptive technologies and business models, DeClout believes the strategies in this CBU will position the Group favourably to become a leading enterprise at the forefront of disruption.

Four Strategic Initiatives

1. Sharpen Focus of Competencies; Consolidate and Strengthen Foundation

2. Capitalise on Existing Data Opportunities to Expand Revenue Streams

3. Accelerate DeClout Investments and Identify Complementary Opportunities

4. Improve Corporate Cost Efficiencies

Strategy #1 Sharpen Focus of Competencies; Consolidate and Strengthen Foundation

DeClout’s value proposition lies in its ability to identify emerging trends and leverage on its track record to incubate and scale businesses for harvest.

With the restructuring of Corous360 largely completed in FY2017, this subsidiary will exit direct participation in the e-commerce sector. As a result, barring unforeseen circumstances the Group does not expect further significant losses from this business unit. The Group is now focused on:

<u>i) Beaqon Pte. Ltd. (“Beaqon”) (75% stake)</u>

Beaqon has developed strong domain knowledge in building **network infrastructure** for triple-play (voice, data and video) applications. Its primary businesses include sales and distribution of telecommunications equipment, fit-out of data centres and the implementation of electronic and physical security projects such as crash rated/blast-rated border protection for immigration checkpoints, airports and critical infrastructure buildings.

Building on its track record, Beaqon has begun offering **neutral hosting** services for shopping malls, hospitals, campuses, etc. Its distributed antenna systems and related IT and telecommunications infrastructure provide flexible and reliable in-building coverage for all IT and telecommunications applications. Beaqon leases the network infrastructure to telcos to provide mobile services and other value-added services to mall owners, merchants and advertisers. As average subscriber revenue continues to fall, telcos are focusing on enterprise data services.

Since December 2017, Beaqon has secured contracts for 17 neutral hosting sites in Indonesia (Asia's third-largest base of mobile users) and now counts an average of four out of seven Indonesia telcos as customers in each site. Beaqon intends to increase the number of neutral hosting sites three-fold to 50 by FY2018 and further to 100 by FY2019. It will focus on Indonesia before expanding to other Southeast Asian countries.

The neutral hosting contracts, which generally provide higher margins than sales and distribution activities, will start contributing revenue from FY2018. Apart from generating steady recurring income from such neutral hosting contracts, Beaqon also expects its EBITDA margins to increase significantly from FY2018.

For FY2017, Beaqon generated revenue of S$70.7 million. As at 31 January 2018, it had an order book of S$45 million (excluding neutral hosting services), which will be largely recognised in FY2018. Beaqon expects its FY2018 performance to improve significantly due to the order book, as well as the commencement of revenue contributions from the higher-margin neutral hosting services.

Going forward, Beaqon will become one of the leading **Digital Network Infrastructure Solution Providers** in Southeast Asia as it aims to tap on the investments in digital economy in the region which is estimated at US$600 billion[4].

ii) vCargo Cloud Pte. Ltd. ("vCargo Cloud") (50.01% stake)

Building on Singapore's status as a transnational trade hub, vCargo Cloud's proprietary **CamelONE** platform ("CamelONE") simplifies and digitises information exchange among participants in the trade, logistics and supply chain sectors, including governments, to enable cost and operational efficiency.

CamelONE is currently connected to 12 customs nodes globally and has facilitated a total of more than US$117 billion gross merchandise value ("GMV") in FY2017. Its footprint covers Singapore, China, Cambodia, Azerbaijan, Kazakhstan, Georgia, Mauritius and five countries in Eastern Africa - including Uganda, Rwanda, Kenya, Tanzania and Burundi. CamelONE facilitated S$113 billion (approximately US$86 billion) or 11% of Singapore's total trade of S$900 billion in 2017[5] and is the only platform to handle all intra-trade going through the five Eastern African countries. Utilising a "private" blockchain, the platform facilitates a shared and secure record of all transactions which reduces costs and delays throughout the supply chain and offers an authenticated and trusted source of data for all stakeholders.

For FY2017, vCargo Cloud only recognised revenue from Singapore as it continued to incur operational costs to roll out CamelONE to other countries. In 2018, CamelONE will be deployed to four more custom nodes in South East Asia, Africa and China, with the total GMV in FY2018 expected to rise to approximately US$233 billion. As deployed CamelONE projects start to generate revenue, losses in FY2018 will narrow due to economies of scale.

The expansion of vCargo Cloud is taking place amidst China's aggressive push for the Belt and Road Initiative. DeClout believes vCargo Cloud's trade facilitation expertise, footprint and

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[4] *ASEAN Development Bank (2009): https://www.pwc.com/ph/en/consulting/assets/smart-cities-in-southeast-asia-report.pdf*

[5] *Singapore Customs (estimated total trade in 2017 based on average number of permits from past five years): https://www.customs.gov.sg/news-and-media/publications/statistics*

relationships can form the basis of a "Digital Silk Route" and offer opportunities related to blockchain and trade financing.

iii) Procurri (46.83% stake)

Procurri announced on 30 January 2018[6] that it will execute four strategies to return to profitability: i) cement Procurri as an approved channel for genuine hardware in the used IT equipment market; ii) grow its higher-margin maintenance business; iii) expand markets and customer base; and iv) improve internal efficiencies.

