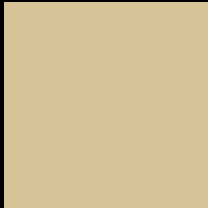




德龙控股
DELONG HOLDINGS

ANNUAL REPORT 2009





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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 PRC, Delong Steel is an important private enterprise in the province, employing a sizeable workforce of over 5,000 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 2000, 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 between 510 to 1,150 mm in width and 1.4 to 24.5 mm in thickness. The products, which can be customised to clients' specifications, are mainly used for the infrastructure, pipe-making, and machinery fabrication industries.

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

Dexin Steel Pte Ltd

("Dexin Steel")

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

Dezhong International Financial Leasing Co., Ltd

("Dezhong Leasing")

Operationally located in the PRC, the principal activity of Dezhong Leasing is in the business of purchasing and leasing of steel production equipment to the Group's subsidiaries or 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.

Corporate Structure



Note: The above corporate structure excludes an inactive subsidiary and an associated company



Chairman's Letter To Shareholders



Dear Shareholders

It is with pleasure that I present you the annual report for Delong Holdings Limited ("Delong" or the "Company", together with the subsidiaries, the "Group") for the financial year ended 31 December 2009 ("FY2009").

Performance Overview

Following a difficult year brought on by the global financial crisis, FY2009 presented a silver lining in the cloud. For the year, our Group recorded a sales volume of 2.5 million tonnes in hot-rolled coil ("HRC"), which generated a total revenue of RMB 7.7 billion. Although such turnover presented a 30.6% year-on-year decline as a result of lower sales volume as well as average selling prices, month-to-month performance had displayed benignity; in FY2008, prices for our HRC products fluctuated as much as 94% across the year, while such fluctuation was greatly contained within a band of 24% in FY2009. This could be attributed to steady market demand for our products, which are targeted at the infrastructure, construction and machinery fabrication industries, on the back of a favourable stimulus plan put in place by the Chinese Government.

In the face of rising production costs, the Management has pressed on with cost containment measures put in place since FY2008. I cannot emphasise more the importance of such measures further, especially when our bottomline has benefitted directly from them. In particular, we saw performance turn around significantly in the second half of the year, which substantially boosted our full-year results. Thus, in spite of a lower annual turnover, the Group achieved a full-year gross profit of RMB 685.6 million in FY2009, up 448.0% from RMB 125.1 million in FY2008. In other words, we widened our gross profit margin from 1.1% to 8.9%.

During the reporting year, the Group also significantly reduced its distribution, marketing and finance expenses, which were offset by tax expenses (compared to tax credits in the preceding year). Excluding RMB 272.3 million in an exceptional gain arising from the Bonds Restructuring completed on 10 December 2009, I am pleased to report that the Group posted a net profit after tax of RMB 396.5 million for FY2009, reversing the net loss of RMB 370.4 million recorded in FY2008.

Although FY2009 did not see us embark on any growth initiatives both organic and inorganic, we did strengthen our balance sheet considerably, thus equipping us to better manage further challenges ahead.

Bonds Restructuring

In early FY2009, uncertainty surrounding the recovery of the global economy prompted the Management to reassess the Group's ability to fulfill its obligations under the RMB 1.5 billion zero-coupon convertible bonds due 2012 (the "Old Convertible Bonds"). Under the terms and conditions of the Old Convertible Bonds, bondholders could elect to have Delong redeem in part or in full the bonds at a redemption price of 109.34% of the principal amount on or after 8 June 2010.

This presented a serious challenge to the Group, whose performance was evidently impacted by the deteriorated economic conditions. At that time, our desire was to have this potential issue resolved early. Hence, 18 months ahead of the original redemption date, we began looking into possible steps to restructure our debt obligations. To this

end, we held many discussions with our bondholders, who displayed their support throughout the process, and were instrumental in helping us realign the terms of the obligations within our financial means.

On 9 September 2009, the Group announced a proposal to amend the terms and conditions of the Old Convertible Bonds (the “Bonds Restructuring”), the key terms of which are summarised in the table as follows:

	Description	Execution Date
(i)	Initial cash settlement of US\$30 million (approximately RMB 204.9 million) to bondholders, which eliminated US\$80 million of debt.	26 November 2009
(ii)	Mandatory conversion of approximately US\$30 million of the Old Convertible Bonds into a separate class of shares in Delong that feature put and call options and rank pari passu with existing common shares (the “Converted Ordinary Shares”).	26 November 2009
(iii)	At bondholders’ election, the Old Convertible Bonds can be exchanged for a separate class of bonds which can be converted into Delong ordinary shares at any time up to 1 June 2012 (the “New Bonds”).	10 December 2009
(iv)	Scheduled redemption of principal outstanding on remaining bonds not exchanged into New Bonds and whose terms and conditions have been amended (the “Amended Bonds”).	31 December 2010; 31 December 2011; and 8 June 2012
(v)	5% coupon to be paid to bondholders on the Amended Bonds and New Bonds.	Semi-annually, beginning 30 June 2010 and ending June 2012

The Bonds Restructuring was subsequently approved by both bondholders and shareholders on 2 October 2009 and 12 November 2009 respectively, and duly completed on 10 December 2009. The completion of this exercise has provided the Group with a significantly more viable route in fulfilling our debt obligations under an alternative settlement scheme. I thank all our bondholders and shareholders for helping us achieve this.

