



德龙控股

DELONG HOLDINGS

ANNUAL REPORT 2011

DELONG HOLDINGS LIMITED ANNUAL REPORT 2011



德龙控股
DELONG HOLDINGS

Singapore Office

3 Raffles Place # 07-01 Bharat Building Singapore 048617

Tel : +65 6329 6426

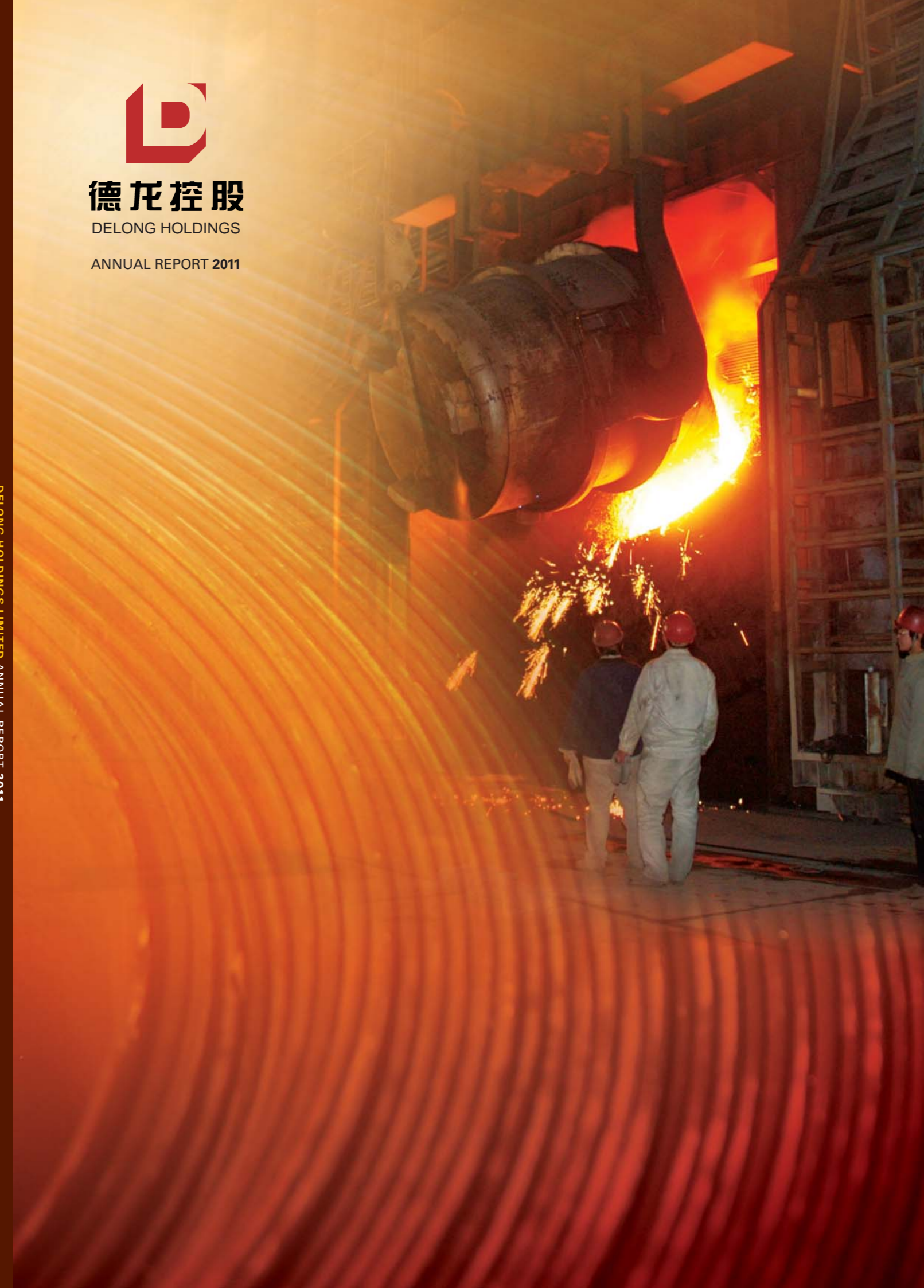
Fax : +65 6535 7505

Beijing Office

中国北京丰台区南四环西路, 188 号 (总部基地) 5区5号楼, 邮区 : 10070

电话 : +86 10-63701199

传真 : +86 10-63701741



CONTENTS

- 01 Our Vision
- 02 Corporate Profile
- 03 Corporate Structure
- 04 Chairman's Letter to Shareholders
- 06 Board of Directors
- 07 Executive Officers
- 08 Financial Highlights
- 11 Corporate Information
- 12 Corporate Governance Report
- 23 Financial Report



OUR VISION



Headquartered in Beijing, China, Delong Holdings Limited is a steel manufacturing group committed to playing its part in growing the Chinese steel industry through progressive thinking and sustainable practices. We envision Delong as one of the leading steel companies in China, contributing strategically to the country's economic landscape and creating long-term value for our stakeholders.

CORPORATE PROFILE

Delong Holdings Limited is principally engaged in the manufacture and sale of hot-rolled steel coils, with the People's Republic of China as its principal market.

Delong Steel Limited ("Delong Steel")

Located 5km off Xingtai City in Hebei province, the People's Republic of China ("PRC"), Delong Steel is an important private enterprise in the province, employing a sizeable workforce of 5,741 and contributing significantly to the local economy. A member of the China Iron & Steel Association, Delong Steel is principally engaged in the manufacture and sale of hot-rolled coils ("HRC").

Sitting on a land area of over 900,000 square metres and ISO9001:2000-certified, the plant is outfitted with advanced steelmaking equipment, including multi-layered low-temperature sintering equipment, fully automated Programmable Logic Controller (PLC) production systems and ultrasonic cleaning technology. Since 2005, the company has invested over RMB 3.4 billion to upgrade its facilities and improve its annual production capacity through a technological enhancement programme. Today, it boasts a fully-integrated steel plant capable of handling production from raw material processing through final product packaging.

Delong Steel's key products are HRC ranging from 350 to 1,250 mm in width and 1.4 to 25.0 mm in thickness. The products, which can be customized to clients' specifications, are mainly used for the infrastructure, pipe-making and machinery industries. As at 31 December 2011, the total HRC production from the two lines stood at 2.6 million tonnes a year.

The majority of Delong Steel's clients are located in the PRC, within a 500-kilometre radius of its plant, and the Company has benefited greatly from the rapid economic development in the northern and northeastern regions of China.



Dexin Steel Pte Ltd ("Dexin Steel")

Operationally located in Singapore, Dexin Steel is an investment holding company.

Dezhong International Finance Leasing Co., Ltd ("Dezhong Leasing")

Operationally located in the PRC, the principal activity of Dezhong Leasing is in the business of purchasing equipment and leasing such equipment to the Group subsidiaries for use in the operations or to other third parties.

Xingtai Xinlong Coal-Gas Limited ("Xingtai Xinlong")

Operationally located in the PRC, the principal activity of Xingtai Xinlong is in coal gas recycling.

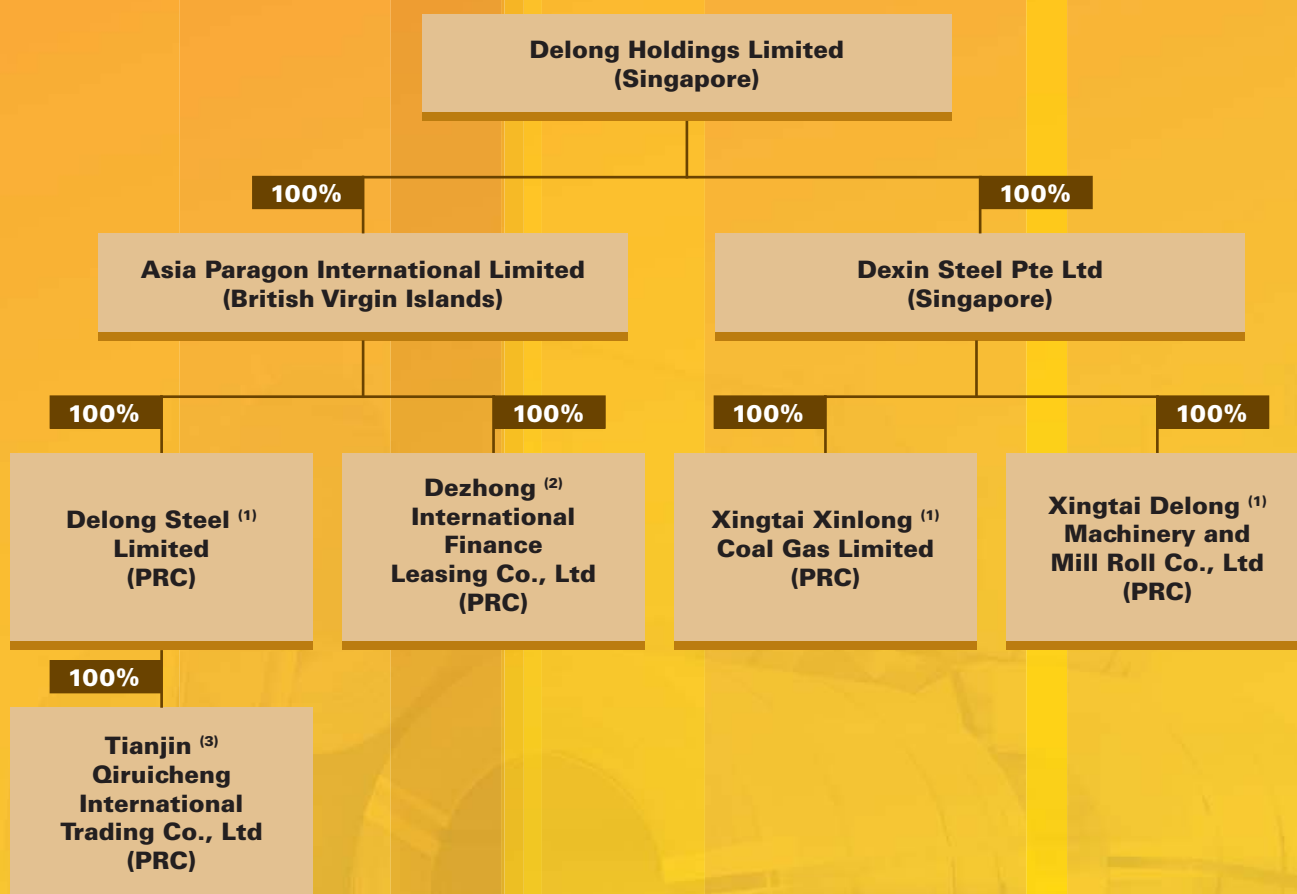
Xingtai Delong Machinery and Mill Roll Co., Ltd ("Xingtai Delong Mill Roll")

Operationally located in the PRC, the principal activities of Xingtai Delong Mill Roll are in the design, development, manufacture and sale of large diameter steel mill rollers and large cast steel articles.

Tianjin Qiruicheng International Trading Co., Ltd ("Tianjin Qiruicheng")

Operationally located in the PRC, the principal activities of Tianjin Qiruicheng are in the trading of steel and steel related products and investment in resource-related projects.

CORPORATE STRUCTURE



Note:

Legal Representative

- ¹ Mr Ding Ligu
- ² Ms Lan Jihong
- ³ Mr Wu Yujie

CHAIRMAN'S LETTER

to Shareholders



Dear Shareholders,

On behalf of the Board of Directors, I present to you the annual report for Delong Holdings Limited ("Delong" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2011 ("FY2011").

FY2011 had been a year of great volatility and challenges for both global and domestic steelmakers. Instability in financial markets triggered by the European sovereign debt crisis, together with concerns of slowdown in the growth of the People's Republic of China ("PRC") economy had led to lower demand for steel products during the year. Raw material prices also remained at high levels in FY2011, contributing further to the problems faced by steelmakers.

FY2011 in Review

Despite concerns of overcapacity and a slowdown in demand for steel products in the PRC, the Group delivered a 5.2% increase in revenue to RMB10.4 billion in FY2011 as compared to RMB9.9 billion in the corresponding financial year ("FY2010"). The improvement to revenue was largely a result of higher average selling price ("ASP") recorded for the Group's hot-rolled coil ("HRC") products in the first nine months of FY2011.

Sales volume for HRC products was marginally lower at 2.4 million tonnes in FY2011, as compared to 2.6 million tonnes in FY2010. The lower sales volume was mainly attributable to a 5-week maintenance programme for two blast furnaces in the first quarter and a particularly weak fourth quarter. The Group sold 1,244 tonnes of steel billets and 12,650 tonnes of mill rolls in FY2011.

Gross profit for FY2011 decreased 59.8% to RMB285.4 million, from RMB710.5 million in FY2010. This was mainly attributable to a 10.2% increase in cost of sales to RMB10.2 billion in FY2011, which outpaced the increase in revenue. The higher cost of sales was principally due to increases in the prices for key raw materials, such as iron ore and coal. Correspondingly, gross profit margin decreased 4.5% from 7.2% in FY2010 to 2.7% in FY2011.

For FY2011, the Group saw a 10.1% decrease in distribution and marketing expenses to RMB9.6 million as compared to RMB10.6 million in FY2010. The decrease was mainly due to lower port charges, including storage and handling charges incurred in FY2011 due to the reduction in volume of HRC sold to overseas customers.

Administrative expenses in FY2011 rose 9.9% to RMB166.0 million, from RMB151.1 million in FY2010. This was mainly due to an increase in legal and professional fees for ongoing corporate projects. The increase was also partly due to higher social security contributions recorded in compliance with stricter social security contribution requirements in the fourth quarter.

In spite of higher interest rates on borrowings as well as an increase in bank borrowings drawdown for working capital purposes in FY2011, the Group recorded a 4.3% decrease in finance expenses to RMB215.8 million, from RMB225.5 million in FY2010. This was primarily due to overall lower interest expense on the Group's convertible bonds in FY2011 following the full redemption of the convertible bonds (Restricted) in December 2010.

As a result of the above, the Group reported a net loss of RMB12.1 million in FY2011 as compared to a net profit of RMB326.6 million in FY2010.

Outlook

The Group expects overcapacity and volatile commodity prices to be a key challenge for Chinese steelmakers in the near-term. Demand for steel in China had been benefitting from a sustained period of rapid industrialisation and urbanisation, which called for high levels of investment into infrastructure, machinery and construction. However, the rapid growth of the PRC economy over the past two

decades had also led to the emergence of many small to medium-sized steel players in the PRC, creating overcapacity and industry fragmentation. Nonetheless, while the near-term industry outlook remains soft, I believe that the steel industry will recover to normal levels in 3 to 5 years as the steel industry further consolidates and inefficient capacity is phased out.

In January 2012, the Group announced the proposed acquisition of 80% stake in Hebei-based Laiyuan County Aoyu Steel Co. Ltd, (the "Proposed Acquisition"). The Proposed Acquisition was approved by shareholders at the Extraordinary General Meeting held on 26 March 2012. The Proposed Acquisition is expected to strengthen Delong's position in a sector where consolidation remains a key agenda of the Chinese Government, as laid out in its 12th 5-year Plan. In line with the PRC central Government's target of consolidating the steel industry, many of these unprofitable small- to mid-scale steel players, which lack the financial strength to boost their production capabilities through acquisitions, have become targets for acquisitions.

Moving forward, it is the Group's strategy to pursue earnings-accretive acquisitions of steel producers that has a strong customer base, high quality infrastructure and innovative technology to further augment our position in the PRC steel industry. Prices for key raw materials such as iron ore and coal are also expected to gradually decrease over the next 3-5 years as new supplies of the iron ore and coal are gradually released into the market. As such, I believe that our growth plans will place Delong in a good position for long-term growth.

Appreciations

It has been a challenging year and I would like to take this opportunity to thank our Board of Directors, management, staff and business associates for their hard work and support. Most importantly, I would like to express my appreciation to our loyal shareholders for standing by us during such difficult times. We look forward to your renewed support and guidance as we enter yet another year of new challenges and opportunities.

Ding Liguo

Executive Chairman

BOARD OF DIRECTORS

- Mr Ding Liguo** Mr Ding is the **Executive Chairman** of the Company and is in charge of the overall management and direction of the Delong Group. From 1998 to 2003, Mr Ding was the Chairman of Tangshan Ligu Enterprise Group Co., Ltd and from 1992 to 1998, he was the Chairman of Tangshan Changcheng Rolled Steel Factory. Prior to that, Mr Ding was an employee with Shenzhen Futian District Materials Bureau from 1991 to 1992. Mr Ding received a diploma in Machinery Manufacturing from the Hebei Technological Institute in the People Republic of China ("PRC").
- Mr Zuo Shuowen** Mr Zuo is the **Executive Director** of the Company and is responsible for overseeing the operations of the Group. He joined the Group in 2003, and was promoted to General Manager of the Group's principal subsidiary, Delong Steel, in 2007. From 2000 to August 2003, he was an accounts manager of Tangshan Hengan Enterprise Co., Limited, overseeing all financial matters in that company. Mr Zuo received a diploma in Accountancy from the Hebei Hongrun Commercial School in 1988.
- Mr Bai Baohua** Mr Bai is an **Independent Director** of the Company and Chairman of the Nominating and Remuneration Committees. He is also a Member of the Audit Committee. He was Vice-Chairman and subsequently General Manager of China Steel Industrial Trade Group Company from 1993 to 2001. Between 1980 and 1993, Mr Bai was with China Metallurgy Import and Export Company, where he rose through the ranks from engineer to general manager, placed in charge of the overall operations of the company. Between 1965 and 1983, Mr Bai was a technician with the Metallurgy Department Office (1973 to 1983), Gansu Jiuquan Steel Company (1969 to 1973) and China Foreign Metallurgy Construction Company (1965 to 1969). Mr Bai received a Bachelor of Engineering from the Beijing Technological University.
- Mr Hee Theng Fong** Mr Hee is an **Independent Director** of the Company and a Member of the Audit, Remuneration and Nominating Committees. He is a practising lawyer with more than 20 years' experience in legal practice. Mr Hee's current appointments include being a Fellow of the Chartered Institute of Arbitrators (UK), Singapore Institute of Arbitrators, an Arbitrator of Singapore International Arbitration Centre, Beijing Arbitration Commission, Huizhou Arbitration Commission and China International Economic and Trade Arbitration Commission. Mr Hee is also a member of the Standing Committee of the Singapore Chinese Chamber of Commerce & Industry, and an independent director of several listed companies. He is regularly invited to speak on Directors' Duties and Corporate Governance in seminars organized by the Singapore Institute of Directors and the Singapore Exchange. Mr Hee holds a LLB (Honours) from the University of Singapore and also a Diploma in PRC Law.
- Mr Lai Hock Meng** Mr Lai is an **Independent Director** of the Company and Chairman of the Audit Committee. He is also a member of the Remuneration and Nominating Committees. He is currently Chairman of Singapore based corporate advisory firm HML Consulting Group. Mr Lai is also a director of Champ Buyout III Pte Ltd, a private equity firm. Mr Lai has more than 28 years' experience in both public and private finance sectors, including central banking, investment banking, private banking, stockbroking and venture capital. In addition, he sits on the boards of several listed companies, including China Energy Ltd, China Essence Group Ltd, China Oilfield Technology Services Ltd, Metax Engineering Corp Ltd and ASTI Holdings Ltd. Mr Lai has a Bachelor of Arts (Honours) and a Masters of Arts from the University of Cambridge in England, majoring in Economics. He is also an accredited Chartered Financial Analyst with the CFA Institute in the USA and a Fellow of the Chartered Institute of Marketing in the United Kingdom.