DeClout's share of losses in Procurri recorded a negative swing of S$3.9 million from FY2016 to FY2017. Procurri expects to return to profitability in FY2018[7]. This will contribute positively to DeClout's performance in FY2018.

Strategy #2 Capitalise on Existing Data Opportunities to Expand Revenue Streams

Despite the proliferation of data, many small-to-medium enterprises, venue owners and even government agencies do not have the skills or tools to collect, aggregate and analyse data to derive useful insights or generate new revenue streams.

DeClout is in a unique position to extract useful data through Beaqon's and vCargo Cloud's existing architecture. Beaqon's network infrastructure provides behavioural data sets on consumers and retailers. Through vCargo Cloud's trade facilitation platform – which targets to handle US$233 billion GMV in FY2018 – DeClout has access to a vast amount of statistics on cross-border trade and supply chain management. DeClout intends to enable data integration and the use of new data sets to:

a) Offer add-on services, including creating dedicated platforms to help corporates capture and structure data for potential data applications to add new revenue streams;

b) Partner corporates and governments to develop Data-as-a-Service revenue models by implementing analytics, some of which may be co-shared with the Group; and

c) Build new business opportunities that may include partnerships with data specialists as well as financial institutions involved in trade facilitation.

Strategy #3 Accelerate DeClout Investments and Identify Complementary Opportunities

DeClout Investments will spearhead efforts to accelerate its investments and identify complementary opportunities that are synergistic to the Group. These include bolting on new competencies and acquiring talents to monetise data opportunities. Dovetailing this strategy, DeClout Investments will intensify its efforts to:

a) Support ICT startups in product development, proof-of-concept, commercialisation and fund-raising via its participation in the SPRING Singapore's Startup SG Accelerator scheme; and

b) Co-invest with Singapore's National Research Foundation – which awarded DeClout S$10 million funding to invest in promising local data analytics, smart logistics, fintech

[6] *Procurri's announcement dated 30 January 2018:*
http://infopub.sgx.com/FileOpen/Procurri%20Corporate%20Update%2030%20Jan%202018.ashx?App=Announcement&FileID=486944

[7] *Procurri's announcement dated 28 February 2018:*
http://infopub.sgx.com/FileOpen/Announcement_Procurri%20Corp%20FY2017.ashx?App=Announcement&FileID=490980

and cyber security companies – and other like-minded private equity or venture capital firms.

The Group will also explore other capital market options to finance the business expansion of Beaqon and vCargo Cloud which will allow it to preserve cash to accelerate the activities of DeClout Investments – which aims to make at least two investments in FY2018.

Strategy #4 Improve Corporate Cost Efficiencies

In August 2017, DeClout commenced stringent cost-tightening measures to reduce expenses. As part of a post-FY2017 strategic review, the Company will implement the following additional measures to reduce expenses further:

- The Group CEO's basic salary will be reduced by 40% in FY2018;
- Basic salaries of other senior management and managers will also be reduced significantly; total basic salaries including Group CEO, senior management and managers will be reduced by 20% in FY2018;
- All staff salaries will be frozen; and
- The Company will also undertake right-sizing of certain departments which will be completed by 1H2018.

With these additional initiatives, DeClout expects its corporate expenses in FY2018 to decline by at least 20% as compared to S$7.6 million in FY2017. DeClout will review staff salaries after assessing operational efficiency and financial performance over the course of FY2018, with a view to reinstate compensation upon returning to profitability.

<u>Outlook</u>

Barring unforeseen circumstances, the Board expects:

- Beaqon's FY2018 performance to improve significantly compared to FY2017 as it recognises its order book and maiden contributions from higher-margin recurring income in neutral hosting services;

- vCargo Cloud to deploy CamelONE to at least four more countries to a total of 16 countries and increase the total GMV handled to approximately US$233 billion in FY2018, with the vision of becoming the "Digital Silk Road";

- Procurri expects to report a net profit in FY2018. This will contribute positively to the FY2018 performance of DeClout which recorded share of losses from Procurri of S$1.3 million in FY2017; and

- The Group expects to reduce its losses over the course of 2018 and return to profitability in FY2018 as i) it does not expect significant further losses from Corous360 post-restructuring; ii) in the absence of major impairments and exceptional items, and iii) in view of further reductions in expenses.

BY ORDER OF THE BOARD
DECLOUT LIMITED

Vesmond Wong Kok Khun
Chairman and Group Chief Executive Officer
5 March 2018

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, SAC Capital Private Limited ("Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST").

The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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