Strengthened Balance Sheet

As a result of the Bonds Restructuring, the Group strengthened its balance sheet considerably, reducing total borrowings to RMB 2.3 billion as at 31 December 2009, from RMB 2.8 billion one year earlier. Our net asset value per share increased 52.4% since end-FY2008 to RMB 3.84 as at end-FY2009. Our debt-to-equity ratio also improved significantly from 206.0% to 112.6% during the same period.

As at 31 December 2009, the Group held RMB 6.3 billion in total assets on its balance sheet, of which RMB 3.3 billion were in property, plant and equipment (“PPE”). This was a small increase over RMB 6.1 billion recorded as at 31 December 2008, largely attributable to increased inventories of raw material stock, offset by depreciation in PPE and decrease in cash from RMB 676.4 million to RMB 290.1 million. The lower cash balance was due to partial settlement of the principal amount due under the Old Convertible Bonds during the Bonds Restructuring.

Although bank lending to companies within the PRC has and will continue to tighten progressively on growing concerns of excess liquidity and rapidly rising asset prices, I am pleased to report that the Group has successfully maintained its credit facilities with both domestic and foreign financial institutions.

Outlook

The Chinese steel industry has been undergoing a wave of sea changes in recent years. The road ahead appears to be fraught with several challenges, many of which are fundamentally related to the industry. The central government clearly recognises the problems of overcapacity, rising raw material costs and environmental control issues, and is seeking to address them while balancing the need for economic growth. This may bring about near-term pain as the industry continues to see obsolete capacities being phased out and supply being

rebalanced against demand. However, in the long run, the Chinese steel industry is headed for healthier development. In a recent report, the PRC Ministry of Industry and Information Technology echoes a similar, positive long-term view on the industry.

In the immediate term, oversupply pressures will continue to loom across the industry. According to the National Bureau of Statistics, the Chinese steel industry produced 587.6 million tonnes of crude steel in 2009, up 13.5% from 2008. The China Iron & Steel Association further estimates that in 2010, the nation's steel output will reach 600.0 million tonnes.

Under the central government's directive, the Group will phase out obsolete blast and converter furnaces that impact upon 800,000 tonnes of HRC production capacity over the course of FY2010, bringing our annual HRC production capacity to 2.2 million tonnes by the end of the year.

Rising production costs are also expected to impact steelmakers' performance in the year ahead. Iron ore prices for the next contract year beginning 1 April 2010 appear to be heading for a 40% increase. There has also been increasing convergence between spot and benchmark ore prices in recent months. While we maintain the flexibility to deploy a combination of both spot and contract iron ore, it is expected that the price differential between the two sources will narrow in FY2010. To contain raw material costs, we continue to study market trends closely and examine more diversified sources of raw material supplies.

I wish to reiterate to our investors that the Board and Management acknowledge and embrace their collective role as a steward of the Group's business. Against a macro backdrop of rising cost pressures, tightening lending and industry capacity consolidation, we believe that the most appropriate strategy in the year ahead is to adopt a prudent stance in both financial and operational management. We will continue to adopt stringent cost containment measures, and improve our operating efficiencies. Our product strategy will remain on higher-margin specialised steel products targeted at the defensive infrastructure industry.

On the front of mergers and acquisitions, the outcome on Evraz's proposed investment in Delong has been a most disappointing one for us. Without being able to receive anti-trust approvals from the Chinese authorities despite several rounds of talks, Evraz's twice-extended option to acquire a majority stake in Delong finally lapsed on 18 August 2009.

Going forward, we will expand our continual search for partners or investee companies beyond Chinese shores, so as to identify and inject good growth drivers for the Group. The pace of such M&A activities, in line with our broader strategy, will be controlled and prudent.

Movement of Director

At the election of the bondholders as part of the Bonds Restructuring, Mr Fok Hei Yu was appointed a Non-Executive Director of the Company on 1 December 2009.

On 1 January 2010, the Board of Directors also formally accepted the resignation of Mr Guo Sanxiang, who has left the Group to dedicate more time to his family. In Mr Guo's place, we appointed the General Manager of our principal subsidiary Delong Steel, Mr Zuo Shuowen, as Executive Director. We warmly welcome Mr Zuo onto the Board.

On behalf of the Board of Directors, I would like to record our special appreciation to Mr Guo Sanxiang for his invaluable contribution to the Group in all these years.