Mr Yuan Weimin

Mr Yuan was appointed as **Non-Executive Director** on 16 April 2008. He was nominated to the Board of Directors by Evraz S.A Group. He is currently a general manager of Shanghai Besteel Imp. & Exp. Co., Ltd. Between 1992 and 1994, he was a sales manager with Mannesmann Demag Shanghai Representative Office. Between 1988 and 1991, he was an Assistant Chief Engineer with Shanghai Metallurgical Industry Authority Bureau. Mr Yuan received a Bachelor of Engineering from the Shanghai Industry University in the PRC.

Mr Fok Hei Yu

Mr Fok was appointed as our **Non-Executive Director** on 1 December 2009. He was elected to the Board of Directors by bondholders as part of the bonds restructuring. He is currently an executive director of Ferrier Hodgson, an international financial and restructuring advisory firm for which he has worked since 1997. He has accumulated significant knowledge and proven experience over 17 years of experience in corporate restructuring, transaction advisory and recovery activities. He is a member of the Hong Kong Institute of Certified Public Accountants, the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Directors. Mr Fok graduated from the Australian National University with a Bachelor in Commerce in 1995.

EXECUTIVE OFFICERS

Ms Lan Jihong

Ms Lan is the **Chief Financial Officer** of the Company. She joined the Group in 2005 and is responsible for all of its financial and accounting matters. Prior to that, Ms Lan was a Finance Manager of BHA Aero Composite Parts Co., Ltd (China) between March 2003 and June 2005. From September 1999 to March 2003, Ms Lan was a Financial Controller of Magnequench (Tianjin) Co., Ltd (China). Between August 1996 and September 1999, she was an assistant Finance Manager with Fourth Shift Asia Computer Co., Ltd (China). From August 1991 to March 1996, Ms Lan was an Accountant at Tianjin Automobile Corporation Co., Ltd (China). She received a Bachelor of Accountancy from the Tianjin Finance & Economic University, PRC.

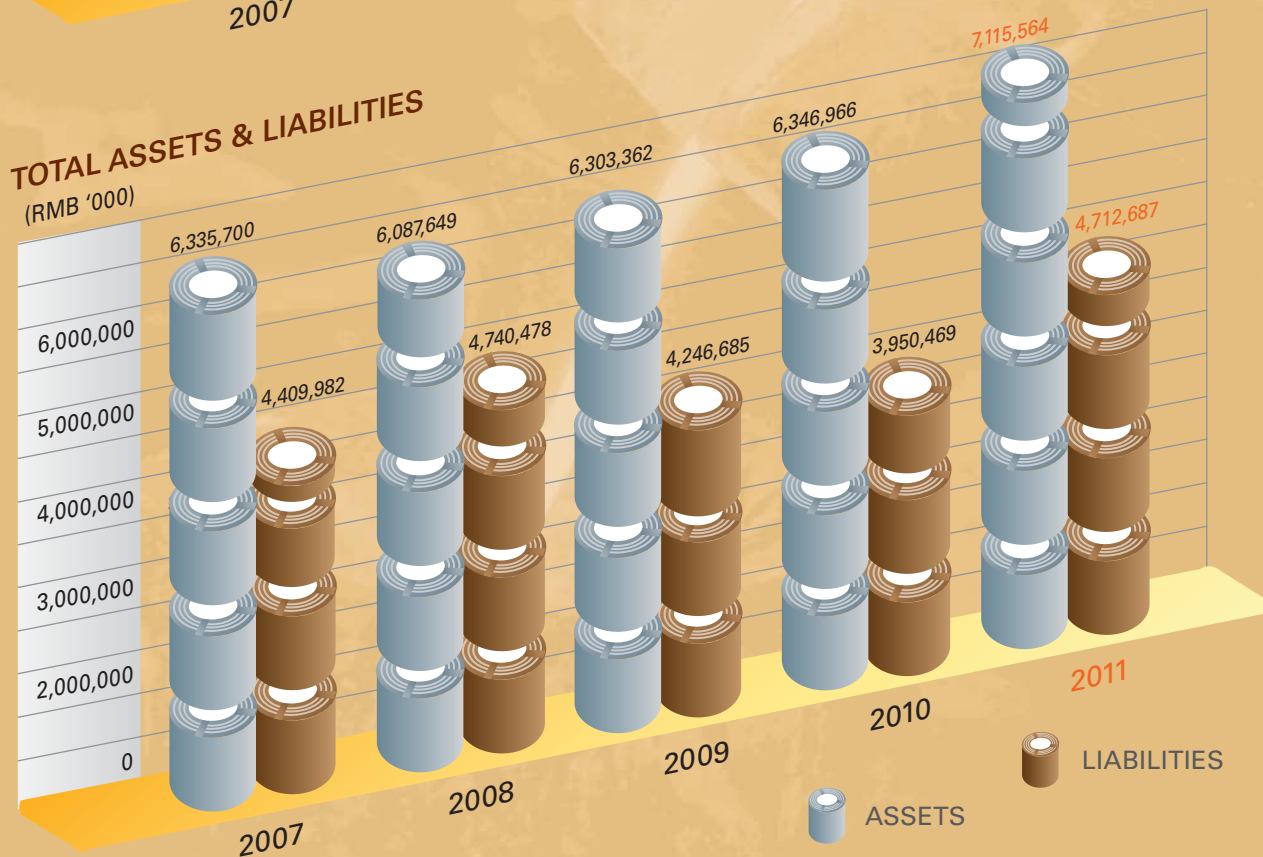
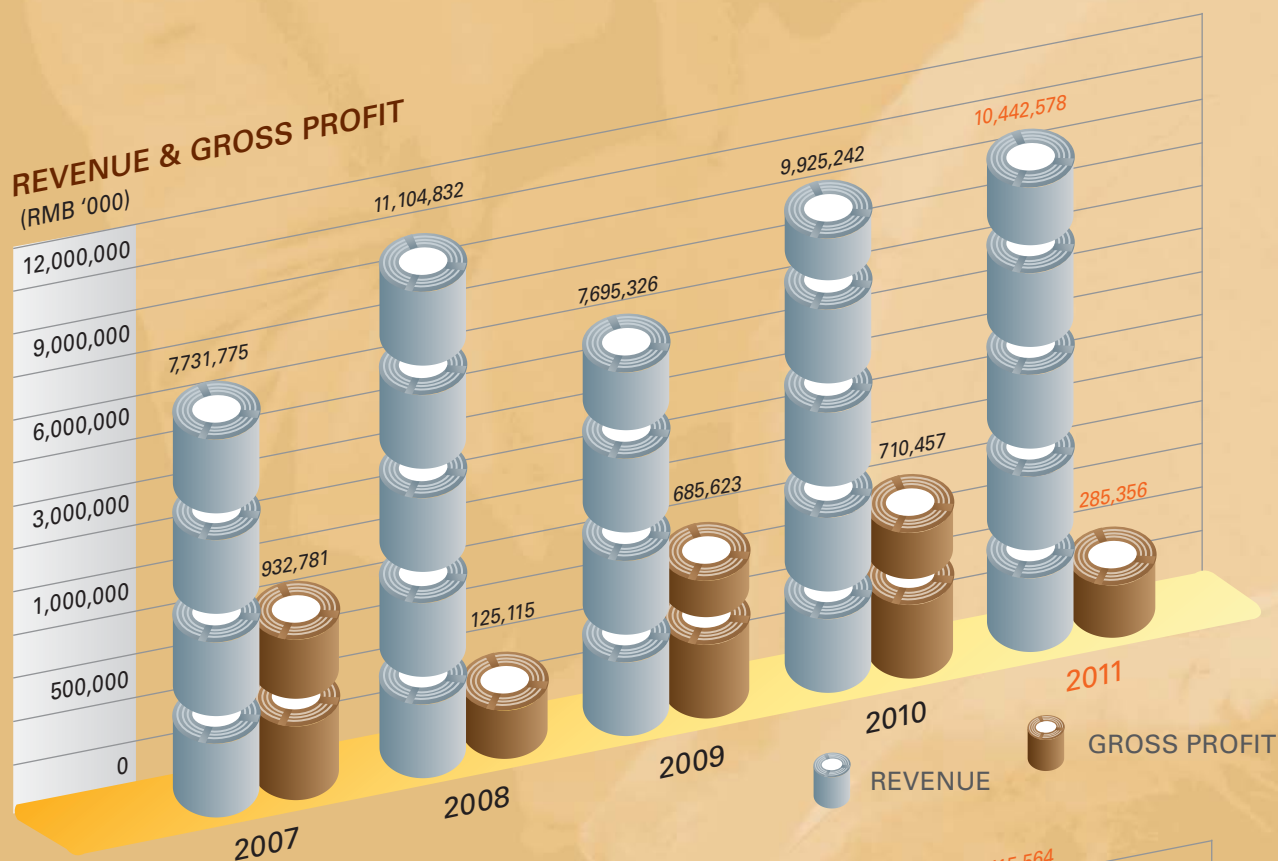
Ms Yeo Lee Luang

Ms Yeo is the **Accounts Manager and Compliance Officer** of the Company. She assists the Chief Financial Officer in the Group's finance and accounting functions, as well as ensures the Company's compliance with continuing listing obligations. Ms Yeo has been with the Company since April 2000. She holds a Bachelor in Commerce majoring in Accountancy from the University of Otago, New Zealand, and is a member of the Institute of Certified Public Accountants of Singapore and New Zealand Institute of Chartered Accountants.

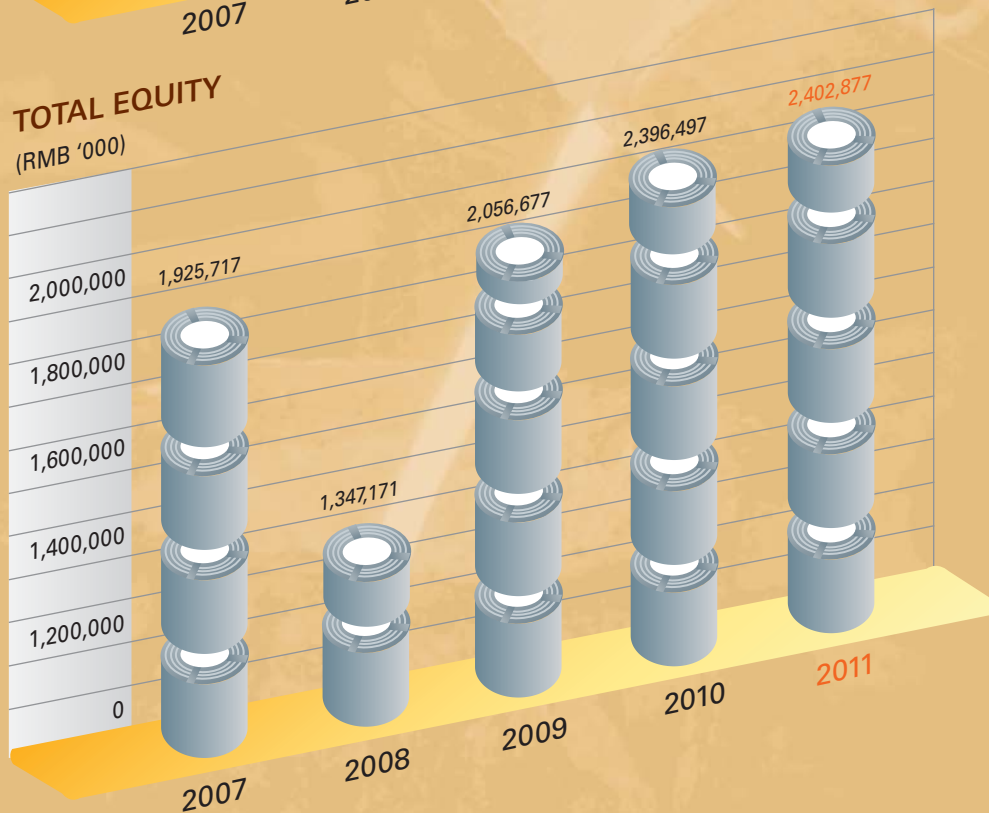
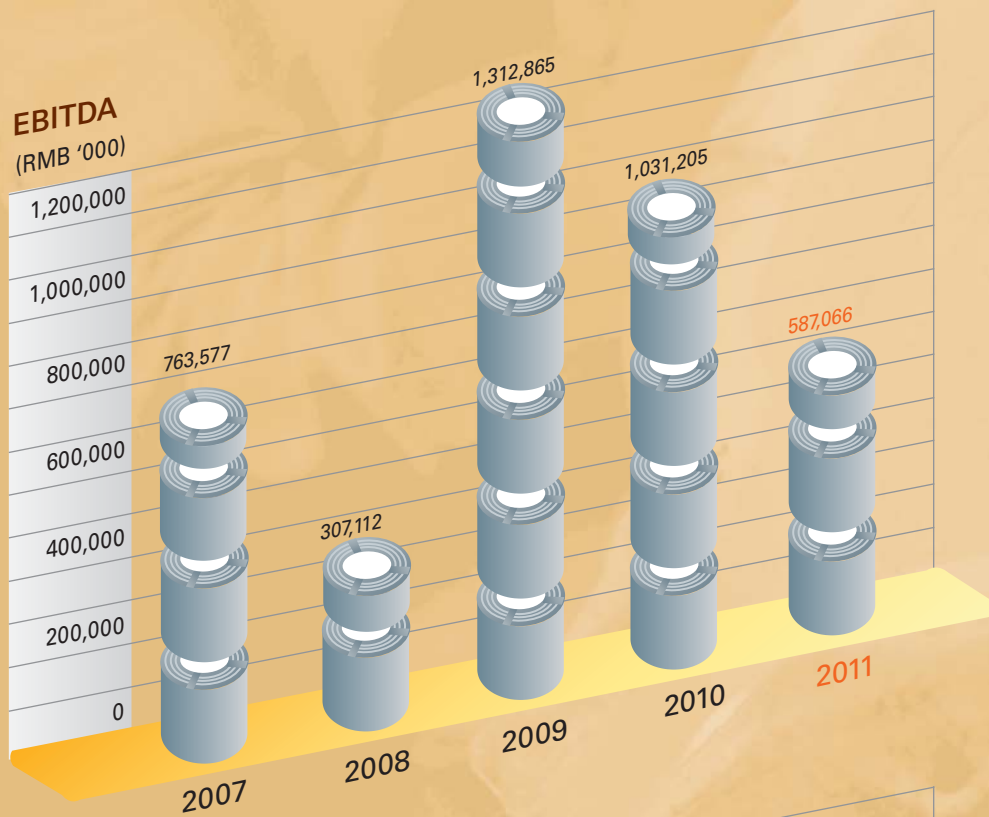
Mr Qu Zhengping

Qu Zhengping is the **General Manager** of the Group's subsidiary, Xingtai Delong Machinery and Mill Roll Co., Ltd. Prior to his appointment in March 2011, Mr Qu was the Assistant General Manager of Delong Steel, where he has worked since 2003. Before joining Delong Steel, Mr Qu was with Gansu Jiu Steel Group for 15 years, accumulating a wealth of operational and management experience in steel production. He graduated from the Xi'an University of Architecture and Technology.

FINANCIAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS



**GROUP'S FIVE-YEAR
FINANCIAL HIGHLIGHTS**

RMB '000	FY2011	FY2010	FY2009	FY2008	FY2007
Revenue	10,442,578	9,925,242	7,695,326	11,104,832	7,731,775
Cost of Sales	(10,157,722)	(9,214,785)	(7,009,703)	(10,979,717)	(6,798,994)
Gross Profit	285,356	710,457	685,623	125,115	932,781
Net (Loss) / Profit After Tax	(12,072)	326,554	668,823	(370,427)	470,123
EBITDA	587,066	1,031,205	1,312,865	307,112	763,577
Total Assets	7,115,564	6,346,966	6,303,362	6,087,649	6,335,700
Total Equity	2,402,877	2,396,497	2,056,677	1,347,171	1,925,717
Total Cash and Cash Equivalents	1,016,569	509,728	290,113	676,399	985,427

FINANCIAL RATIOS	FY2011	FY2010	FY2009	FY2008	FY2007
Gross Profit Margin	2.7%	7.2%	8.9%	1.1%	12.1%
Net Profit Margin	-	3.3%	8.7%	-	6.1%
Basic (Loss) / Earnings Per Share (RMB) ¹	(0.02)	0.60	1.25	(0.69)	0.88
Net Tangible Assets Per Share (RMB) ²	4.37	4.36	3.84	2.52	3.60
Gearing (times) ³	1.19	0.62	1.13	2.06	1.31
Return on Assets ⁴	-	5.2%	10.6%	-	7.4%
Return on Equity ⁵	-	13.6%	32.5%	-	24.4%

Notes

1. (Loss)/earnings per share is defined as net (loss)/profit after tax divided by weighted average number of shares in issue.
2. Net tangible assets per share is defined as net tangible asset value divided by total number of shares in issue.
3. Gearing is defined as total borrowings (including convertible bonds and convertible shares) divided by total equity.
4. Return on assets is defined as net profit after tax divided by total assets.
5. Return on equity is defined as net profit after tax divided by total equity.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding Liguo	Executive Chairman
Zuo Shuowen	Executive Director
Yuan Weimin	Non-Executive Director
Fok Hei Yu	Non-Executive Director
Bai Baohua	Independent Director
Hee Theng Fong	Independent Director
Lai Hock Meng	Independent Director

AUDIT COMMITTEE

Lai Hock Meng (Chairman)
Hee Theng Fong
Bai Baohua

NOMINATING COMMITTEE

Bai Baohua (Chairman)
Hee Theng Fong
Lai Hock Meng

REMUNERATION COMMITTEE

Bai Baohua (Chairman)
Hee Theng Fong
Lai Hock Meng

COMPANY SECRETARY

Yeo Lee Luang
Certified Public Accountant (Singapore)

SHARE REGISTRAR

B.A.C.S Private Limited
63 Cantonment Road
Singapore 089758

REGISTERED OFFICE

3 Raffles Place
#07-01 Bharat Building
Singapore 048617
Tel: (65) 63296426
Fax: (65) 65357505
Website: www.dlholdings.com

COMPANY REGISTRATION NUMBER

199705215G

AUDITOR

PricewaterhouseCoopers LLP
8 Cross Street #17-00
PWC Building
Singapore 048424
Tel: (65) 62363035

Partner-in-charge

Mr. Chua Kim Chiu
(Appointed since 2007)

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
United Overseas Bank Limited
China Development Bank

INVESTOR RELATIONS CONSULTANT

Citigate Dewe Rogerson
i.MAGE Pte Ltd
1 Raffles Place
#26-02
One Raffles Place
Singapore 048616
Tel: (65) 65345122

CORPORATE GOVERNANCE REPORT

The Board of Directors and Management of Delong Holdings Limited are committed to a high standard of corporate governance and transparency and to the protection of shareholders' interest. The Company's corporate governance policies and processes are in line with the revised Code of Corporate Governance (the "Code") released by the Council on Corporate Disclosure and Governance in July 2005.

This report describes the Company's corporate governance policies and processes for the financial year ended 31 December 2011.

(A) BOARD MATTERS

The Board's Conduct on Affairs

Board, Composition and Guidance

The Board of Directors (the "Board") comprises two executive directors, two non-executive directors and three independent directors. The particulars of the directors are set out on pages 6 and 7. The directors are not related to one another.

The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the "Group") and oversees management. To fulfill this objective also, the Board takes responsibility for implementing and maintaining sound corporate governance practices for the Group. The Board provides leadership, sets strategic direction, establishes risk policies and procedures and requires goals from management as well as monitors the achievement of those goals.

To assist in the execution of its responsibilities, the Board has established the following committees, namely an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees are chaired by Independent Directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis. To facilitate the ease, frequency and speed of Board meetings, the Company's Articles of Association allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via tele-conference.

The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcement of financial results, annual reports and any acquisition or disposal of material assets.

Continuing Education

The Board recognizes the important of appropriate orientation training and continuing education for its Directors. Newly appointed Directors are fully briefed as to the business activities of the Group and its strategic directions. The Directors are also updated in a timely manner on changes in relevant rules and regulations as well as corporate governance code which have a bearing on the Company and the Directors' obligations towards the Company.

CORPORATE GOVERNANCE REPORT

Attendances and number of meetings

The following table shows the number of meetings held and Directors' attendances since the date of the previous Report of the Directors:

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Number of meetings held	7	4	1	1
	Number of Meetings Attended			
Directors:				
Ding Liguo	7	4*	NA	NA
Bai Baohua	6	3	1	1
Zuo Shuowen	7	4*	NA	NA
Hee Theng Fong	7	4	1	1
Lai Hock Meng	7	4	1	1
Yuan Weimin	7	4*	NA	NA
Fok Hei Yu	6	3*	NA	NA

NA - not applicable as the director is not a member of the Committee

* - Attendance by invitation to the Committee

Chairman and Chief Executive Officer

The Board is of the view that it is in the best interests of the Group at its present development stage to adopt a single leadership structure, whereby the CEO and Chairman of the Board is the same person, so as to facilitate a speedy and market responsive decision-making process.

The roles of Chairman and CEO are assumed by Mr Ding Liguo. As the CEO, he is responsible for the day-to-day operations of the Group. He plays an instrumental role in charting the direction and strategic development of the Group and formulates business strategies, merger and acquisition initiatives and promoting high standards of corporate governance. As the Chairman, he exercises control over the quality, quantity and timeliness of information flow between Management and the Board. He ensures that the Board receives accurate, timely and clear information; Board meetings are held as and when necessary; and sets the Board's meeting agenda. He ensures that effective communication is maintained with the shareholders.

Although the roles and responsibilities of the Chairman and CEO are vested in Mr Ding Liguo, major decisions are made in consultation with the Board, where more than one-third of which comprises Independent Directors. The Board is of the opinion that the process of decision making by the Board has been independent and has been based on collective decisions without any individual or small group of individuals dominating the Board's decision making.

CORPORATE GOVERNANCE REPORT

Board Membership and Performance

The Nominating Committee ("**NC**") has three members, all of whom are Independent Directors. The members are:

Chairman	:	Bai Baohua
Member	:	Hee Theng Fong
Member	:	Lai Hock Meng

The NC makes recommendations to the Board on all board appointments and re-appointments. The NC aids the Board in obtaining an appropriate mix of relevant knowledge and experience among Board appointees.

The NC's process for identifying and selecting candidates for the Board (whether in the event of a vacancy or to add to the Board) has been and continues as follows. The Board sets a selection criteria based on the desired complementary skill set i.e. managerial, financial, legal etc expertise and experience in a similar or related industry. The NC shall have recourse to both internal sources as well as external sources to draw up a list of potential candidates. Interviews shall be conducted by the NC and short-listed candidates are recommended to the Board for consideration.

The NC is charged with carrying out an annual Board Appraisal. Briefly, the process followed is for each Board Member to complete an evaluation form within a stipulated period. The completed form is returned by each member to the Chairman of the NC who compiles a consolidated report after discussion with the NC members. The NC's report and any recommendations are then tabled for discussion by the whole Board. The Board takes this evaluation process seriously. The evaluation form and process have been designed to obtain constructive feedback and initiate dialogue among Board Members with a view to enhancing shareholder value, the effectiveness of the Board as a whole and the discharge of each Member's duties. The evaluation tracks and reviews quantitative as well as qualitative indicators to measure the Board's performance.

The contribution of each Director to the effectiveness of the Board is tracked via their attendance at Board and Committee meetings.

The NC's written terms of reference, which describe its major responsibilities are:

- to make recommendations to the Board on the re-nomination of retiring Directors standing for re-election at the Company's Annual General Meeting ("AGM"), having regard to the Directors' contribution and performance;
- to determine annually whether or not a Director is independent;
- to determine whether a Director is able to and has been adequately carrying out his duties as a Director of the Company; and
- to ensure that disclosure of key information relating to Directors is in the Annual Reports as required by the Code of Corporate Governance.

The NC also reviewed and was satisfied that any director who has multiple Board representations is able to and has been adequately carrying out effectively the duties as a Director. All Directors are required to declare their other Board representations.

The independence, as defined by the Code, of each Director is reviewed annually by the NC. A formal assessment of such independence was carried out to confirm the same in respect of each of the Company's independent Directors. A Declaration of Independence, in a form required by the NC, was signed by each of the Independent Directors and reviewed by the NC.

CORPORATE GOVERNANCE REPORT

The Company's Article of Association require one-third of our Directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr. Zuo Shuowen, Mr. Lai Hock Meng and Mr. Bai Baohua will retire by rotation.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters on which he is interested.

DIRECTORSHIPS

The following lists the present and past directorships of our Directors in listed companies other than directorships held in our Company.

Name of director	Present Directorships	Past Directorships (preceding 3 years)
Ding Liguo	NIL	NIL
Zuo Shuowen	NIL	NIL
Bai Baohua	NIL	NIL
Hee Theng Fong	Datapulse Technology Limited Tye Soon Limited YHI International Limited First Resources Limited	Sinomen Technology Limited
Lai Hock Meng	CFM Holdings Limited China Energy Limited PureCircle Ltd Metax Engineering Corp Limited China Essence Group Ltd China Oilfield Technology Services Group Ltd ASTI Holdings Limited CY Foundation Group Limited	WesTech Electronic Ltd Xpress Holdings Limited
Yuan Weimin	NIL	NIL
Fok Hei Yu	Kaisu Group Holdings Limited Emerson Radio Corp	NIL

ACCESS TO INFORMATION

All directors are from time to time furnished with sufficient information concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive management. They have unrestricted access to the Company's records and information. They also receive management accounts as and when requested to enable them to exercise oversight over the Group's operational and financial performance. The Articles of Association of the Company provide for directors to convene meetings by teleconferencing or videoconferencing. When a physical Board meeting is not possible, timely communication with members of the Board can be achieved through electronic means.

CORPORATE GOVERNANCE REPORT

The agenda for Board meetings is prepared in consultation with the Executive Chairman. Detailed Board papers are prepared for each meeting and are circulated in advance for each meeting. The Board papers include sufficient background explanatory information from the management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board meetings. Such explanatory information may also be in the form of briefings to the directors or formal presentations made by senior management staff in attendance at Board meetings or by external consultants engaged on specific projects.

The Directors have separate and independent access to the Company Secretary. At all times, the Company Secretary will be in attendance at each Board meeting. The Company Secretary ensures that Board Meetings are conducted in accordance with the Memorandum and Articles of Association of the Company and that applicable rules and regulations are complied with. The minutes of all Board committees' meetings are circulated to the Board. When necessary, the Directors can take independent professional advice at the Company's expense.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Level and Mix of Remuneration

The Remuneration Committee ("RC") has three members, all of whom are independent Directors. The members are:

Chairman	:	Bai Baohua
Member	:	Hee Theng Fong
Member	:	Lai Hock Meng

The RC's written terms of reference which describe its major responsibilities, are:

- to make recommendations to the Board on the framework of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses and benefits in kind for the Board and key executives and to determine specific remuneration packages for each Executive Director;
- to review all benefits and long term incentive schemes (including share option), whether Directors should be eligible for benefits under long-term incentive schemes and compensation/ remuneration packages for the Board and key executives; and
- to review service contracts of the Executive Directors.

The Company adopts a remuneration package for employees including Executive Directors, which is made up of a fixed and a variable component. The fixed component is the basic salary and the variable component is the performance bonus that is linked to the Group's performance and individual performance. The service contracts entered into with the executive directors dated 8 March 2005 had expired on 8 March 2008. There has been no service contracts entered into with the Executive Directors since then.

An over-riding principle of our remuneration policy is that no Director is involved in deciding his own remuneration.

The Group currently does not have any share option scheme in place.

CORPORATE GOVERNANCE REPORT

Disclosure of Remuneration

The breakdown of the level and mix of remuneration of each Director and the key executives for the year ended 31 December 2011 is as follows:

Remuneration of Directors

Remuneration band & name of Director	Directors' fees	Salary	Bonus	Total
\$500,000 to below \$1,000,000				
Ding Liguo	-	100%	-	100%
Below \$250,000				
Zuo Shuowen	-	100%	-	100%
Bai Baohua	100%	-	-	100%
Hee Theng Fong	100%	-	-	100%
Lai Hock Meng	100%	-	-	100%
Yuan Weimin	100%	-	-	100%
Fok Hei Yu	100%	-	-	100%

The Independent and Non-Executive Directors receive directors' fees in line with the level of contribution, time spent, effort and responsibilities of each Independent and Non-Executive Director. The calculation of director's fees for Independent and Non-Executive Directors is as follows:

- the base director's fee for each Committee Member
- the base director's fee + 8.3% for each Committee Chairperson

The directors' fees are subject to approval by shareholders at the Annual General Meeting.

Remuneration of executive officers

Remuneration band & name of executive officer	Salary	Bonus	Total
Below \$250,000			
Lan Jihong	100%	-	100%
Yeo Lee Luang	80%	20%	100%
Qu Zhengping	100%	-	100%

There is no employee with the Company or Group who is an immediate family member of a Director or the CEO during the financial under review.

CORPORATE GOVERNANCE REPORT

(C) ACCOUNTABILITY AND AUDIT

Accountability

The Board adopts and promotes best practices in order to build an excellent business for its shareholders, considering not only its accountability to the shareholders but also the performance of the Group.

The Board is mindful of its obligations to provide timely and full disclosure of material information in compliance with statutory reporting requirements. Thus, the Company ensures that price sensitive information is publicly released, either before the Company meets any group of investors or analysis or simultaneously with such meetings. The Company also announces its quarterly financial results as required by the Code. Financial results and annual reports are announced or issued within the mandatory period.

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. The Management currently provides the Board with management accounts of the Group's performance, position and prospects on a quarterly basis. Board members are provided with up-to-date financial reports and other information on the Group's performance for effective monitoring and decision making.

Audit Committee

The Audit Committee ("AC") comprises three members, all of whom are independent directors.

Chairman	:	Lai Hock Meng
Member	:	Hee Theng Fong
Member	:	Bai Baohua

All the members have had many years of experience in senior positions in financial, legal and/or commercial sectors. They have sufficient financial expertise and experience to discharge the AC's functions. The Chairman has many years of finance, banking and listed company experience.

The AC's written terms of reference which describe its major responsibilities are:

- to review the scope, approach and results of the audit;
- to review (i) quarterly, half yearly and yearly announcement of financial results and (ii) the consolidated financial statements, balance sheets and statements of comprehensive income, and the external auditor's reports on those financial statements, before submission to 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 interested person transactions falling within the scope of Chapter 9 of the SGX-ST listing Manual;
- to review the adequacy and effectiveness of the internal control framework and risk management processes and help ensure adequate measures are in place;

CORPORATE GOVERNANCE REPORT

- to review and make recommendations to the Board in relation to risk management;
- to review and approve major investment strategy proposals;
- to review the compliance with the Code of Best Practice on Security Transactions;
- to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual.

The AC meets with the external auditors separately at least once a year without the presence of Executive Directors and senior management, to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements with particular emphasis on the observations and recommendations of the external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

The AC confirms that it has undertaken a review of all the non-audit services provided by the Company's auditor during the year and is satisfied that such services would not, in the AC's opinion, compromise the independence of the external auditors.

The AC confirms that it has reviewed and is satisfied that the Company has adequate expertise and resources to discharge its finance and accounting functions to the standards expected of a listed company with business operations in the PRC and Singapore.

While the AC supports the recommendation of the Code as regards the putting in place of arrangements for staff to raise concern in confidence ("whistle blowers"), the AC would like to make further observations on the development of such arrangements and more importantly the development of legislation to protect the whistle blower.

INTERNAL CONTROL

The Board recognizes its responsibility in ensuring a sound system of internal controls to safeguard shareholders' investments and the Group's assets. For the financial year under review, the Board is of the view that there is no significant weakness or breakdown in the Group's existing system of internal controls and they provide reasonable, but no absolute assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board notes that no system of internal controls could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud and other irregularities.

As part of the annual statutory audit of the financial statements, the independent auditor also reports to the AC and management on material internal control weaknesses which have come to their attention during the course of the statutory audit. The independent auditor carries out, in the course of the statutory audit, an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate to the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

During the financial year, based on the work performed by the internal and external auditors, and reviews conducted by the Audit Committee, the Board is confident that the Company's framework of internal controls, including financial, operational and compliance controls, and risk management systems, is adequate to provide reasonable assurance of the integrity and effectiveness of the Company in safeguarding its assets and shareholders' value. This framework serves to provide reasonable assurance against material misrepresentation or loss.

CORPORATE GOVERNANCE REPORT

INTERNAL AUDIT

The AC is assisted by the Internal Audit Group (“IAG”) of Delong Steel in reviewing and testing during the year the proper functioning and adequacy of the Company’s internal control system. The Company’s IAG is comprised of experienced and qualified personnel who meet the standards set by internationally recognized professional bodies. The IAG reports directly to the AC on internal audit matters and may request from it the necessary resources to adequately perform its functions. The IAG also reports to the Chairman on administrative matters. The AC endeavours to ensure that internal audit functions are adequately resourced and given appropriate standing within the Company.

To ensure the adequacy of the internal audit functions, the AC reviews the IAG’s activities on a quarterly basis.

(D) COMMUNICATION WITH SHAREHOLDERS

The Company does not practise selective disclosure. All price-sensitive information is disseminated via SGXNET and such information is simultaneously posted on our corporate website at www.dlholdings.com and investor portal, www.listedcompany.com/ir/delong.