Appreciation

Last but not least, I would like to thank our shareholders and bondholders – who have faithfully supported us through all times, demonstrated especially through the Group's successful credit restructuring. We are also grateful to our customers, suppliers, staff and business associates – for ensuring that Delong maintains its competitive position within a large and still-fragmented industry.

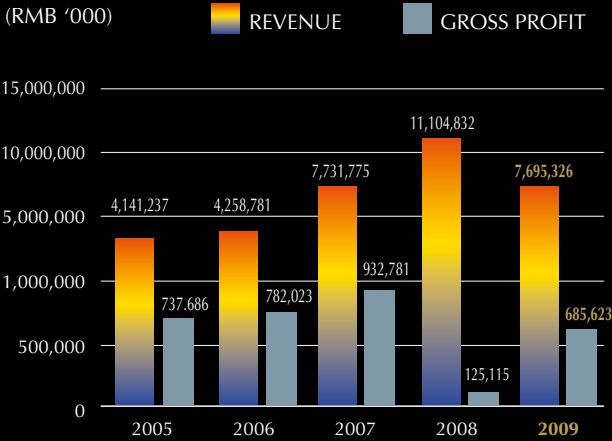
FY2009 ended on a positive note, which we hope will carry over to FY2010. We look forward to your continuous support.



Ding Ligu
Executive Chairman

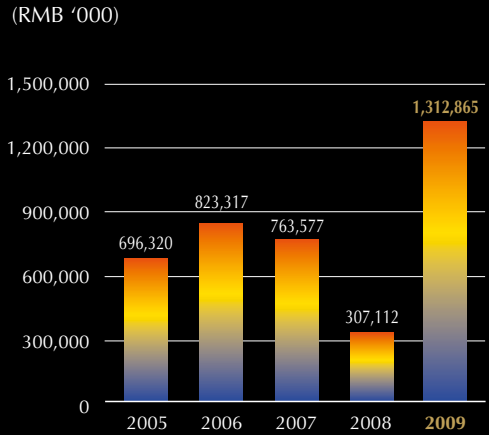
Financial Highlights

REVENUE & GROSS PROFIT



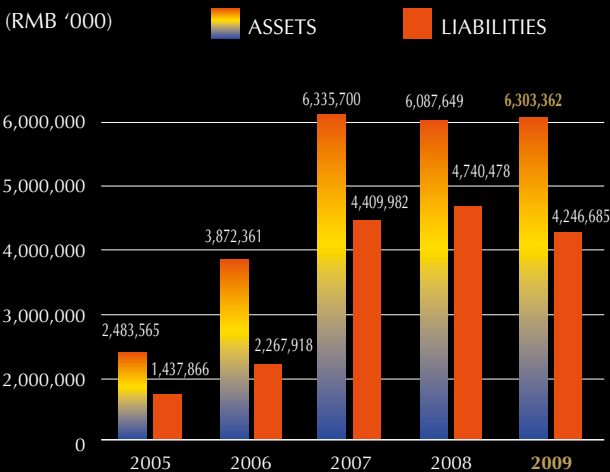
On the back of rising sales volume and average selling prices, the Group posted consecutive growth in annual turnover between FY2005 to FY2008. However, poor global economic conditions have directly impacted on the Group's revenue for FY2009. In spite of this, Delong achieved improved gross profit over FY2008, due to stringent cost containment measures.

EBITDA



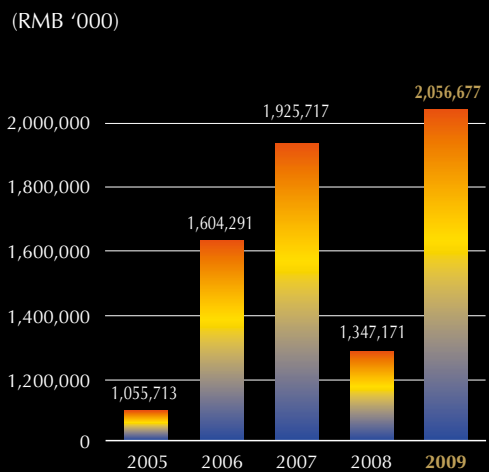
The Group posted consistently strong EBITDA margins until FY2008, in which it suffered a net loss situation in the midst of the global crisis. It returned to profitability in FY2009, during which earnings was also boosted by exceptional and fair value gains arising from the Bonds Restructuring (please refer to Note 5 of financial statements for further details).

TOTAL ASSETS & LIABILITIES



The Group's total asset base remained largely unchanged over the last three years. On the issue of RMB 1.5 billion in convertible bonds in FY2007, Delong increased its liabilities substantially. The majority of the balance liabilities are in interest-bearing borrowings to fund working capital needs. Delong has visibly improved its financial position subsequent to the Group's successful Bonds Restructuring in December 2009.

TOTAL EQUITY



Increased retained earnings as at the end of FY2009 helped lift total equity.

Financial Highlights

Group's Five-Year Financial Highlights

RMB '000	FY2009	FY2008	FY2007	FY2006	FY2005
Revenue	7,695,326	11,104,832	7,731,775	4,258,781	4,141,237
Cost of Sales	(7,009,703)	(10,979,717)	(6,798,994)	(3,476,758)	(3,403,551)
Gross Profit	685,623	125,115	932,781	782,023	737,686
Net Profit/ (Loss) After Tax	668,823	(370,427)	470,123	662,691	584,574
EBITDA	1,312,865	307,112	763,577	823,317	696,320
Total Assets	6,303,362	6,087,649	6,335,700	3,872,361	2,483,565
Total Equity	2,056,677	1,347,171	1,925,717	1,604,291	1,055,713
Total Cash and Cash Equivalents	290,113	676,399	985,427	188,729	73,633

Financial Ratios	FY2009	FY2008	FY2007	FY2006	FY2005
Gross Profit Margin	8.9%	1.2%	12.1%	18.3%	17.8%
Net Profit Margin	8.7%	-	6.1%	15.6%	14.1%
Basic Earnings / (Loss) Per Share (RMB) ¹	1.25	(0.69)	0.88	1.25	1.11
Net Tangible Assets Per Share (RMB) ²	3.84	2.52	3.60	3.02	1.99
Gearing (times) ³	1.13	2.06	1.31	0.57	0.50
Return on Assets ⁴	10.6%	N.M.	7.4%	17.1%	23.5%
Return on Equity ⁵	32.5%	N.M.	24.4%	41.3%	55.4%

Notes

- ¹ Earnings Per Share is defined as net 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 debt 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.

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 Group. From 1998 to 2003, Mr Ding was chairman of Tangshan Ligu Enterprise Group Co., Ltd and from 1992 to 1998, he was chairman of Tangshan Changcheng Rolled Steel Factory. Prior to that, Mr Ding was an employee with Shenzhen Futian District Materials Bureau between 1991 and 1992. Mr Ding holds a diploma in Machinery Manufacture from the Hebei Technological Institute in the People's Republic of China ("PRC").

Mr Zuo Shuwen

Mr Zuo was appointed as an **Executive Director** of the Company on 1 January 2010, and is responsible for overseeing the operations of the Group. He joined the Group in 2003, and was promoted as General Manager of the Group's principal subsidiary, Delong Steel Limited, in 2007. Between 2000 to 2003, Mr Zuo was an accounts manager of Tangshan Hengan Enterprise Co., Limited, a steel manufacturing and trading company, overseeing all financial matters in the company. Mr Zuo holds a diploma in Accountancy from the Hebei Hongrun Commercial School in the PRC.

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 to 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 holds a Bachelor of Engineering degree 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), an Arbitrator of Singapore International Arbitration Centre (SIAC) and China International Economic and Trade Arbitration Commission (CIETAC). Mr Hee

is also a member of the Standing Committee of the Singapore Chinese Chamber of Commerce & Industry, and an independent director of several public listed companies. He is frequently invited to speak on Director's Duties and Corporate Governance in seminars organised 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 member of the investment committee of Tembusu Partners Pte Ltd, a private equity investment firm. Mr Lai has more than 26 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, mainly as chairman of the audit committees. Mr Lai has a Bachelor of Arts (Honours) and a Master of Arts degrees 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 a **Non-Executive Director** on 16 April 2008. He is currently 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 to 1991, he was Assistant Chief Engineer with Shanghai Metallurgical Industry Authority Bureau. Mr Yuan holds a Bachelor of Engineering degree from the Shanghai Industry University in the People's Republic of China.

Mr Fok Hei Yu

Mr Fok was appointed as a **Non-Executive Director** on 1 December 2009. He is currently an executive director of Ferrier Hodgson, an international financial and restructuring advisory firm for which he has worked in since 1997. He has accumulated significant knowledge and over 16 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's degree in Commerce in 1995.

Executive Officers

Ms Lan Jihong 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 this appointment, Ms Lan was a finance manager with BHA Aero Composite Parts Co., Ltd (China) between March 2003 to June 2005. From September 1999 to March 2003, Ms Lan was a financial controller of Magnequench (Tianjin) Co., Ltd (China). Between August 1996 to 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 holds a Bachelor of Accountancy degree from the Tianjin Finance & Economic University, PRC.

Ms Yeo Lee Luang 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 Institute of Chartered Accountants of New Zealand.

Mr Ding Qingfeng is the **Operations Manager** of the Group's principal subsidiary, Delong Steel Limited. Prior to his appointment in March 2010, Mr Ding was the Assistant General Manager of Delong Steel, where he has worked in since 2005. Before joining Delong steel, Mr Ding was with Tangshan Iron & Steel Co., Ltd. for 18 years, accumulating a wealth of operational and management experience in steel production. He graduated from the Tangshan Iron & Steel College, majoring in Economic Management.