Greater Shareholders Participation

Information is communicated to shareholders on a timely basis through:

- the Company’s annual reports that are prepared and issued to all shareholders. The Board makes every effort to ensure that the annual report includes all relevant information about the Group, including future developments and other disclosures required by the Companies Act and the Singapore Financial Reporting Standards;
- quarterly and annual financial statements containing a summary of the financial information and affairs of the Group for the period. These are issued via SGXNET onto the SGX website as well as in press releases;
- notices of and explanatory memoranda for AGM and extraordinary general meetings (“EGM”);
- media and analyst briefings for the Group’s quarterly and full year financial results as well as other briefings, as appropriate; and
- disclosures to the SGX-ST and press releases on major developments of the Group.

In addition, shareholders are encouraged to attend the AGM and EGM to ensure a high level of accountability and to stay informed of the Group’s strategies and goals. The AGM and EGM are the principal forum for dialogue with shareholders.

The notice of the AGM or EGM is dispatched to shareholders, together with explanatory notes in the annual report or a circular on items of special business, at least 14 working days before the meeting. Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed Resolution. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM or EGM. The Board and the management are available at the meeting to answer questions that shareholders may have concerning the Company.

The Board takes note that there should be a separate resolution at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

CORPORATE GOVERNANCE REPORT

The Company's independent auditors are invited to attend the AGM and are available to assist the directors in addressing any relevant queries by the shareholders relating to the conduct of the audit and the preparation and content of their auditors' report.

(E) DEALING IN SECURITIES & COMPLIANCE WITH BEST PRACTICES GUIDE

The Company has adopted Internal Code of Conduct on dealing in the Company's securities. The Code has been modelled along the rules in the listing manual of the SGX-ST in respect of dealing in securities. The Group has procedures in place prohibiting directors and senior executives of the Group from dealing in the Company's shares during the periods commencing on one month prior to the announcement of the Company's quarterly, half yearly and full year results and ending on the date of the announcement of the results, or if they are in possession of unpublished material price-sensitive information of the Company. Directors and senior executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

The Board of Directors confirms that for the financial year ended 31 December 2011, the Company has complied with the listing rules of the SGX-ST in respect of dealing in securities.

(F) MATERIAL CONTRACTS

There were no material contracts of the Company, or its subsidiaries involving the interests of the Group Executive Chairman, each director or controlling shareholder, either director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, entering into since the end of previous financial year.

(G) INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interest persons are reported in a timely manner to the AC and those transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders. The interested person transactions for the financial year ended 31 December 2011 are as follows:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual	
	FY 2011 RMB'000	FY2010 RMB'000	FY 2011 RMB'000	FY2010 RMB'000
<u>Sales Transactions</u> Hebei Delong Modern Special Tube Manufacturing Co., Ltd*	5,775	-	-	-

* The company is owned by Mr Ding Liguog and his spouse, Madam Zhao Jing.

CORPORATE GOVERNANCE REPORT

(H) RISK MANAGEMENT

The practice of risk management is undertaken by the Executive Directors and senior executives of each business division under the purview of the Board.

The Group continues to review on an on-going basis, management succession plans and other employee-related issues in an effort to recruit and retain a skilled and experienced workforce necessary for its business.

The Group recognises the risks associated with changes in laws and regulations and had reviewed its business plans in the light of legal and regulatory changes in the year. The Group will continue to monitor legal and regulatory changes to keep abreast with developments that may have an impact on its business and operations.

The Group's financial risk management is discussed under Note 32 of the Notes to the Financial Statements, on page 72 to 84 of the Annual Report.

The Board is satisfied with the risk management practice and that risks facing the Group had been adequately addressed.

(I) AUDITOR'S REMUNERATION

The following information relates to remuneration of the auditor of the Company during the financial year:

	2011	2010
	RMB'000	RMB'000
Fees on audit services paid/payable to:		
- Auditor of the Company	1,855	1,799
Fees on non-audit services paid/payable to		
- Auditor of the Company	307	1,735

(J) APPOINTMENT OF AUDITORS

The Group has complied with Rule 712 and Rule 715 of the Listing Manual issued by Singapore Exchange Securities Trading Limited in relation to its auditors.

(K) STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2011, the Company has generally adhered to the principles and guidelines as set out in the Code of Corporate Governance 2005.

FINANCIAL CONTENTS

24	Directors' Report
26	Statement by Directors
27	Independent Auditor's Report
29	Consolidated Statement of Comprehensive Income
30	Balance Sheet
32	Consolidated Statement of Changes in Equity
33	Consolidated Statement of Cash Flows
35	Notes to the Financial Statements

DIRECTORS' REPORT*For The Financial Year Ended 31 December 2011*

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2011 and the balance sheet of the Company as at 31 December 2011.

Directors

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

Ding Liguo
Zuo Shuowen
Bai Baohua
Hee Theng Fong
Lai Hock Meng
Yuan Weimin
Fok Hei Yu

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares and debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2011	At 1.1.2011	At 31.12.2011	At 1.1.2011
The Company (No. of ordinary shares)				
Ding Liguo	-	-	320,817,502	320,817,502
Ultimate holding corporation - Honest Joy International Ltd (No. of ordinary shares of US\$1 each)				
Ding Liguo	700	700	300	300
Immediate holding corporation - Best Decade Holdings Limited (No. of ordinary shares of US\$1 each)				
Ding Liguo	-	-	1,000	1,000

DIRECTORS' REPORT

For The Financial Year Ended 31 December 2011

Directors' interests in shares and debentures (continued)

- (b) Mr Ding Liguu, who by virtue of his deemed interest of not less than 20% of the issued capital of the Company and Honest Joy International Ltd, is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and Honest Joy International Ltd's wholly-owned subsidiaries respectively.
- (c) The directors' interests in the shares of the Company at 21 January 2012 were the same at 31 December 2011.

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report.

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company or any subsidiary.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company and any subsidiary.

There were no unissued shares of the Company or any subsidiary under option at the end of the financial year.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, which holds office until the conclusion of the forthcoming annual general meeting ("AGM") of the Company is not seeking re-appointment at the Company's AGM.

On behalf of the directors

DING LIGUO
Director
13 April 2012

ZUO SHUOWEN
Director

STATEMENT BY DIRECTORS

For The Financial Year Ended 31 December 2011

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 29 to 89 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

DING LIGUO
Director
13 April 2012

ZUO SHUOWEN
Director

INDEPENDENT AUDITOR'S REPORT

To The Members Of Delong Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Delong Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 29 to 89, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

To The Members Of Delong Holdings Limited (continued)

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

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 subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 13 April 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Financial Year Ended 31 December 2011

	Note	Group	
		2011 RMB'000	2010 RMB'000
Sales of goods		10,442,578	9,925,242
Cost of sales	6	(10,157,222)	(9,214,785)
Gross profit		285,356	710,457
Other income	4	48,708	39,236
Other gains – net	5	77,112	99,920
Expenses			
- Distribution and marketing	6	(9,557)	(10,630)
- Administrative	6	(166,020)	(151,080)
- Finance	8	(215,845)	(225,515)
Share of loss of associated company	21	-	(100)
Profit before income tax		19,754	462,288
Income tax expense	9	(31,826)	(135,734)
Net (loss)/profit		(12,072)	326,554
Other comprehensive income/(loss):			
Financial assets, available-for-sale			
- Gains previously recognised directly in equity now included in net profit		-	(21,320)
Currency translation differences		17,602	(15,628)
Other comprehensive income/(loss), net of tax		17,602	(36,948)
Total comprehensive income attributable to equity holders of the Company		5,530	289,606
(Loss)/Earnings per share			
(expressed in RMB per share)	10		
- Basic		(0.02)	0.60
- Diluted		(0.05)	0.54

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET*As at 31 December 2011*

	Note	Group	
		2011 RMB'000	2010 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	1,016,569	509,728
Bank balances pledged	12	713,653	507,361
Financial assets, at fair value through profit or loss	13	657	1,204
Trade and other receivables	14	615,176	458,434
Inventories	15	1,226,441	1,262,405
Other current assets	16	517,858	367,443
		4,090,354	3,106,575
Non-current assets			
Trade and other receivables	17	97,221	127,774
Financial assets, available-for-sale	19	20,000	20,000
Investment property	22	-	15,611
Property, plant and equipment	23	2,874,902	3,038,279
Deferred income tax assets	9	33,087	38,727
		3,025,210	3,240,391
Total assets		7,115,564	6,346,966
LIABILITIES			
Current liabilities			
Trade and other payables	24	1,409,195	1,571,870
Notes payables		390,000	807,716
Borrowings from banks and other financial institutions	25	2,236,299	1,146,435
Convertible bonds	26	151,453	-
Current income tax liabilities	9	29,666	54,524
		4,216,613	3,580,545
Non-current liabilities			
Borrowings from banks and other financial institutions	25	368,478	71,825
Convertible bonds	26	-	153,986
Convertible shares	27	104,707	121,224
Deferred income tax liabilities	9	22,889	22,889
		496,074	369,924
Total liabilities		4,712,687	3,950,469
NET ASSETS		2,402,877	2,396,497
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	404,361	403,511
Capital reserve	29	249,218	249,218
Statutory reserve	29	141,072	141,072
Currency translation reserve		9,669	(7,933)
Retained profits	29	1,598,557	1,610,629
Total equity		2,402,877	2,396,497

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	Company	
		2011 RMB'000	2010 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	199,772	53,659
Financial assets, at fair value through profit or loss	13	657	1,204
Trade and other receivables	14	69	13
Other current assets	16	148	4,334
		200,646	59,210
Non-current assets			
Other receivables	17	631,376	650,589
Investments in subsidiaries	20	1,884,916	1,884,916
Property, plant and equipment	23	57	74
		2,516,349	2,535,579
Total assets		2,716,995	2,594,789
LIABILITIES			
Current liabilities			
Trade and other payables	24	12,098	12,286
Borrowings from banks and other financial institutions	25	34,770	10
Convertible bonds	26	151,453	-
Current income tax liabilities	9	-	98
		198,321	12,394
Non-current liabilities			
Borrowings from banks and other financial institutions	25	139,067	61
Convertible bonds	26	-	153,986
Converted shares	27	104,707	121,224
		243,774	275,271
Total liabilities		442,095	287,665
NET ASSETS		2,274,900	2,307,124
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	2,110,197	2,109,347
Capital reserve	29	249,218	249,218
Accumulated losses		(84,515)	(51,441)
Total equity		2,274,900	2,307,124

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For The Financial Year Ended 31 December 2011*

	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Group							
Balance as at 1 January 2011	403,511	249,218	-	(7,933)	141,072	1,610,629	2,396,497
Issue of shares pursuant to exercise of convertible bonds and convertible shares (Note 28)	850	-	-	-	-	-	850
Total comprehensive income/(loss)	-	-	-	17,602	-	(12,072)	5,530
Balance as at 31 December 2011	404,361	249,218	-	9,669	141,072	1,598,557	2,402,877
Balance as at 1 January 2010	353,297	249,218	21,320	7,695	141,072	1,284,075	2,056,677
Issue of shares pursuant to exercise of convertible bonds and convertible shares (Note 28)	50,214	-	-	-	-	-	50,214
Total comprehensive income/(loss)	-	-	(21,320)	(15,628)	-	326,554	289,606
Balance as at 31 December 2010	403,511	249,218	-	(7,933)	141,072	1,610,629	2,396,497

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Financial Year Ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Net (loss)/profit		(12,072)	326,554
Adjustments for:			
Income tax expense	9	31,826	135,734
Depreciation	6	351,467	343,402
Impairment charge for property, plant and equipment	23	17,420	40,985
Gain on disposal of investment property		(13,704)	-
Loss on disposal of property, plant and equipment		3,048	-
Gain on disposal of financial assets, fair value through profit or loss		(15)	(23)
Loss on disposal of financial assets, available-for-sale		-	(14,395)
Fair value loss on financial assets, fair value through profit or loss		427	401
Fair value gain on convertible bonds		(12,369)	(11,918)
Fair value gain on convertible shares		(20,738)	(19,521)
Currency translation(gain)/ loss on convertible shares		(6,871)	6,159
Gain on early redemption of convertible bonds (restrictive)		-	(34,663)
Interest income		(26,197)	(20,682)
Interest expense		178,390	203,657
Share of loss of associated company	21	-	100
Unrealised currency translation loss/(gain)		24,990	(24,602)
Operating cash flow before working capital change		515,602	931,188
Changes in operating assets and liabilities			
Bank balances pledged		(206,292)	178,384
Receivables		(238,742)	(158,049)
Inventories		35,964	(163,114)
Payables		(659,821)	493,355
Cash (used in)/generated from operations		(553,289)	1,281,764
Income tax paid		(88,906)	(85,650)
Net cash (used in)/provided by operating activities		(642,195)	1,196,114
Cash flows from investing activities			
Payments for property, plant and equipment		(162,464)	(120,658)
Proceeds from disposal of financial assets, fair value through profit or loss		135	690
Proceeds from disposal of financial assets, available-for-sale		-	78,584
Proceeds from disposal of investment property		29,091	-
Purchase of finance assets, fair value through profit or loss		-	(1,308)
Purchase of finance assets, available-for-sale		-	(64,815)
Refund of paid-up capital from associate company	21	-	20,000
Dividend received from financial assets, available-for-sale	19	-	11,665
Interest received		26,197	20,682
Net cash used in investing activities		(107,041)	(55,160)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS*For The Financial Year Ended 31 December 2011*

	Note	2011 RMB'000	2010 RMB'000
Cash flows from financing activities			
Proceeds from borrowings from banks and other financial institutions		4,221,505	2,675,531
Repayment of borrowings from banks and other financial institutions		(2,834,987)	(2,846,468)
Repayment of convertible bonds		-	(586,000)
Interest paid		(123,053)	(172,652)
Net cash provided by/(used in) financing activities		1,263,465	(929,589)
Net change in cash and cash equivalents			
Beginning of financial year		509,728	290,113
Effects of currency translation on cash and cash equivalents		(7,388)	8,250
End of financial year	11	1,016,569	509,728

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

Delong Holdings Limited (the "Company") is incorporated and domiciled in Singapore and listed on the Singapore Exchange Securities Trading Limited. The address of its registered office and principal place of business is 3 Raffles Place, #07-01, Bharat Building, Singapore 048617.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are set out in Note 36.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretation and amendments to published standards effective in 2011

On 1 January 2011, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and Company and had no material effect on the amounts reported for the current or prior financial years.

2.2 Going concern

The financial statements are prepared on a going concern basis as the Group expects that it will be able to meet its liabilities as and when due.

The Group incurred a loss of RMB12 million for the financial year ended 31 December 2011 and as at 31 December 2011, the current liabilities exceed the current assets of the Group by RMB126 million mainly due to the use of short-term borrowings to finance the property, plant and equipment. Management is of the view that financial institutions do not normally extend long-term borrowings to steel enterprises in the People's Republic of China ("PRC").

As at 31 December 2011, the Group has available credit facilities amounting to RMB2,312 million which are not yet utilised. These facilities will be available for draw down for the purpose of procuring raw materials or meeting working capital needs or replacing its short-term borrowings when they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.2 Going concern (continued)

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. Management is not aware of any circumstances that may cause the financial institutions not to continue with the credit facilities.

Management and directors believe that the Group will continue to generate sufficient cash from its operating activities based on the Group's cash flow projections.

If these are not forthcoming, the Group may be unable to continue in operational existence for the foreseeable future and adjustments would have to be made to the financial statements to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the balance sheet. In addition, the Group may have to provide for further liabilities which may arise, and to classify the non-current assets and liabilities as current assets and liabilities. The financial statements for the financial year ended 31 December 2011 do not include the adjustments that would result if the Group was unable to continue as a going concern.

2.3 Revenue recognition

Revenue for the Group comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented, net of value added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) *Sale of goods and scrap materials*

Revenue from sales of goods and scrap materials are recognised when goods have been delivered to the customer, the customer has accepted the goods and the collectability of the related receivables is reasonably assured.

(b) *Government grant*

Government grant from the government is not directly attributable to any assets and is recognised when there is reasonable assurance that the grant income will be received and all attaching conditions will be complied with.

(c) *Interest income*

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

(d) *Rental income*

Rental income from operating lease on investment property is recognised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.4 Group accounting

(a) *Reverse acquisition*

Pursuant to the reverse acquisition ("Acquisition") of the Company by Asia Paragon International Limited ("Asia Paragon") effected on 1 January 2005, the Group's consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended 31 December 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 balance sheet 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.

In the Company's separate financial statements, the investment in Asia paragon is accounted for in accordance with the requirements of FRS 27 'consolidated and separate financial statements' (Note 2.8).

(b) *Subsidiaries*

Subsidiaries are entities over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding of giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changes where necessary to ensure consistency of policies adopted by the Group.

Please refer to Note 2.8 for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(c) *Associated companies*

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(c) *Associated companies* (continued)

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated company are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Gains and losses arising from partial disposal or dilutions in investments in associated companies are recognised in profit or loss.

Please refer to Note 2.8 for the accounting policy on investments in associated companies in the separate financial statements of the Company.

2.5 Property, plant and equipment

(a) *Measurement*

(i) *Property, plant and equipment*

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (Note 2.9).

(ii) *Component of costs*

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is recognised as part of the cost of property, plant and equipment if such obligation incurred either when the item is acquired or as a consequence of using the asset during a particular period for purposes other than to produce inventories during that period.

(b) *Depreciation*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Estimated useful lives</u>
Leasehold land	Over the lease period, 41 to 49 years
Leasehold buildings	The shorter of 20 years or the lease term
Plant and equipment	10 years
Motor vehicles and others	5 years

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

(b) *Depreciation* (continued)

The residual values, useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits, associated with the item will flow to the Group and the cost can be measured reliably. All other repair and maintenance expenses are recognised as an expense during the financial year in which it is incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

(e) *Construction in progress*

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction, installation and testing (Note 2.6).

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use or put into use.