Corporate Information

BOARD OF DIRECTORS

Ding Liguo	Executive Chairman
Zuo Shuowen	Executive Director (Appointed on 1 January 2010)
Bai Baohua	Independent Director
Hee Theng Fong	Independent Director
Lai Hock Meng	Independent Director
Yuan Weimin	Non-Executive Director
Fok Hei Yu	Non-Executive Director (Appointed on 1 December 2009)

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, CPA

SHARE REGISTRARS

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

INDEPENDENT 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
BNP Paribas Private Bank

Corporate Governance Report

Delong Holdings Limited (the “Company”) is committed to ensuring and maintaining a high standard of corporate governance within the Group. Good corporate governance establishes and maintains a legal and ethical environment, which strives to preserve and enhance the interests of all shareholders.

This report describes the corporate governance framework and practices of the Company with specific reference made to each of the principles of the Code of Corporate Governance introduced in April 2001 and amended in 2005 (the “Code”).

The Board of Directors and Management of Delong Holdings Limited continue to uphold the highest standards of corporate governance by complying with the benchmark set by the Code of Corporate Governance as reviewed by the Council on Corporate Disclosure Governance, whose recommendations to revise the code have been accepted by the Government of Singapore in July 2005. Listed companies are required to disclose their corporate governance practices and explain deviations from the Code in the annual reports for annual general meetings held from 2007 onwards. In line with the Company’s commitment to maintaining high standards of corporate conduct, the Board has reviewed the Group’s corporate governance processes and has implemented a number of changes taking into account a number of recommendations and revisions made to the Code. Good corporate governance is an integral element of a sound corporation and enables a company to be more transparent and forward-looking. In addition, sound corporate governance is an effective safeguard against fraud and dubious financial engineering. This helps the Company to create long-term value and returns for the shareholders.

This report outlines the Company’s corporate governance processes and structures that were in place throughout the financial year, with specific reference made to each of the principles of the Code.

(A) BOARD MATTERS

Board’s Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company

The Board of Directors (the “Board”) comprises two executive directors, two non-executive director and three independent directors, all having the right core competencies and diversity of experience which enable them to effectively contribute to the Company. A brief description of the background of each director is presented on the “Board of Directors” section.

The Board sets the overall business direction and provides guidance on the Company’s strategic plans, with particular attention paid to growth, financial performance and risks management. It delegates the formulation of business policies and day-to-day management to the Executive Directors.

Apart from its statutory responsibilities, the Board is responsible for:-

- approving the Group’s strategic plans, key operational initiatives, major investments and funding decisions;
- identifying principal risks of the Group’s business and ensuring the implementation of appropriate systems to manage these risks;
- reviewing the financial performance of the Group; and
- approving the release of financial results to shareholders.

Corporate Governance Report

The Board holds at least four meetings a year, with additional meetings for particular matters convened as and when they are deemed necessary.

To assist in the execution of its responsibilities, the Board has established a number of Board Committees, including an Audit Committee ("AC"), a Nominating Committee ("NC") and a Remuneration Committee ("RC"). These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored.

The number of meetings held and attended by each member of the Board and Committees since the date of the previous Report of the Directors are as follows:

Directors	Board		AC		RC		NC	
	No. of Meetings		No. of Meetings		No. of Meetings		No. of Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Ding Liguao	6	6	4	4	-	-	-	-
Guo Sanxiang*	6	5	4	3	-	-	-	-
Bai Baohua	6	6	4	4	1	1	2	2
Zuo Shuowen**	6	1	4	1	-	-	-	-
Hee Theng Fong	6	5	4	3	1	1	2	2
Lai Hock Meng	6	6	4	4	1	1	2	2
Yuan Weimin	6	5	4	4	-	-	-	-
Fok Hei Yu***	6	2	4	1	-	-	-	-

*resigned on 1 January 2010

** appointed on 1 January 2010

*** appointed on 1 December 2009

All directors undergo relevant training to develop the requisite individual skills. Newly appointed directors are given training appropriate to the level of their previous experience and are provided with extensive background information about the Group's history and core values, its strategic direction and corporate governance practices, as well as industry-specific knowledge. Directors also have the opportunity to visit the Group's operational facilities and meet with Management periodically to gain a better and up-to-date understanding of business operations. The Board as a whole is updated on risk management and the key changes in the relevant regulatory requirements and accounting standards.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises seven directors of which three are independent directors. They are Mr Bai Baohua, Mr Hee Theng Fong and Mr Lai Hock Meng. The criterion of independence is based on the definition given in the code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment of the conduct of the Group's affairs. With majority of the directors deemed to be independent, the Board is able to exercise independent judgment on corporate affairs and provide management with a diverse and objective perspective on issues.

Corporate Governance Report

The composition of the Board is reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making. When a vacancy arises under any circumstance, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Committee, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The Nominating Committee nominates the most suitable candidate who is then appointed by the Board.

The Board is of the view that its current composition of seven directors is appropriate, taking into account the scope and nature of the operations of the Group.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the Company- the working of the Board and the executive responsibility of the Company's business-which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

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 ensure the decision-making process of the Group would not be unnecessarily hindered.

The Group's Executive Chairman and CEO, Mr Ding Ligu, plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. He is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and Management. As the Chairman and CEO, he schedules Board meetings, oversees the preparation of the agenda for Board Meetings and ensures the Group's compliance with the Code.

All major decisions made by the Executive Chairman and CEO are reviewed by the Audit Committee. His performance and appointment to the Board is reviewed periodically by the Nominating Committee and his remuneration package is reviewed periodically by the Remuneration Committee. Both the Nominating Committee and the Remuneration Committee comprise mainly of the independent directors of the Company. As such, the Board believes that there are adequate safeguards in place against an uneven concentration of power and authority in a single individual.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

The Board established the Nominating Committee in March 2005. The Nominating Committee comprises three Independent Directors. Mr Bai Baohua is the chairman of the Nominating Committee.

The responsibilities of the Nominating Committee are to determine the criteria for identifying candidates and reviewing nominations for the appointment of directors to the Board and also to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval.

When a vacancy arises in any circumstance, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Nominating Committee, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The Nominating Committee then nominates the most suitable candidate, who is then appointed to the Board.

Corporate Governance Report

Where, by virtue of any vacancy in the membership of the Nominating Committee for any reason, the number of members of the Nominating Committee is reduced to less than three (or such other number as may be determined by the Singapore Exchange), the Board shall, within three months thereafter, appoint such number of new members to the Nominating Committee. Any new member appointed shall hold office for the remainder of the term of office of the member of the Nominating Committee in whose place he or she is appointed.

In determining the independence of directors annually, the Nominating Committee reviewed and is of the view that Mr Bai Baohua, Mr Hee Theng Fong and Mr Lai Hock Meng are deemed independent and that no individual or small group of individual dominate the Board's decision-making process. The Nominating Committee has also reviewed and is satisfied that Mr Bai Baohua, Mr Hee Theng Fong and Mr Lai Hock Meng have been able to devote adequate time and attention to the affairs of the Company to fulfill their duties as directors of the Company.

The directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Pursuant to Article 89 of the Company's Article of Association, one-third of the board are to retire from office by rotation at the Company's AGM. In addition, Article 88 of the Company's Article of Association provides that a director appointed during the year will hold office only until the next AGM and will be eligible for re-election.

The dates of initial appointment and last re-election of each director, together with their directorship in listed companies are set out below:

Name of director	Appointment	Date of initial appointment	Directorships in listed companies
Ding Liguo	Executive / Non-Independent	8 March 2005	Delong Holdings Limited
Zuo Shuowen	Executive / Non-Independent	1 January 2010	Delong Holdings Limited
Bai Baohua	Non-Executive/ Independent	8 March 2005	Delong Holdings Limited
Hee Theng Fong	Non-Executive/ Independent	1 June 2006	Delong Holdings Limited Datapulse Technology Limited Tye Soon Limited Sinomen Technology Limited YHI International Limited First Resources Limited
Lai Hock Meng	Non-Executive/ Independent	15 June 2007	Delong Holdings Limited PureCircle Ltd Xpress Holdings Ltd Hongwei Technologies Limited China Energy Limited Advance SCT Limited WesTech Electronic Ltd
Yuan Weimin	Non-Executive / Non-Independent	16 April 2008	Delong Holdings Limited
Fok Hei Yu	Non-Executive / Non-Independent	1 December 2009	Delong Holdings Limited Kaisa Group Holdings Limited

According to Articles 88 and 89 of the Company's Article of Association, Mr Zuo Shuowen, Mr Fok Hei Yu, Mr Bai Baohua and Mr Lai Hock Meng will retire at the Company's forthcoming AGM and be eligible for re-election.

Corporate Governance Report

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Nominating Committee has established a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director. It considers a set of quantitative and qualitative performance criteria in evaluating the Board's performance. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Code.

The Board and the Nominating Committee have endeavoured to ensure that directors appointed to the Board possess the experience, knowledge and skills critical to the Group's business, so as to enable the Board to make sound and well-considered decisions.

Reviews of the Board's performance, as appropriate, are undertaken collectively by the Board annually and informally on a continual basis by the Nominating Committee.

Access to Information

Principal 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

All directors are from time to time furnished with detailed 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 monthly management accounts 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.

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 seek independent professional advice at the Company's expense.

Corporate Governance Report

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee was established in March 2005 and comprises three Independent Directors of the Company and is chaired by Mr Bai Baohua. It meets at least once annually. The Committee has access to expert advice in the field of executive compensation outside the Company where required.