2.6 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction of property, plant and equipment. These include those costs on borrowings acquired specifically for the construction of property, plant and equipment, as well as those in relation to general borrowings used to finance the construction of property, plant and equipment.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction expenditures that are financed by general borrowings.

2.7 Investment property

Investment property of the Group is held for long-term rental yields and is not occupied by the Group. Investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 60 years. The residual values, useful lives and depreciation method of the investment property is reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss when the changes arise.

Investment property is subjected to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised to profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.8 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses (Note 2.9) in the Company's balance sheet. On disposal, the difference between disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2.9 Impairment of non-financial assets

Property, plant and equipment

Investment property

Investment in subsidiaries and associated company

Property, plant and equipment, investment property and investments in subsidiaries and associated company are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

An impairment loss for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss.

2.10 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets, at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.10 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the balance sheet.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in profit or loss.

(d) Subsequent measurement

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Unquoted investments for which fair values cannot be reliably measured are carried at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise. Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.10 Financial assets (continued)

(e) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) *Loans and receivables*

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) *Financial assets, available-for-sale*

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

2.11 Financial guarantees

The Group and the Company have issued corporate guarantees to banks for bank borrowings of third parties (Note 30) and its subsidiaries. These guarantees are financial guarantee contracts as they require the Group and the Company to reimburse the banks if the third parties or the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair values (if material) plus transaction costs in the balance sheet of the Group and the Company.

Financial guarantee contracts are subsequently amortised to profit or loss over the period of the third parties' and subsidiaries' borrowings, unless it is possible that the Group or the Company will reimburse the banks for an amount higher than the unamortised amount. In this case, the financial guarantees are carried at the expected amount payable to the bank in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.12 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

(a) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(b) Convertible bonds

Convertible bonds comprise a liability component and a conversion option (derivative liability or equity component). If the conversion option is settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the issuer's own equity instruments, or if the issuer has the option to settle the conversion by way of cash, the conversion option is a derivative liability.

The liability component is recognised initially at its fair value, determined using a market interest rate for an equivalent non-convertible bond. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

The derivative liability is recognised initially at its fair value, and subsequently carried at its fair value at the end of each financial period. Gains or losses arising from changes in the fair value of the derivative liability are recognised as "other gains/(losses)" in profit or loss in the financial period in which the change in fair value arises.

The equity component is recognised initially in equity at its fair value. The carrying amount of the equity component is not adjusted in subsequent periods.

When the conversion option is exercised, the carrying amounts of both the liability component and the derivative liability/equity component are transferred to the share capital account.

(c) Convertible shares

Convertible shares, which are shares convertible into ordinary shares and redeemable at the holder's option on specific dates, are classified as financial liabilities. The embedded conversion option, which is denominated in a currency other than the Company's functional currency, is accounted for as a derivative liability.

The liability component is recognised initially at its fair value, determined using a market interest rate for an equivalent non-convertible borrowing. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the convertible shares.

The derivative liability is recognised initially at its fair value, and subsequently carried at its fair value at the end of each financial period. Gains or losses arising from the change in the fair value of the derivative liability are recognised as "other gains/(losses)" in profit or loss in the financial period in which the change in fair value arises.

When the conversion option is exercised, the carrying amounts of both the liability component and the derivative liability component are transferred to the share capital account.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.13 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.14 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.15 Leases

(a) *When the Group is the lessee:*

Leases of factories and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(b) *When the Group is the lessor:*

The Group leases equipment under finance leases and investment property under operating leases to other parties.

(i) *Lessor - Finance leases*

Leases where the Group transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet and included in "trade and other receivables". The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.15 Leases (continued)

(b) *When the Group is the lessor: (continued)*

(i) *Lessor - Finance leases (continued)*

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

(ii) *Lessor - Operating leases*

Leases of investment property where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in profit or loss when earned.

2.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.17 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.17 Income taxes (continued)

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.19 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as Central Provident Fund ("CPF") and social security bureaus in People's Republic of China ("PRC") as described below, and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial periods. The Group's contribution to defined contribution plans are recognised in the financial period to which they relate.

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.19 Employee compensation (continued)

(b) *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 balance sheet date.

2.20 Currency translation

(a) *Functional and presentation currency*

Items included in the financial information of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Chinese Renminbi ("RMB") which is the functional currency of the Company.

(b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss, unless they arise from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) *Translation of Group entities' financial statements*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised in the currency translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

2. Significant accounting policies (continued)

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management whose members are responsible for allocating resources and assessing performance of the operating segments.

2.22 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions and exclude balances which are subject to restrictions.

2.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.24 Dividends to Company's shareholders

Dividends to Company's shareholders are recognised when the dividends are approved for payment.

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Estimated impairment of non-financial assets*

Property, plant and equipment and investments in subsidiaries and associated company are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and where applicable, cash-generating units ("CGU") have been determined based on value-in-use calculations. These calculations require the use of estimates, assumption and judgements. A wholly-owned subsidiary of the Group, Xingtai Delong Machinery and Mill Roll Co., Ltd ("Mill Roll CGU"), had performed below expectations and incurred a net loss for the year ended 31 December 2011. Accordingly, the management of the Company carried out an assessment for impairment for the Mill Roll CGU. An impairment loss of RMB15 million in respect of the plant and equipment of Mill Roll CGU has been recognised and included in "cost of sales" for the year ended 31 December 2011, based on the recoverable amount determined based on value-in-use. As at 31 December 2011, the Mill Roll CGU's property, plant and equipment has a carrying amount of approximately RMB370 million after adjusting for the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

3. Critical accounting estimates, assumptions and judgements (continued)

(a) *Estimated impairment of non-financial assets* (continued)

The Mill Roll CGU produces and supplies high-end mill rollers to the domestic steel manufacturers. The Mill Roll CGU started trial production in March 2008 and has not achieved full capacity at the date of this report. Cash flow projections used in the value-in-use calculations are based on financial budgets approved by the directors covering a twelve-year period from 2012 to 2023. The average annual growth rate estimated for the first four-year period is 78% and cash flows from fifth to eight year period are projected using the estimated annual growth rate of 18%. Cash flows beyond the initial eight-year period are projected using the estimated growth rate of 5%. The estimated gross margin is based on industry report and expectation of the market development and the estimated discount rate used in the value-in-use calculation was approximately 12%. The average annual growth rate used for the four-year period is based on the fact that the CGU will continue to expand its production capability. The average annual growth rates used for the period beyond the four-year period are consistent with the forecasts found in industry reports. The discount rate used reflects specific risk relating to the Mill Roll CGU.

If the management's estimated average annual growth and discount rate used in the value-in-use calculation for the initial four-year period had been 73% instead of 78%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB100.8 million, from the current carrying amount of RMB370 million.

If the management's estimated average annual growth rate used in the value-in-use calculation for the fifth to eight year period had been 13% instead of 18%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB187.7 million.

If the management's estimated gross margin used in the value-in-use calculation for the initial four-year period had been lower by 2%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB14.4 million.

If the management's estimated after-tax discount rate applied to the cash flows for the Mill Roll CGU had been raised to 13% instead of 12%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB27.1 million.

The above sensitivity analysis is merely used to provide an indication of how the valuation might be adversely affected by changes in one of the key valuation inputs, while holding the other inputs constant, without illustrating the possible favourable scenarios. It also does not provide an indication of how the valuation might be affected by changes in all valuation inputs in different directions which might produce an offsetting impact on the valuation.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

4. Other income

	Group	
	2011	2010
	RMB'000	RMB'000
Government grants	5,274	510
Finance lease income	15,657	15,807
Interest income		
- bank deposits	22,405	17,906
- loan to investee company	1,778	2,776
- entrusted loan to Tangshan Delong	2,015	-
Rental income from investment property	1,579	2,237
	48,708	39,236

5. Other gains – net

	Group	
	2011	2010
	RMB'000	RMB'000
Gain on disposal of financial assets at fair value through profit or loss – net	15	23
Fair value loss on financial assets at fair value through profit or loss	(427)	(401)
Gain on disposal of financial assets, available-for-sale	-	14,395
Gain on disposal of investment property	13,704	-
Loss on disposal of property, plant and equipment	(3,048)	-
Currency translation gain – net	22,458	12,617
Fair value gain on convertible bonds (Note 26)	12,369	11,918
Fair value gain on convertible shares (Note 27)	20,738	19,521
Gain on early redemption of convertible bonds (Note 26)	-	34,663
Other	11,303	7,184
	77,112	99,920

6. Expenses by nature

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials, finished goods and consumables	8,977,752	8,266,233
Changes in inventories of raw materials, work-in-progress and finished goods	35,964	(177,810)
Impairment of property, plant and equipment (Note 23)	17,420	40,985
Depreciation of property, plant and equipment (Note 23)	351,243	343,065
Depreciation of investment property (Note 22)	224	337
Total depreciation	351,467	343,402
Employee compensation (Note 7)	189,787	186,573
Rental on operating leases	694	825
Repairs and maintenance	10,171	6,020
Transportation	31,651	6,548
Utilities	709,546	702,378
Other expenses	8,347	1,341
Total cost of sales, distribution and marketing and administrative expenses	10,332,799	9,376,495

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

7. Employee compensation

	<u>Group</u>	
	2011 RMB'000	2010 RMB'000
Wages and salaries	183,625	176,244
Employer's contribution to defined contribution plans	6,162	10,329
	189,787	186,573

8. Finance expenses

	<u>Group</u>	
	2011 RMB'000	2010 RMB'000
Interest expense		
- bank borrowings	83,696	86,299
- finance lease liabilities	4	1
- convertible bonds	17,580	71,713
- convertible shares	11,941	13,583
Less: Capitalised into construction-in-progress	-	(13,713)
Interest expenses on borrowings recognised in income statement	113,221	157,883
Bills discounting charges – net	65,169	45,774
Bank charges	37,455	21,858
Net finance expense	215,845	225,515

There was no borrowing costs on general financing that were capitalised into the costs of construction-in-progress in 2011 (2010: RMB13,713,000 at 5.46%).

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***9. Income taxes**(a) Income tax expense

	Group	
	2011	2010
	RMB'000	RMB'000
Tax expense is made up of:		
- Provision on the profit for the financial year		
Current income tax		
- Singapore	-	99
- Foreign	26,096	136,848
	26,096	136,947
Deferred income tax	(4,757)	(1,293)
	21,339	135,654
Adjustments in respect of the preceding financial years		
Current income tax	90	80
Deferred income tax	10,397	-
	31,826	135,734

(b) 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% (2010: 25%) due to the following:

	Group	
	2011	2010
	RMB'000	RMB'000
Profit before tax and share of profit of an associated company	19,754	462,288
Tax calculated at tax rate of 25% (2010: 25%)	4,938	115,572
Effects of:		
Different tax rates in other countries	2,065	2,425
Expenses not deducted for tax	16,732	18,780
Income not subject to tax	(2,327)	(1,034)
Statutory stepped income exemption in Singapore	(69)	(89)
Tax charge	21,339	135,654

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

9. Income taxes (continued)

With effect from 1 January 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 1 January 2008 are exempted from such withholding tax.

(c) Movements in current income tax liabilities

	<u>Group</u>		<u>Company</u>	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Beginning of financial year	54,524	3,147	98	-
Income tax paid	(88,906)	(85,650)	(98)	(87)
Tax expense	26,096	136,947	-	99
Under provision in prior financial years	90	80	-	86
End of financial year	(8,196)	54,524	-	98

Current income tax (recoverable)/liabilities are presented on the balance sheet as follows:

	<u>Group</u>		<u>Company</u>	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Tax recoverable (Note 16)	(37,862)	-	-	-
Current income tax liabilities	29,666	54,524	-	98
	(8,196)	54,524	-	98

(d) Deferred income taxes

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 balance sheets as follows:

	<u>Group</u>	
	2011 RMB'000	2010 RMB'000
Deferred income tax assets		
- to be recovered within one year	5,618	7,169
- to be recovered after one year	27,469	31,558
	33,087	38,727
Deferred income tax liabilities		
- to be recovered within one year	-	22,889
- to be recovered after one year	22,889	-
	22,889	22,889

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***9. Income taxes** (continued)Deferred income taxes (continued)

Movement in deferred income tax assets/(liabilities) account is as follows:

	Tax losses RMB'000	Inventory write-down RMB'000	Impairment RMB'000	Unutilised capital allowances RMB'000	Unremitted profits RMB'000	Total RMB'000
2011						
Beginning of financial year	7,016	3,383	10,246	18,082	(22,889)	15,838
Credited/(Charged) to profit or loss	(7,016)	(3,383)	3,750	1,009	-	(5,640)
End of financial year	-	-	13,996	19,091	(22,889)	10,198
2010						
Beginning of financial year	12,022	3,383	-	22,029	(22,889)	14,545
Credited/(Charged) to profit or loss	(5,006)	-	10,246	(3,947)	-	1,293
End of financial year	7,016	3,383	10,246	18,082	(22,889)	15,838

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The tax losses expire five years from 31 December 2008.

10. (Loss)/Earnings per share(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2011	2010
Net (loss)/profit attributable to equity holders of the Company (RMB'000)	(12,072)	326,554
Weighted average number of ordinary shares in issue for basic (loss)/ earnings per share ('000)	550,080	544,279
Basic (loss)/earnings per share (RMB)	(0.02)	0.60

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

10. (Loss)/Earnings per share (continued)

(b) Diluted (loss)/earnings per share

For the purpose of calculating diluted (loss)/earnings per share, (loss)/profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and convertible shares.

Convertible bonds and convertible shares are assumed to have been converted into ordinary shares at issuance and the net (loss)/profit is adjusted to eliminate the interest expense and the fair value gain on the derivative liability component.

	2011	2010
Net (loss)/profit attributable to equity holders of the Company (RMB'000)	(12,072)	326,554
Interest expense on convertible bonds and convertible shares	11,850	27,075
Currency translation gain on convertible shares	(6,819)	5,202
Fair value gain on derivative liability component of convertible bonds and convertible shares	(20,581)	(28,387)
Net (loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	(27,622)	330,444
Weighted average number of ordinary shares in issue for basic (loss)/earnings per share ('000)	550,080	544,279
Adjustments for assumed conversion of convertible bonds and convertible shares ('000)	29,650	64,201
Weighted average number of ordinary shares for diluted (loss)/earnings per share ('000)	579,730	608,480
Diluted (loss)/earnings per share (RMB)	(0.05)	0.54

11. Cash and cash equivalents

The cash and cash equivalents comprise the following:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Cash at bank and on hand	1,006,277	457,895	199,772	12,760
Fixed deposits with bank	10,292	51,833	-	40,899
Cash and cash equivalents per cash flow statement	1,016,569	509,728	199,772	53,659

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. The amounts of RMB funds held by the Group are shown in Note 32(a)(i).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

12. Bank balances pledged

These bank balances, denominated in RMB, were pledged as security for notes payables and letter of credit facilities amounting to RMB390,000,000 as at 31 December 2011 (2010: RMB807,716,000).

13. Financial assets, at fair value through profit or loss

	Group and Company	
	2011	2010
	RMB'000	RMB'000
<i>Held for trading</i>		
Listed equity securities – Hong Kong	464	512
Listed equity securities – Australia	193	692
	657	1,204

14. Trade and other receivables - current

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 18)	104,157	60,516	-	-
Trade receivables	48,192	71,185	69	13
Notes receivable	462,827	300,486	-	-
Due from an investee company	-	26,247	-	-
	615,176	458,434	69	13

15. Inventories

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	854,893	954,059
Work-in-progress	166,468	86,106
Finished goods	112,390	115,248
Production supplies	92,690	106,992
	1,226,441	1,262,405

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB9,013,716,000 (2010: RMB8,088,423,000).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

16. Other current assets

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits	785	58	58	58
Prepayments	145,946	291,474	90	4,276
Entrusted loan to customer ^(a)	65,000	-	-	-
Amount refundable from supplier ^(b)	192,093	-	-	-
Tax recoverable	37,862	-	-	-
Other	76,172	75,911	-	-
	517,858	367,443	148	4,334

(a) The Group advanced RMB 65 million to Tangshan Delong Steel Co., Ltd through Bohai Bank. The loan is unsecured, bear interest at 7.0002 % per annum and due in July 2012.

(b) Delong Steel Limited ("Delong Steel"), a wholly-owned subsidiary of the Company, had entered into a contract with one of its suppliers, Hong Kong Qinlong Group Limited (the "Supplier"), in September 2011, for the purchase of 198,000 tonnes of Mongolia iron ore, and prepaid the full purchase consideration of USD30 million, which is equivalent to RMB192 million ("Prepayment Amount") so as to secure the supply of iron ore which was then in short supply. Subsequently in October 2011, the parties agreed to terminate the contract due to changes in iron ore prices as well as the quality of the iron ore which did not meet contractual specifications. Pursuant to the termination of the contract, the Supplier was to refund the Prepayment Amount to Delong Steel Limited. The Prepayment Amount remained outstanding as at 31 December 2011 but subsequent to the financial year ended 31 December 2011, the Prepayment Amount has been collected.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

17. Trade and other receivables – non-current

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 18)	73,751	127,774	-	-
Due from an investee company	23,470	-	-	-
Loans to subsidiaries	-	-	631,376	650,589
	97,221	127,774	631,376	650,589

Loans to subsidiaries are unsecured, interest-free, and are not expected to be repaid within the next 12 months from the balance sheet date.

The amount due from an investee company was non-trade, unsecured and bore interest at 7.47% per annum as at 31 December 2011 (2010: 6.903%).

The fair value of finance lease receivables is computed based on cash flows discounted using comparable market lending rates. The fair value and the market lending rate used are as follows:

	Group		Borrowing rates	
	2011	2010	2011	2010
	RMB'000	RMB'000	%	%
Finance lease receivables (Note 18)	73,751	127,774	8.00	7.22

18. Finance lease receivables

The Group leases equipment to third parties under finance leases. The various agreements terminate on various dates from 2012 to 2014.

	Group	
	2011	2010
	RMB'000	RMB'000
Gross receivables due		
- Not later than one year	107,302	63,042
- Later than one year but within five years	85,842	154,829
	193,144	217,871
Less: Unearned finance income	(15,236)	(29,581)
Net investment in finance leases	177,908	188,290

The net investment in finance leases is analysed as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
- Not later than one year (Note 14)	104,157	60,516
- Later than one year but within five years (Note 17)	73,751	127,774
	177,908	188,290

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

19. Financial assets, available-for-sale

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of financial year	20,000	52,359	-	42,359
Additions	-	64,815	-	54,815
Dividend received	-	(11,665)	-	(11,665)
Disposals	-	(85,509)	-	(85,509)
End of financial year	20,000	20,000	-	-

Available-for-sale financial assets are analysed as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Unlisted securities		
- 10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd	10,000	10,000
- 8.62% equity interest in Tianjin United Mercantile Exchange Co., Ltd	10,000	10,000
	20,000	20,000

Investment in Hebei Zhongmei Xuyang Coking Co., Ltd, a privately-owned enterprise established in the People's Republic of China and principally engaged in coking, is carried at cost, as the directors are of the view that the fair value cannot be reliably measured. There is no active market for this unlisted equity investment and its fair value cannot currently be estimated within a reasonable range. There is currently no intention to dispose of this investment in the foreseeable future. For information purposes only and without asserting it to be a fair value disclosure, the Group's share of the net assets of the investee company, based on its latest unaudited financial information, is approximately RMB72.9 million (2010: RMB71.6 million).

Tianjin United Mercantile Exchange Co., Ltd ("Tianjin United") is a privately-owned enterprise established in the People's Republic of China and principally engaged in forward contract transactions and provision of market information. There is no active market for this unlisted equity investment and its fair value cannot currently be estimated within a reasonable range. There is currently no intention to dispose of this investment in the foreseeable future. For information purposes only and without asserting it to be a fair value disclosure, the Group's share of the net assets of the investee company, based on its latest unaudited financial information, is approximately RMB10.9 million (2010: RMB10.0 million).

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***20. Investment in subsidiaries**

	Company	
	2011	2010
	RMB'000	RMB'000
Unquoted equity investment at cost	1,884,916	1,884,916

Details of subsidiaries are provided in Note 36.

21. Investment in associated company

	Group	
	2011	2010
	RMB'000	RMB'000
Unquoted equity investment at cost	-	-
Beginning of financial year	-	20,100
Share of loss	-	(100)
Refund of paid up capital	-	(20,000)
End of financial year	-	-
The summarised financial information of associated company is as follows:		
- Assets	-	-
- Liabilities	-	-
- Revenue	-	-
- Net profit	-	-

The paid up capital contributed by the Group was refunded in 2010. The associated company, Bohai Steel Alliance Co., Ltd ("Bohai Steel"), is currently in the process of being liquidated. Bohai Steel was engaged in the import and export of raw materials, finished products and technology.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

22. Investment property

	Group	
	2011	2010
	RMB'000	RMB'000
<i>Cost</i>		
At 1 January	23,960	22,676
Disposals	(23,960)	-
Currency translation differences	-	1,284
At 31 December	-	23,960
<i>Accumulated depreciation</i>		
At 1 January	8,349	7,573
Depreciation	224	337
Disposals	(8,573)	-
Currency translation differences	-	439
At 31 December	-	8,349
Net book value	-	15,611

It was the intention of the Group to hold the investment property for long-term rental yields. The investment property was leased to a non-related party under operating leases (Note 31) and was mortgaged to secure bank loans (Note 25). Details of the investment property are as follow:

Location : 1 Changi South Street 1, Singapore 486797
 Area : 5,236 sq m
 Description : Factory warehouse and office space
 Tenure : Leasehold expiring on 30 May 2056

The investment property was disposed of during the year as the Jurong Town Corporation revised its sublet policy whereby the lessor is not allowed to sublet the total gross floor area to a non-related party with effect from 1 January 2012.

The following amounts are recognised in profit or loss:

	Group	
	2011	2010
	RMB'000	RMB'000
Rental income	1,579	2,237
Direct operating expenses arising from investment properties that generated rental income	797	980

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

23. Property, plant and equipment

	Leasehold land RMB'000	Leasehold buildings RMB'000	Plant and equipment RMB'000	Motor vehicles and other RMB'000	Construction in progress RMB'000	Total RMB'000
Group						
<i>Cost</i>						
At 1 January 2011	72,953	945,306	3,223,103	88,996	362,163	4,692,521
Additions	-	108	5,893	19,270	183,063	208,334
Disposals	-	(1,430)	(6,989)	(9,552)	-	(17,971)
Transfers in/(out)	-	105,682	329,451	10	(435,143)	-
At 31 December 2011	72,953	1,049,666	3,551,458	98,724	110,083	4,882,884
<i>Accumulated depreciation and impairment losses</i>						
At 1 January 2011	12,452	236,121	1,354,092	51,577	-	1,654,242
Charge for the year	1,691	44,231	292,870	12,451	-	351,243
Impairment charged	-	4,613	12,504	-	303	17,420
Disposals	-	(1,397)	(6,261)	(7,265)	-	(14,923)
At 31 December 2011	14,143	283,568	1,653,205	56,763	303	2,007,982
Net book value						
At 31 December 2011	58,810	766,098	1,898,253	41,961	109,780	2,874,902
<i>Cost</i>						
At 1 January 2010	71,056	959,994	3,220,462	82,790	394,718	4,729,020
Additions	1,897	3,003	346	9,096	101,336	115,678
Disposals	-	(22,453)	(126,102)	(3,622)	-	(152,177)
Transfers in/(out)	-	4,762	128,397	732	(133,891)	-
At 31 December 2010	72,953	945,306	3,223,103	88,996	362,163	4,692,521
<i>Accumulated depreciation and impairment losses</i>						
At 1 January 2010	8,863	200,655	1,155,170	42,985	-	1,407,673
Charge for the year	3,589	53,200	274,824	11,452	-	343,065
Impairment charged	-	-	40,985	-	-	40,985
Disposals	-	(17,734)	(116,887)	(2,860)	-	(137,481)
At 31 December 2010	12,452	236,121	1,354,092	51,577	-	1,654,242
Net book value						
At 31 December 2010	60,501	709,185	1,869,011	37,419	362,163	3,038,279

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

23. Property, plant and equipment (continued)

	Office renovation RMB'000	Office equipment RMB'000	Total RMB'000
Company			
<i>Cost</i>			
At 1 January and 31 December 2011	428	172	600
<i>Accumulated depreciation</i>			
At 1 January 2011	428	98	526
Depreciation charge	-	17	17
At 31 December 2011	428	115	543
Net book value			
At 31 December 2011	-	57	57
Company			
<i>Cost</i>			
At 1 January	428	100	528
Additions	-	72	72
At 31 December 2010	428	172	600
<i>Accumulated depreciation</i>			
At 1 January 2010	428	78	506
Depreciation charge	-	20	20
At 31 December 2010	428	98	526
<i>Net book value</i>			
At 31 December 2010	-	74	74

- (a) Certain property, plant and equipment with a total carrying amount as at 31 December 2011 of approximately RMB1,436.8 million (2010: RMB1,886.9 million), are pledged as security for certain bank borrowings (Note 25(a)).
- (b) For capitalised interest in construction in progress, please refer to Note 8 to the financial statements.
- (c) The Group recognised an impairment loss of RMB15.0 million in respect of the property, plant and equipment for its Mill Roll CGU and included in 'cost of sales' for the year ended 31 December 2011 (2010: RMB41.0 million), based on the recoverable amount determined based on value-in-use (Note 3(a)). The Group recognised a further impairment loss of RMB 2.4 million in respect of property, plant and equipment which are no longer in use and included in "cost of sales" for the year ended 31 December 2011 (2010 : Nil).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

24. Trade and other payables

	<u>Group</u>		<u>Company</u>	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade payables to:				
- Third parties	690,229	675,080	-	-
VAT and other taxes payable	65,811	54,491	-	-
Payable to contractors for construction-in-progress	105,460	59,590	-	-
Advances from customers	410,628	674,865	-	-
Other accrual for operating expenses	44,965	2,645	4,412	2,080
Accrual for interest expense	33,559	-	-	-
Staff and workers' bonus and welfare fund ^(a)	18,503	56,904	-	-
Deposits from tenant	-	564	-	-
Deposits from staff and workers	1,276	978	-	-
Due to directors (non-trade)	659	5,049	659	5,049
Deferred income	10,177	11,842	-	-
Other payables	27,928	29,862	7,027	5,157
	1,409,195	1,571,870	12,098	12,286

Amounts due to directors (non-trade) are unsecured, interest-free and repayable within the next twelve months.

(a) The subsidiaries in the People's Republic of China ("PRC") are required to provide for staff and workers' bonus and welfare fund. These funds are created for specific purposes and the utilisation of these funds is at the discretion of the PRC subsidiary's board of directors.

25. Borrowings from banks and other financial institutions

	<u>Group</u>		<u>Company</u>	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
<i>Current</i>				
Finance lease liabilities	15	10	15	10
Bank borrowings				
- Secured ^(a)	1,078,353	694,192	34,755	-
- Guaranteed ^(b)	1,157,931	452,233	-	-
	2,236,299	1,146,435	34,770	10
<i>Non-current</i>				
Finance lease liabilities	46	61	46	61
Bank borrowings				
- Unsecured	19,410	24,411	-	-
- Secured ^(a)	249,022	47,353	139,021	-
- Guaranteed ^(b)	100,000	-	-	-
	368,478	71,825	139,067	61
Total borrowings	2,604,777	1,218,260	173,837	71

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

25. Borrowings from banks and other financial institutions (continued)

(a) Security granted

As at 31 December 2011 these bank loans were secured by certain property, plant and equipment (Note 23). An investment property (Note 22) was pledged as security for borrowings until its disposal during the year ended 31 December 2011.

(b) Credit risk

The bank loans were guaranteed by certain third parties, and Mr Ding Liguu, a Director of the Company. In return, the Group has provided guarantees to banks for borrowings of these third parties as at 31 December 2011 (see Note 30).

The carrying amounts of borrowings approximated their fair values. The fair values are determined from cash flow analyses, discounted at market borrowing rates of between 5% and 8% (2010 : 5% and 8%) at the balance sheet date which the directors expect to be available to the Group.

26. Convertible bonds

On 8 June 2007, the Company issued zero coupon convertible bonds denominated in RMB with a nominal value of RMB1,532,000,000, which are due for repayment on 8 June 2012 (the "Old Convertible Bonds").

In November 2009, with the approval of the bondholders and the shareholders, the Company restructured the Old Convertible Bonds into the following components:

- (a) Initial cash settlement of US\$30 million (equivalent to RMB204,900,000).
- (b) Issue of 43,534,458 Convertible Shares (Note 27) at fair value of RMB218,471,000.
- (c) Issue of Convertible Bonds with a nominal value of RMB158,900,000.

The Convertible Bonds are denominated in RMB with a nominal value of RMB158.9 million and bear coupon interest at 5% per annum. Interest is computed and payable semi-annually on 30 June and 31 December, commencing 30 June 2010. The Convertible Bonds are due for repayment on 8 June 2012. The Convertible Bonds are convertible at the option of the holders, at any time from 10 December 2009 to 1 June 2012, into new ordinary shares of the Company at a conversion price of S\$0.9211 per share (using a fixed exchange rate of S\$1 to RMB4.923). The new ordinary shares issued upon conversion of the Convertible Bonds will in all respect, rank pari passu with the existing shares in issue. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed at the nominal value of the principal outstanding on 8 June 2012.

- (d) Issue of Convertible Bonds (Restricted) with a nominal value of RMB734,400,000.

The Company had fully redeemed the Convertible Bonds (Restricted) in December 2010. The difference between the carrying value of Convertible Bonds (Restricted) and cash settlement was recorded as a gain on early redemption (Note 5).

The information below pertains to the Convertible Bonds (Restricted) as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

26. Convertible bonds (continued)

(d) Issue of Convertible Bonds (Restricted) with a nominal value of RMB734,400,000. (continued)

The Convertible Bonds (Restricted) were denominated in RMB with a nominal value of RMB734.4 million and bear coupon interest at 5% per annum. Interest was computed and payable semi-annually on 30 June and 31 December, commencing 30 June 2010. The Convertible Bonds (Restricted) were originally repayable as follows:

Date	Amount repayable RMB	Nominal value RMB
31 December 2010	136,640,000	170,800,000
31 December 2011	136,595,000	160,700,000
8 June 2012	402,900,000	402,900,000

Originally, the nominal value of the Convertible Bonds (Restricted) would be reduced by RMB170,800,000 and RMB160,700,000 on 31 December 2010 and 31 December 2011 respectively. The difference between the nominal value and the amount repayable was a discount.

At the end of each quarter, subjected to the requirements of the State Administration of Foreign Exchange in the People's Republic of China ("PRC") and the laws of the PRC, cash balances of the Group in excess of RMB350 million were required to be credited into a designated bank account under the terms and conditions of the Convertible Bonds (Restricted). There was a requirement for mandatory redemption of the Convertible Bonds (Restricted) whenever there was at least US\$1 million standing to the credit of the designated bank account. The redemption amount would be applied to redeem the bonds in part on a pro-rata basis. Mandatory redemption on or before 31 December 2011 would be at the nominal value less mandatory redemption discount. Mandatory redemption discount would be 20% if redemption is on or before 31 December 2010 and 15% if redemption is during the period from 1 January 2011 to 31 December 2011.

The Convertible Bonds (Restricted) were convertible at the option of the holders, at any time from 26 November 2009 to 1 June 2012, into new ordinary shares of the Company at a conversion price of S\$0.9211 per share (using a fixed exchange rate of S\$1 to RMB5.02), subjected to certain restrictions for conversion. As long as a restrictive covenant was present in the existing facilities granted by two major banks in the People's Republic of China to the Group which prohibited the current major shareholder of Company from beneficially owning less than 51% of the total share capital, no Convertible Bonds (Restricted) may be converted into new ordinary shares. The new ordinary shares issued upon conversion of the Convertible Bonds (Restricted) would, in all respect, ranked pari passu with the existing shares in issue. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds (Restricted) would be redeemed at nominal value of the principal outstanding on 8 June 2012.

The Company may, at its option at any time on or after 10 December 2009, but not less than seven business days prior to the maturity date, redeem the Convertible Bonds and/or Convertible Bonds (Restricted), in whole or in part, at the nominal value, if the closing price of the shares of the Company is at least 125% of the conversion price for 20 consecutive days, or is less than 10% of the aggregate principal amount of the bonds is outstanding, or in the event of certain changes in tax laws in the People's Republic of China or Singapore that would require the Company to gross up for payment of premium, if any, or to gross up for the payment of principal.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

26. Convertible bonds (continued)

(d) Issue of Convertible Bonds (Restricted) with a nominal value of RMB734,400,000. (continued)

As long as any bond remains outstanding, the Company shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon any part of the Group's present or future undertaking, assets or revenues to secure borrowings without meeting certain conditions.

The total number of new ordinary shares of the Company to be issued upon full conversion of all the Convertible Bonds is 35,041,870 shares, representing 6.5% of the enlarged share capital of the Company at the date of the restructuring.

The bondholder has the right to require the Company to redeem in cash all or part of its bonds if the shares ceased to be listed on the Singapore Exchange Securities Trading Limited, or in the event of a change of control of the Company.

As the discounted cash flows and the terms and conditions of the restructured bonds are substantially different from the existing bonds, the existing obligations are considered extinguished and a new set of obligations has been entered into upon restructuring. The new obligations have been recorded as liabilities on the balance sheet of the Group. The Company engaged a professional valuer to assess the fair value of the new obligations on inception date. The fair value of the new obligations was calculated using a discount rate of 11.4%. This was the market interest rate that would be available to the Group if it were to issue a single debt instrument, instead of compound financial instruments, and was determined by benchmarking with comparable debt instruments in the market at the date of issue. A Binomial Tree model was used to value the derivatives and the Discounted Cash Flow approach was employed to value the liability components.

The difference between the carrying amount of the Old Convertible Bonds (that is, the liability component of the convertible bonds) and the fair value of the new obligations on inception date was recorded as a gain on restructuring in the financial year ended 31 December 2009.

The movement of the convertible bonds during the financial year is as follows:

	Convertible Bonds RMB'000	Convertible Bonds (Restricted) RMB'000
Group and Company		
2011		
Beginning of financial year	141,616	-
Amortisation of interest expense	17,580	-
Payment of interest	(7,744)	-
End of financial year	151,452	-
2010		
Beginning of financial year	136,007	598,207
Amortisation of interest expense	16,875	54,838
Payment of interest	(8,196)	(32,382)
Repayment of principal	-	(620,663)
Conversion into new ordinary shares	(3,070)	-
End of financial year	141,616	-

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***26. Convertible bonds** (continued)

The movement of the derivative liability component of the convertible bonds during the financial year is as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Beginning of financial year	12,370	24,833
Gain on change in fair value	(12,369)	(11,918)
Conversion into new ordinary shares	-	(545)
End of financial year	1	12,370

The fair value of the liability component of the convertible bonds, which are not actively traded, was approximately RMB150,634,331 (2010: RMB146,973,000) as at 31 December 2011, based on cash flows discounted at an effective interest rate of 11.4% (2010: 10.0%). The effective interest rate represents the market interest rate that would be available to the Group determined by benchmarking with comparable debt instruments in the market at the balance sheet date.