The Remuneration Committee reviews the directors, CEO and the key executives, including senior management's remuneration policy. It recommends remuneration packages to the Board for approval, with the aim of building capable and committed management teams through competitive compensation and focused management and progressive policies. The review covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses and benefits-in-kind. The Committee's recommendations are submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

In setting remuneration packages, the Company takes into account remuneration and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual directors.

The independent directors receive directors' fees, in accordance with their contributions, taking into account factors such as effort and time spent, responsibilities of the directors and the need to pay competitive fees to attract, retain and motivate the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

The executive directors do not receive directors' fees. The remuneration for the Executive Directors and the key senior executives comprise a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance. The service contracts entered into with the executive directors dated 8 March 2005 had expired on 8 March 2008. There have been no service contracts entered into with the Executive Directors since then.

The annual reviews of the compensation of directors are carried out by the Remuneration Committee to ensure that the remuneration of the executive directors and key executives is commensurate with their performance, giving due regard to the financial and commercial health, as well as business needs of the Group.

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

Corporate Governance Report

Disclosure of Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The level and mix of each individual director's remuneration band payable for the year ended 31 December 2009 is as follows:

	Directors' fees	Salary	Bonus	Total
RMB 2,500,000 to below RMB 5,000,000				
Ding Liguo	-	100%	-	100%
Below RMB 1,250,000				
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%

*Appointed on 1 January 2010

**Appointed on 1 December 2009

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

The remuneration of the key executives who are not directors of the Company is as follows:

Below RMB 1,250,000

Lan Jihong

Yeo Lee Luang

Ding Qingfeng

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

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

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.

Corporate Governance Report

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 analysts, 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 monthly 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

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Audit Committee comprises three members. All three members are independent directors of the Company, who bring with them invaluable managerial and professional expertise in the financial, legal and business management sphere. Mr Lai Hock Meng is the chairman of the Audit Committee.

The Audit Committee meets regularly with the Group's external auditors and its executive management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained in the Group.

The Audit Committee, which met four times in the last financial year, performs the following functions:-

- Review compliance with statutory responsibilities relating to accounting policies and disclosures.
- Review regularly the adequacy of internal and external audit arrangements with particular emphasis on the quality and scope of these arrangements.
- Assess the adequacy of accounting, financial and operating controls.
- Recommend the appointment of external auditors to the Board and approval of remuneration paid to the external auditors.
- Review quarterly and annual financial statements and announcements to shareholders before submission to the Board for approval.
- Ensure the nature and extent of non-audit services provided by external auditors would not affect their independence as external auditors of the Company.
- Review interested person transactions to ensure that they are on normal commercial terms and not prejudicial to the interests of the Company or its shareholders.
- Identify risks in the operations of the Group and monitoring procedures for managing those risks.
- Conduct any other reviews as required by the Listing Manual of Singapore Exchange.

The Audit Committee has explicit authority to investigate any matter within its terms of reference, and has full access to, and co-operation of, the management and resources which are necessary to it discharging its function properly. It also has full discretion to invite any executive director or executive officer to attend its meetings. The Audit Committee meets with the external auditors separately, at least once a year, without the presence of the

Corporate Governance Report

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 Audit Committee 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 Audit Committee's opinion, affect the independence of the external auditors.

The Audit Committee 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 Audit Committee supports the recommendation of the Code with regards to the putting in place of arrangements for staff to raise concern in confidence ('whistle blowers'), the Audit Committee 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

Principal 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investment and the company's assets.

The Board recognises 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 judgment in decision making, human error, losses, fraud and other irregularities.

The Audit Committee will meet with the Company's external auditors to discuss the results of their examination and evaluation of the Group's system of internal accounting controls.

During the financial year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the various systems put in place by the Management and is satisfied that there are adequate internal controls in the Company.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Audit Committee ("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 comprises highly qualified personnel who meet the standards set by internationally-recognised 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. Whenever necessary, 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.

Corporate Governance Report

(D) COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair 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

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

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 general meetings to ensure a high level of accountability and to stay informed on 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 supports the Code's principle to encourage shareholder participation. The Articles of Association allow a shareholder of the Company to appoint one or two proxies to attend the AGM and vote in place of the shareholder. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web is not compromised and is also subject to legislative amendment to recognise electronic voting.

Corporate Governance Report

The Board takes note that there should be separate resolution at general meetings on each substantially separate issue and supports the Code's principle with regards to the "bundling" of resolutions. The Board will provide reasons and material implications where resolutions are interlinked.

The Company's independent auditors, PricewaterhouseCoopers, 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 the Internal Code of Conduct on dealing in the Company's securities. The Code has been modelled after the rules in the Listing Manual of Singapore Exchange 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 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 2009, the Company has complied with the listing rules of the Singapore Exchange 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 still subsisting at the end of the financial year, or if not then subsisting, entered 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 that transactions are conducted on an arm's-length basis and are not prejudicial to the interests of the shareholders. There were no interested person transactions for the financial year ended 31 December 2009.