The convertible bonds are presented on the balance sheet as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Current		
Convertible Bonds	151,452	-
Derivative liability – Convertible Bonds	1	-
	151,453	-
Non-current		
Convertible Bonds	-	141,616
Derivative liability – Convertible Bonds	-	12,370
	-	153,986
Total convertible bonds	151,453	153,986

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

27. Convertible shares

On restructuring of the Old Convertible Bonds (Note 26), the Company issued 43,534,458 Convertible Shares at S\$0.9211 per share which rank pari passu in all respects with the ordinary shares except as follows:

- (a) Convertible Share holders ("Holders") have the put options to require the Company to redeem up to 50% of the Convertible Shares on each of 26 November 2013 and 26 November 2014, at S\$0.9211 per share. The put option will lapse when the Holder:
- elects to convert the Convertible Shares into new ordinary shares; or
 - has sold, transferred or disposed of the Convertible Shares; or elects not to sell the Convertible Shares following the exercise of call option by the Company
- (b) The Company has the call option to redeem the Convertible Shares at any time from 1 January 2010 to 31 December 2014 at a redemption price computed with an imputed interest yield of 5% on the issuance price of S\$0.9211 per share. The call option will lapse when:
- the Holder converts the Convertible Shares into new ordinary shares; or
 - the Holder has sold, transferred or disposed of the Convertible Shares.

The Convertible Shares are convertible at the option of the Holders, at any time into new ordinary shares of the Company at a conversion rate of one Convertible Share for one ordinary share. The new ordinary shares issued upon conversion of the Convertible Share will, in all respect, rank pari passu with the existing shares in issue.

The total number of new ordinary shares of the Company to be issued upon full conversion of all the Convertible Bonds is 43,534,458 shares, representing 8.1% of the enlarged share capital of the Company at the date of the restructuring.

The movement of the Convertible Shares during the financial year is as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
<i>Non-derivative liability component</i>		
Beginning of financial period	98,616	115,761
Amortisation of interest expense	11,941	13,583
Conversion into new ordinary shares	(737)	(36,887)
Currency translation difference	(6,871)	6,159
End of financial year	102,949	98,616
<i>Derivative liability component</i>		
Beginning of financial period	22,608	51,841
Gain on change in fair value during the financial year	(20,738)	(19,521)
Conversion into new ordinary shares	(112)	(9,712)
End of financial year	1,758	22,608
Total carrying amount of Convertible Shares at end of financial year	104,707	121,224

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

27. Convertible shares (continued)

The fair value of the non-derivative liability component of the Convertible Shares, which are not actively traded, was approximately RMB100,149,867 (2010: RMB103,770,000) as at 31 December 2011, based on cash flows discounted at an effective interest rate of 11.4% (2010: 10.0%). The effective interest rate represents the market interest rate that would be available to the Group determined by benchmarking with comparable debt instruments in the market at the balance sheet date.

28. Share capital

Issued ordinary share capital

	<u>Group and Company</u>		<u>Group</u>		<u>Company</u>	
	2011 Shares '000	2010 Shares '000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
At beginning of the financial year	549,853	535,478	403,511	353,297	2,109,347	2,059,133
Issue of shares pursuant to conversion of convertible bonds and convertible shares	304	14,375	850	50,214	850	50,214
At end of the financial year	550,157	549,853	404,361	403,511	2,110,197	2,109,347

All issued shares are fully paid. The newly issued shares rank pari passu in all respects with the previously issued shares.

29. Reserves

(a) Capital reserve

Capital reserve comprises the equity component of the Old Convertible Bonds (Note 26) issued in June 2007. The Old Convertible Bonds were extinguished in November 2009.

(b) Fair value reserve

Fair value reserve comprises cumulative changes in fair value of the available-for-sale financial assets.

(c) 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.

(d) Retained profits

As at 31 December 2011, approximately RMB126,974,000 (2010: RMB126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Acquisition (Note 2.4).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

30. Contingent liabilities

As at 31 December 2011, guarantees given to banks by the Group in respect of bank loans granted to third parties amounted to approximately RMB229.3 million (2010: RMB279.0 million). In return, guarantees are obtained from these third parties for the Group's borrowings (Note 25).

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 31 December 2011, there was no guarantee given to banks by the Company in respect of bank loans granted to subsidiaries. (2010: RMB8.5 million).

31. Commitments

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	141,070	175,494

(b) Operating lease commitments - where the Group and the Company are lessees

The future aggregate minimum lease payments for land and office premises under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	-	480
Later than 1 year but not later than 5 years	-	1,918
Later than 5 years	-	19,384
	-	21,782

Included in the above are future aggregated minimum lease payments for land rent payable to Jurong Town Corporation and these are subject to revision on the first day of June every year, at the rate based on the market rent on the respective dates, not exceeding 5.5% of the yearly rent for each immediate preceding year.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

31. Commitments (continued)

(c) Operating lease commitments – where the Group is a lessor

The Group leases out investment property to non-related party under non-cancellable operating lease. The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	-	2,375
Later than 1 year but not later than 5 years	-	3,958
	-	<u>6,333</u>

32. Financial risk management

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

(a) Market risk

(i) *Currency risk*

The Group's activities are carried out mainly in the People's Republic of China and most of the transactions are carried out in Renminbi ("RMB"), the functional currency of the Company.

Currency risk arises when transactions are denominated in foreign currencies, such as the Singapore Dollar ("SGD"), United States Dollar ("USD") and Australian Dollar ("AUD").

In addition, the Group is exposed to currency translation risk from net assets in Singapore. Currency exposure to the net assets of the Group's operations in Singapore is managed primarily through borrowings denominated in Singapore dollars.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(a) Market risk (continued)

(i) *Currency risk (continued)*

The exposure of the Group and the Company based on the information provided to key management is as follows:

	RMB RMB'000	USD RMB'000	AUD RMB'000	HKD RMB'000	SGD RMB'000	Total RMB'000
Group						
<i>At 31 December 2011</i>						
Financial assets						
Cash and cash equivalents, bank balances pledged and financial assets at fair value through profit or loss and available-for-sale	1,200,271	496,462	21,148	565	32,433	1,750,879
Trade and other receivables	1,046,321	-	-	-	126	1,046,447
Intra-Group balances	937,746	192,354	-	-	308,133	1,438,233
	<u>3,184,338</u>	<u>688,816</u>	<u>21,148</u>	<u>565</u>	<u>340,692</u>	<u>4,235,559</u>
Financial liabilities						
Borrowings	1,506,425	1,249,744	-	-	104,768	2,860,937
Other financial liabilities	1,787,095	-	-	-	12,100	1,799,195
Intra-Group balances	937,746	192,354	-	-	308,133	1,438,233
	<u>4,231,266</u>	<u>1,442,098</u>	<u>-</u>	<u>-</u>	<u>425,001</u>	<u>6,098,365</u>
Net financial (liabilities)/assets	(1,046,928)	(753,282)	21,148	565	(84,309)	(1,862,806)
Less: Net financial liabilities/ (assets) denominated in the respective entities functional currency	1,046,928	-	-	-	30,880	1,077,808
Currency exposure	<u>-</u>	<u>(753,282)</u>	<u>21,148</u>	<u>565</u>	<u>(53,429)</u>	<u>(784,998)</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	RMB RMB'000	USD RMB'000	AUD RMB'000	HKD RMB'000	SGD RMB'000	Total RMB'000
Group						
<i>At 31 December 2010</i>						
Financial assets						
Cash and cash equivalents, bank balances pledged and financial assets at fair value through profit or loss and available-for-sale	902,976	74,093	41,591	620	19,013	1,038,293
Trade and other receivables	662,106	-	-	-	71	662,177
Intra-Group balances	561,970	517,723	-	-	327,365	1,407,058
	<u>2,127,052</u>	<u>591,816</u>	<u>41,591</u>	<u>620</u>	<u>346,449</u>	<u>3,107,528</u>
Financial liabilities						
Borrowings	1,302,141	61,490	-	-	129,839	1,493,470
Other financial liabilities	2,366,718	-	-	-	12,868	2,379,586
Intra-Group balances	561,970	517,723	-	-	327,365	1,407,058
	<u>4,230,829</u>	<u>579,213</u>	<u>-</u>	<u>-</u>	<u>470,072</u>	<u>5,280,114</u>
Net financial (liabilities)/ assets	(2,103,777)	12,603	41,591	620	(123,623)	(2,172,586)
Less: Net financial liabilities/ (assets) denominated in the respective entities functional currency	2,103,777	-	-	-	7,397	2,111,174
Currency exposure	<u>-</u>	<u>12,603</u>	<u>41,591</u>	<u>620</u>	<u>(116,226)</u>	<u>(61,412)</u>
Company						
<i>At 31 December 2011</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	-	177,265	21,148	464	1,551	200,428
Trade and other receivables	323,244	-	-	-	308,259	631,503
	<u>323,244</u>	<u>177,265</u>	<u>21,148</u>	<u>464</u>	<u>309,810</u>	<u>831,931</u>
Financial liabilities						
Borrowings	151,453	173,776	-	-	104,768	429,997
Other financial liabilities	-	-	-	-	12,100	12,100
	<u>151,453</u>	<u>173,776</u>	<u>-</u>	<u>-</u>	<u>116,868</u>	<u>442,097</u>
Net financial (liabilities)/ assets	171,791	3,489	21,148	464	192,942	389,834
Less: Net financial liabilities/ (assets) denominated in the respective entities functional currency	(171,791)	-	-	-	-	(171,791)
Currency exposure	<u>-</u>	<u>3,489</u>	<u>21,148</u>	<u>464</u>	<u>192,942</u>	<u>218,043</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	RMB RMB'000	USD RMB'000	AUD RMB'000	HKD RMB'000	SGD RMB'000	Total RMB'000
Company						
<i>At 31 December 2010</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	-	9,723	41,591	512	3,037	54,863
Trade and other receivables	-	323,224	-	-	327,436	650,660
	-	332,947	41,591	512	330,473	705,523
Financial liabilities						
Borrowings	153,986	-	-	-	121,295	275,281
Other financial liabilities	-	-	-	-	12,286	12,286
	153,986	-	-	-	133,581	287,567
Net financial (liabilities)/ assets	(153,986)	332,947	41,591	512	196,892	417,956
Less: Net financial liabilities/ (assets) denominated in the respective entities functional currency	153,986	-	-	-	-	153,986
Currency exposure	-	332,947	41,591	512	196,892	571,942

If the value of USD, SGD and AUD had changed against the RMB by 3% (2010: 2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position would have been as follows:

	2011		2010	
	Profit after tax RMB'000	Equity RMB'000	Profit after tax RMB'000	Equity RMB'000
Group				
USD against RMB				
- strengthened	(16,949)	-	189	-
- weakened	16,949	-	(189)	-
SGD against RMB				
- strengthened	(1,202)	-	(1,743)	-
- weakened	1,202	-	1,743	-
AUD against RMB				
- strengthened	471	-	624	-
- weakened	(471)	-	(624)	-

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(a) Market risk (continued)

(i) *Currency risk (continued)*

	2011		2010	
	Profit after tax RMB'000	Equity RMB'000	Profit after tax RMB'000	Equity RMB'000
Company				
USD against RMB				
- strengthened	87	-	5,527	-
- weakened	(87)	-	(5,527)	-
SGD against RMB				
- strengthened	4,804	-	3,268	-
- weakened	(4,804)	-	(3,268)	-
AUD against RMB				
- strengthened	522	-	690	-
- weakened	(522)	-	(690)	-

(ii) *Price risk*

The Group is exposed to equity securities price risk due to its investments which are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. These are securities listed in Australia and Hong Kong. The Group continually monitors its price risk exposure arising from its investments.

If prices for equity securities listed in Australia and Hong Kong had changed by 5% (2010: 5%) with all other variables including tax rate being held constant, the effect on profit after tax and equity would have been:

	2011		2010	
	Profit after tax RMB'000	Equity RMB'000	Profit after tax RMB'000	Equity RMB'000
Group and Company				
Listed in ASX				
- increased by	8	-	29	-
- decreased by	(8)	-	(29)	-
Listed in Hong Kong				
- increased by	19	-	21	-
- decreased by	(19)	-	(21)	-

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(a) Market risk (continued)

(iii) *Cash flow and fair value interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. 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 fair value interest rate risk and cash flow interest rate risk are controlled and monitored on a regular basis.

The Group's borrowings by means of convertible bonds are denominated in RMB and effectively at a fixed interest rate. Other borrowings 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% (2010: 1%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by RMB 26,047,770 (2010: RMB12,096,000) as a result of higher/lower interest expense on these borrowings.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and the Company are bank deposits and trade and other receivables. The Group has policies in place to ensure that sale of products are either under cash in advance or cash on delivery terms for new customers. Credit terms are only granted to customers with an appropriate credit history. Cash and cash equivalents of the Group are principally deposited with reputable banks in the mainland China, Hong Kong and Singapore.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Group based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and by 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 balance sheet, except as follows:

	<u>Group</u>		<u>Company</u>	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Corporate guarantees provided to banks on:				
- subsidiaries' loans	-	-	-	8,545
- third parties' loans	229,300	279,000	-	-

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(b) Credit risk (continued)

As at 31 December 2011, the finance lease receivables were due from one debtor (2010: one debtor), Tangshan Delong Steel Co., Ltd. The Group's credit exposure to Tangshan Delong Steel Co., Ltd at the balance sheet date was as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Entrusted loan to customer (Note 16)	65,000	-
Finance lease receivables (Note 18)	177,908	188,290
Corporate guarantees provided to banks on third parties' loans (Note 30)	129,300	313,370
	372,208	501,660

The credit risk for trade and other receivables based on the information provided to key management is as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
<i>By geographical areas</i>				
People's Republic of China	1,046,320	662,106	323,244	323,224
Singapore	127	71	308,259	327,436
	1,046,447	662,177	631,503	650,660
<i>By types of customers</i>				
Non-related parties	1,046,447	662,177	127	71
Related parties	-	-	631,376	650,589
	1,046,447	662,177	631,503	650,660

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks in mainly 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.

(ii) Financial assets that are past due

There are no financial assets that are past due.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities (Note 2.2) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 11.

Management monitors rolling forecasts of the liquidity reserve (comprises undrawn borrowing facility (Note 2.2) and cash and cash equivalents (Note 11)) 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.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows.

	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Group		
<i>At 31 December 2011</i>		
Notes payables	390,000	-
Trade and other payables	1,409,195	-
Borrowings from banks and financial institutions	2,292,966	435,214
Convertible bonds	158,704	-
Convertible shares	-	139,535
Financial guarantee contracts	229,300	-
<i>At 31 December 2010</i>		
Notes payables	807,716	-
Trade and other payables	1,571,870	-
Borrowings from banks and financial institutions	1,192,456	76,287
Convertible bonds	-	158,704
Convertible shares	-	136,753
Financial guarantee contracts	279,000	-

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***32. Financial risk management** (continued)(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Company		
<i>At 31 December 2011</i>		
Trade and other payables	12,100	-
Borrowings from banks and financial institutions	36,381	156,763
Convertible bonds	158,704	-
Convertible shares	-	139,535

Company*At 31 December 2010*

Trade and other payables	12,286	-
Borrowings from banks and financial institutions	10	61
Convertible bonds	-	158,704
Convertible shares	-	136,753
Financial guarantee contracts	8,545	-

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.

(d) Capital risk

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 gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as bonds and borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(d) Capital risk (continued)

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt	1,844,369	983,742	230,226	221,622
Total equity	2,402,877	2,396,497	2,274,900	2,307,124
Total capital	4,247,246	3,380,239	2,505,126	2,528,746
Gearing ratio	43.4%	29.1%	9.2%	8.8%

The Group is required by the banks to maintain a Total liability/Total asset ratio of not exceeding 75% (2010: N/A). The Group's strategy is to maintain Total liability/Total asset ratio of not exceeding 75%.

	Group	
	2011	2010
	RMB'000	RMB'000
Total liability	4,712,687	3,950,469
Total asset	7,115,564	6,346,966
Gearing ratio	66.2%	62.2%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2010 and 2011.

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***32. Financial risk management** (continued)(e) 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:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2) ; and
- (c) inputs for the asset or liability that are not based on observable market data (Level 3)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group and Company				
At 31 December 2011				
Assets				
Financial assets at fair value through profit or loss - equity held for trading	657	-	-	657
Total assets	657	-	-	657
Liabilities				
Convertible bonds - derivative liability component	-	-	1	1
Convertible shares - derivative liability component	-	-	1,758	1,758
Total liabilities	-	-	1,759	1,759

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(e) Fair value measurements (continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group and Company				
At 31 December 2010				
Assets				
Financial assets at fair value through profit or loss - equity held for trading	1,204	-	-	1,204
Total assets	1,204	-	-	1,204
Liabilities				
Convertible bonds - derivative liability component	-	-	12,370	12,370
Convertible shares - derivative liability component	-	-	22,608	22,608
Total liabilities	-	-	34,978	34,978

The fair value of financial instruments traded in active market (such as equity securities) is based on quoted market prices at the balance sheet date.

The Group engaged a professional valuer to assess the fair value of financial instruments that are not traded in an active market (for example, unlisted equity options, derivative components of the convertible bonds and convertible shares). The professional valuer used the Binomial Tree model and market data inputs which were based on market conditions existing at each balance sheet date.

Key market data inputs used in the valuation of the derivative components of the convertible bonds and convertible shares included the quoted market price of the Company's shares at the balance sheet date of S\$0.26 (2010: S\$0.57) per share and the volatility of the share price of 56% (2010: 70%). If the share price used in the valuation had been S\$0.29 (2010: S\$0.63) or S\$0.23 (2010: S\$0.51) instead of S\$0.26 (2010: S\$0.57), the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB2.1 million (2010: RMB6.8 million) and RMB1.2 million (2010: RMB6.0 million) respectively. If the volatility of the share price used in the valuation had been 66% (2010: 80%) or 46% (2010: 60%), instead of 56% (2010: 70%), the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB2.6 million (2010: RMB3.3 million) and RMB0.8 million (2010: RMB4.3 million) respectively.

In addition, while the Group's convertible bonds and convertible shares (accounted for as a financial liability) were measured at amortised cost using the effective interest method, the derivative component were recognised at fair value at balance sheet date and such fair values were determined by using valuation techniques. Such fair value measurements were categorised as Level 3 within the fair value hierarchy. The most significant input to these fair value measurements was the effective interest rate of 11.4% (2010: 11.4%) per annum used to discount the future contracted cash flows. The effective interest rate of 11.4% (2010: 11.4%) represented the market interest rate that would be available to the Group if it were to issue a single debt instrument, instead of issuing compound financial instruments, and was determined by benchmarking with comparable debt instruments in the market at the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

32. Financial risk management (continued)

(e) Fair value measurements (continued)

The following table presents the changes in Level 3 financial assets/(liabilities) instruments for the financial year:

	Available-for- sale financial assets RMB'000	Convertible bonds - derivative component RMB'000	Convertible shares - derivative component RMB'000
2011			
Opening balance	-	(12,370)	(22,608)
Conversion into new ordinary shares	-	-	112
Gains on change in fair value recognised in profit or loss	-	12,369	20,738
Closing balance	-	(1)	(1,758)
2010			
Opening balance	42,359	(24,833)	(51,841)
Additions	54,815	-	-
Sold during the financial year	(85,509)	-	-
Dividend received	(11,665)	-	-
Conversion into new ordinary shares	-	545	9,712
Gains on change in fair value recognised in profit or loss	-	11,918	19,521
Closing balance	-	(12,370)	(22,608)

The carrying amounts of trade and other receivables and payables, and notes payables approximated their fair values. The fair value of financial liabilities (such as convertible bonds and convertible shares) for disclosure purposes was estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group at the balance sheet date if it were to issue a single debt instrument, instead of issuing compound financial instruments, and was determined by benchmarking with comparable debt instruments in the market. The fair values of other borrowings approximated their carrying amounts.

(f) Financial instruments by category

The carrying amount of financial assets, available-for-sale and financial assets at fair value through profit or loss are disclosed on the face of the balance sheets and in Note 13 and Note 19 to the financial statements respectively. The aggregate carrying amounts of loans and receivables and financial liabilities at amortised cost are as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Loans and receivables	2,776,669	1,679,266	831,275	704,319
Financial liabilities at amortised cost	4,660,132	3,873,056	442,095	287,567

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

33. Immediate and ultimate holding corporation

The Company's immediate holding corporation is Best Decade Holdings Limited, incorporated in the British Virgin Islands. The Company's ultimate holding corporation is Honest Joy International Ltd, incorporated in the British Virgin Islands. The controlling shareholder of Honest Joy International Ltd is Mr Ding Ligu.

34. Related party transactions

Besides transactions disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties during the financial year:

a) Sales of goods and services

	Group	
	2011	2010
	RMB'000	RMB'000
Sales of mill rolls to		
- Hebei Delong Modern Special Tube Manufacturing Co. Ltd.	5,775	-
	5,775	-

b) Key management personnel compensation

The key management personnel compensation is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries and other short term employee benefits	7,801	7,574
Post-employment benefits - defined contribution plans	1,953	1,942
	9,754	9,516

Included in the above was total compensation to directors of the Company amounting to RMB5,194,453 (2010: RMB6,698,543), including directors' fees of RMB1,583,840 (2010: RMB1,538,250).

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***35. Segment information**

The Group was primarily operating in one single business segment i.e. the manufacture and sale of hot-rolled steel coils. 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 and finance leasing, do not constitute a separate reportable segment and are included in the "Other" column.

The segment information for the reportable segments for the year ended 31 December 2011 is as follows:

2011	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
External Sales	10,462,153	-	10,462,153
Inter-segment sales	(19,575)	-	(19,575)
Sales to external parties	10,442,578	-	10,442,578
Adjusted EBITDA*	567,750	(3,242)	564,508
Depreciation	(351,226)	(241)	(351,467)
Impairment loss on property, plant and equipment	(17,420)	-	(17,420)
Unallocated:			
Finance expense			(215,845)
Gain on change in fair value of convertible bonds			12,369
Gain on change in fair value of convertible shares			20,738
Currency exchange loss on convertible shares			6,871
Profit before income tax			<u>19,754</u>
Total assets	<u>6,617,010</u>	<u>498,554</u>	<u>7,115,564</u>
Total assets includes:			
Additions to property, plant and equipment	208,334	-	208,334
Total liabilities	<u>4,247,200</u>	<u>465,487</u>	<u>4,712,687</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

35. Segment information (continued)

2010	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
External Sales	10,047,514	-	10,047,514
Inter-segment sales	(122,272)	-	(122,272)
Sales to external parties	9,925,242	-	9,925,242
Adjusted EBITDA*			
Depreciation	(343,045)	(357)	(343,402)
Impairment loss on property, plant and equipment	(40,985)	-	(40,985)
Unallocated:			
Share of loss of associated company			(100)
Finance expense			(225,515)
Gain on early redemption of convertible bonds			34,663
Gain on change in fair value of convertible bonds			11,918
Gain on change in fair value of convertible shares			19,521
Currency exchange loss on convertible shares			(6,159)
Profit before income tax			462,288
Total assets	6,287,295	59,671	6,346,966
Total assets includes:			
Additions to property, plant and equipment	115,577	101	115,678
Total liabilities	3,590,938	359,531	3,950,469

* EBITDA refers to earnings before interest, tax, depreciation and amortisation.

NOTES TO THE FINANCIAL STATEMENTS*For The Financial Year Ended 31 December 2011***36. List of companies in the Group**

Name of Company	Principal activities	Country of incorporation	Equity holding	
			2011 %	2010 %
<u>Held by the Company</u>				
Asia Paragon International Limited ^(a)	Investment holding	British Virgin Islands	100	100
Dexin Steel Pte Ltd ^(b)	Investment property holding	Singapore	100	100
<u>Held by Asia Paragon</u>				
Delong Steel Limited ^(c)	Production and sales of hot-rolled steel coils	PRC	100	100
Dezhong International Financing Leasing Co., Ltd ^(d)	Financial Leasing activities	PRC	100	100
<u>Held by Dexin Steel</u>				
Xingtai Xinlong Coal-Gas Limited ^(e)	Coal gas recycling	PRC	100	100
Xingtai Delong Machinery and Mill Roll Co., Ltd ^(d)	Design, development, manufacturing and sale of large diameter steel mill rollers and large cast steel articles	PRC	100	100
<u>Held by Delong Steel</u>				
Tianjin Qiruicheng International Trading Co., Ltd ^(d)	Investment in resource-related projects and trading in steel and steel-related products	PRC	100	-

Notes

- (a) Not required to be audited under the laws of the country of incorporation and not a significant subsidiary/associate.
- (b) Audited by PricewaterhouseCoopers LLP Singapore.
- (c) Audited by Zhong Xing Cai Guang Hua Certified Public Accountants Co., Ltd for local statutory reporting. For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform an audit of Delong Steel Limited for consolidation purposes.
- (d) For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform an audit for consolidation purposes.
- (e) For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform a review for consolidation purposes.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2011

37. Event occurring after the balance sheet date

On 17 January 2012, Tianjin Qiruicheng International Co., Ltd, a wholly owned subsidiary of the Company incorporated in the People's Republic of China has entered into a equity acquisition agreement with Hebei Aowei Group Co. Ltd ("Hebei Aowei") and Laiyuan County Aoyu Steel Co. Ltd ("Aoyu Steel") for the proposed acquisition of 80% of the equity of Aoyu Steel from Hebei Aowei (the "Proposed Acquisition"). Following the completion of the Proposed Acquisition, the Purchaser will own 80% of the equity of Aoyu Steel and Hebei Aowei will retain the balance 20% of the equity of the Target Company (the "Balance Equity"). Within three (3) years from the completion date and subject to Aoyu Steel keeping its business registration and continuous production, the Company shall acquire the Balance Equity held by Hebei Aowei on the terms and conditions as agreed upon.

The Proposed Acquisition was approved by shareholders at the Extraordinary General Meeting held on 26 March 2012.

38. New or revised accounting standards and interpretations

Certain new accounting standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2012. The Company does not expect that adoption of these accounting standards or interpretations will have a material impact on the Company's financial statements.

39. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Delong Holdings Limited on 13 April 2012.

STATISTICS OF SHAREHOLDINGS

As At 15 March 2012

Authorised and fully paid-up capital	:	RMB2,110,196,910
No. of Shares issued	:	550,156,703
Voting Rights	:	1 vote per share
Class of shares	:	Ordinary shares

Size of Shareholdings			No. of Shareholders	%	No. of Shares	%
1	-	999	667	29.62	259,254	0.05
1,000	-	10,000	1,151	51.11	4,502,883	0.82
10,001	-	1,000,000	423	18.78	25,494,030	4.63
1,000,001		and above	11	0.49	519,900,536	94.50
Total			2,252	100.00	550,156,703	100.00

Top Twenty Shareholders	No. of Shares	%
CIMB Securities (Singapore) Pte Ltd	261,235,667	47.48
Best Decade Holdings Limited	60,000,000	10.91
Merrill Lynch (Singapore) Pte Ltd	53,562,392	9.74
HSBC (Singapore) Nominees Pte Ltd	53,400,850	9.71
DBS Nominees Pte Ltd	35,027,750	6.37
Raffles Nominees (Pte) Ltd	30,146,400	5.48
Phillip Securities Pte Ltd	11,030,400	2.00
Citibank Nominees Singapore Pte Ltd	6,000,327	1.09
Inaya Limited	5,000,000	0.91
AGC Asia 2 Ltd	3,000,000	0.54
UOB Kay Hian Pte Ltd	1,496,750	0.27
Morgan Stanley Asia (Singapore) Securities Pte Ltd	969,470	0.18
Teo Chee Kok	915,000	0.17
United Overseas Bank Nominees Pte Ltd	776,453	0.14
Bank of Singapore Nominees Pte Ltd	594,000	0.10
Yong Foong Yee	527,000	0.10
Maybank Kim Eng Securities Pte Ltd	465,367	0.08
OCBC Securities Private Ltd	415,425	0.08
Lim Beak Leang	408,000	0.07
Shane Tang	397,000	0.07
	525,368,251	95.49

STATISTICS OF SHAREHOLDINGS

As At 15 March 2012

Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Best Decade Holding Limited	320,817,502 ⁽¹⁾	58.31	-	-
Golden Top Group Limited	-	-	320,817,502 ⁽²⁾	58.31
Ding Liguo	-	-	320,817,502 ⁽³⁾	58.31
Zhao Jing	-	-	320,817,502 ⁽³⁾	58.31
Evrax S.A Group	53,557,498 ⁽⁵⁾	9.73	29,296,500 ⁽⁴⁾	5.33
Mastercraft Limited	29,296,500 ⁽⁵⁾	5.33	-	-

Notes:

- (1) 260,817,502 shares are held through nominees account.
- (2) Golden Top Group Limited owns 100% of the share capital in Best Decade Holdings Limited ("Best Decade") and is therefore deemed to be interested in the shares of the Company held by Best Decade.
- (3) Mr Ding Liguo and Madam Zhao Jing hold 70% and 30% respectively of the share capital in Golden Top Group Limited. They are therefore deemed interested in the shares of the Company held by Best Decade.
- (4) Mastercraft Limited is a subsidiary of Evrax S.A Group. As such Evrax S.A Group is deemed interested in the shares held by Mastercraft Limited.
- (5) Shares are held through nominees account.

Public Shareholding

Based on the register of shareholdings and to the best of the Company, as at 15 March 2012, 26.63% of the Company's shares were held in public. The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Delong Holdings Limited will be held at Maxwell Chambers, 32 Maxwell Road #03-01 Singapore 069115 on Monday, 30 April 2012, at 11.00 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Financial Statements for the year ended 31 December 2011 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to Article 89 of the Company's Articles of Association:-

Mr. Zuo Shuowen (Retiring under Article 89) **(Resolution 2)**
 Mr. Lai Hock Meng (Retiring under Article 89) **(Resolution 3)**

Mr. Lai Hock Meng will, upon re-election as Director of the Company, remain as Chairman of the Audit Committee and member of the Nominating Committee and Remuneration Committee, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
3. To re-appoint Mr. Bai Baohua as Director of the Company to hold office until the next Annual General Meeting pursuant to Section 153(6) of the Companies Act, Cap. 50. **(Resolution 4)**

Mr. Bai Baohua will, upon re-appointment as Director of the Company, remain as member of the Audit Committee and Chairman of the Nominating Committee and Remuneration Committee, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
4. To approve the payment of Directors' fees of RMB 1,583,840 for the financial year ended 31 December 2011. (2010: RMB 1,538,250) **(Resolution 5)**
5. To appoint Messrs Deloitte & Touche LLP as the Independent Auditor of the Company in place of Messrs PricewaterhouseCoopers LLP and to authorise the Directors of the Company to fix their remuneration. [See Explanatory Note 1] **(Resolution 6)**
6. To transact any other business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

7. To consider and, if thought fit, to pass the following resolution, with or without amendments, as an Ordinary Resolution:-

General Mandate to authorise the Directors to issue shares or convertible securities

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 and the listing rules of Singapore Exchange Securities Trading Limited (the "Listing Rules"), authority be and is hereby given to the Directors of the Company to allot and issue:-

 - (a) shares; or
 - (b) convertible securities; or
 - (c) additional convertible securities issued pursuant to Rule 829 of the Listing Rules; and/or
 - (d) shares arising from the conversion of securities in (b) and (c) above,

NOTICE OF ANNUAL GENERAL MEETING

in the Company (whether by way of rights, bonus or otherwise) at any time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that: (i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution must be not more than 50% of the total number of issued shares excluding treasury shares in the capital of the Company (calculated in accordance with (ii) below); of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20% of the total number of issued shares excluding treasury shares in the capital of the Company (calculated in accordance with (ii) below); and (ii) for the purpose of determining the aggregate number of shares and convertible securities that may be issued pursuant to (i) above, the total number of issued shares excluding treasury shares shall be calculated based on the total number of issued shares excluding treasury shares in the capital of the Company at the time of the passing of this resolution after adjusting for (a) new shares arising from the conversion or exercise of convertible securities; (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution and (c) any subsequent bonus issue, consolidation or subdivision of shares. Unless revoked or varied by ordinary resolution of the shareholders of the Company in general meeting, this resolution shall remain in force until the earlier of the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier." [See Explanatory Note 2] **(Resolution 7)**

BY ORDER OF THE BOARD

Yeo Lee Luang

Company Secretary
Singapore, 13 April 2012

EXPLANATORY NOTE:-

- (1) The Ordinary Resolution proposed under item 5 relates to the appointment of Messrs Deloitte & Touche LLP as Independent auditors of the Company in place of PricewaterhouseCoopers LLP who are auditors of the Company and would be retiring at the Annual General Meeting. Please refer to the Appendix relating to the Proposed Change of Auditors.
- (2) The Ordinary Resolution proposed in item 7 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting, to issue shares and convertible securities in the Company up to an amount not exceeding in total fifty per cent (50%) of the total number of issued shares excluding treasury shares in the capital of the Company of which the aggregate number of shares to be issued other than on a pro rata basis to all existing shareholders of the Company shall not exceed 20% of the total number of issued shares excluding treasury shares in the capital of the Company.

NOTES:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.
2. A proxy need not be a member of the Company.
3. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
4. The instrument appointing a proxy must be deposited at the registered office of the Company at 3 Raffles Place, #07-01 Bharat Building, Singapore 048617 not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

This page has been intentionally left blank.

IMPORTANT

1. For investors who have used their CPF monies to buy shares of Delong Holdings Limited, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to vote should contact their CPF Approved Nominee

**ANNUAL GENERAL MEETING
 PROXY FORM**

*I/We _____ (Name) *NRIC / Passport No. _____
 of _____
 being a *member/members of **DELONG HOLDINGS LIMITED** ("the Company") hereby appoint

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as *my/our *proxy/proxies to attend and to vote for *me/us on *my/our behalf, at the Annual General Meeting of the Company to be held at Maxwell Chambers, 32 Maxwell Road #03-01 Singapore 069115 on Monday, 30 April 2012, at 11.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarised below, the *proxy/proxies will vote or abstain from voting at *his/their discretion.

No.	Resolutions	For**	Against**
1	Directors' Reports and Audited Financial Statements for the year ended 31 December 2011		
2	Re-election of Mr Zuo Shuowen as a Director		
3	Re-election of Mr Lai Hock Meng as a Director		
4	Re-appointment of Mr Bai Baohua as a Director		
5	Approval of Directors' fees amounting to RMB 1,583,840.00		
6	To appoint Messrs Deloitte & Touche LLP as Auditors		
7	Authority to allot and issue new shares		

* Delete accordingly

** Please indicate your vote "For" or "Against" with a tick (✓) within the box provided.

Dated this _____ day of _____ 2012.

Shares held in:	Total No. of Shares:
(a) CDP Register	
(b) Register of Members	

 Signature(s) of Member(s)/Common Seal

IMPORTANT: PLEASE READ NOTES OVERLEAF



Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.
2. Where a member appoints more than one proxy, the proportion of the shareholding to be represented by each proxy shall be specified in this proxy form. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire shareholding and any second named proxy as an alternate to the first named.
3. A proxy need not be a member of the Company.
4. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in section 130A of the Companies Act, Cap. 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.
5. This proxy form must be deposited at the Company's registered office at 3 Raffles Place, #07-01 Bharat Building, Singapore 048617 not less than 48 hours before the time set for the Meeting.
6. This proxy form must be under the hand of the appointor or of his attorney duly authorised in writing. Where this proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where this proxy form is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be duly stamped and deposited with this proxy form, failing which this proxy form shall be treated as invalid.

General

The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of shares entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.