(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.

Corporate Governance Report

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 33 of the Notes to the Financial Statements, on page 81 of the Annual Report.

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

(I) STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2009, the Company has generally adhered to the principles and guidelines as set out in the Code of Corporate Governance 2005.



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Directors' Report

For the financial year ended 31 December 2009

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2009 and the balance sheet of the Company as at 31 December 2009.

Directors

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

Ding Liguo
 Zuo Shuowen (appointed on 1 January 2010)
 Bai Baohua
 Hee Theng Fong
 Lai Hock Meng
 Yuan Weimin
 Fok Hei Yu (appointed on 1 December 2009)

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 is 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 in, 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	
	31.12.2009	1.1.2009	31.12.2009	1.1.2009
The Company (No. of ordinary shares)				
Ding Liguo	-	-	320,817,502	358,742,502
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 2009

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 2010 were the same at 31 December 2009.

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 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, has expressed its willingness to accept re-appointment.

On behalf of the directors

DING LIGUO
Director

ZUO SHUOWEN
Director

31 March 2010

Statement by Directors

For the financial year ended 31 December 2009

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 30 to 99 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 2009 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

ZUO SHUOWEN
Director

31 March 2010

Independent Auditor's Report

To The Members Of Delong Holdings Limited

We have audited the accompanying financial statements of Delong Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 30 to 99, which comprise the balance sheets of the Company and of the Group as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act (Cap. 50) (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting control 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;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

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 as to 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 and fair presentation of the financial statements 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

Opinion

In our opinion,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group 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 Company and of the Group as at 31 December 2009, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.2 to the financial statements which indicates that the Group is in a net current liabilities position as at 31 December 2009. This condition, along with other matters set forth in Note 2.2, indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 31 March 2010

Consolidated Statement Of Comprehensive Income

For the financial year ended 31 December 2009

	Note	Group	
		2009 RMB'000	2008 RMB'000
Sales of goods		7,695,326	11,104,832
Cost of sales		(7,009,703)	(10,979,717)
Gross profit		685,623	125,115
Other income	4	42,537	66,364
Other gains/(losses) – net	5	377,556	(121,888)
Expenses			
- Distribution and marketing		(4,644)	(28,329)
- Administrative		(149,330)	(168,733)
- Finance	8	(223,314)	(294,951)
Share of profit of associated company		100	-
Profit/(Loss) before income tax		728,528	(422,422)
Income tax (expense)/credit	9	(59,705)	51,995
Net profit/(loss)		668,823	(370,427)
Other comprehensive income:			
Financial assets, available-for-sale			
- Fair value gains/(losses)		33,306	(23,081)
- Losses previously recognised directly in equity now included in net profit		11,095	-
Currency translation differences arising from consolidation		(3,718)	13,689
Other comprehensive income, net of tax		40,683	(9,392)
Total comprehensive income attributable to equity holders of the Company		709,506	(379,819)
Earnings/(Losses) per share (expressed in RMB per share)	10		
- Basic		1.25	(0.69)
- Diluted		1.12	(0.69)

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

Balance Sheet

As at 31 December 2009

	Note	Group	
		2009 RMB'000	2008 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	290,113	676,399
Bank balances pledged	12	685,745	638,789
Financial assets, at fair value through profit and loss	13	964	4,819
Trade and other receivables	14	244,550	150,970
Inventories	15	1,084,595	672,356
Other current assets	16	332,672	227,009
Tax recoverable	9	-	8,872
		2,638,639	2,379,214
Non-current assets			
Trade and other receivables	17	218,380	81,949
Financial assets, available-for-sale	19	52,359	32,158
Investment in associated company	21	20,100	-
Investment property	22	15,103	15,211
Property, plant and equipment	23	3,321,347	3,522,535
Deferred income tax assets	9	37,434	56,582
		3,664,723	3,708,435
Total assets		6,303,362	6,087,649
LIABILITIES			
Current liabilities			
Trade and other payables	24	1,456,924	1,396,703
Notes payables		448,000	565,076
Borrowings from banks and other financial institutions	25	924,237	1,030,449
Convertible bonds	26	117,401	-
Current income tax liabilities	9	3,147	3,119
		2,949,709	2,995,347
Non-current liabilities			
Borrowings from banks and other financial institutions	25	464,839	356,321
Convertible bonds	26	641,646	1,388,810
Convertible shares	27	167,602	-
Deferred income tax liabilities	9	22,889	-
		1,296,976	1,745,131
Total liabilities		4,246,685	4,740,478
NET ASSETS		2,056,677	1,347,171
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	353,297	353,297
Capital reserve	29	249,218	249,218
Fair value reserve	29	21,320	(23,081)
Statutory reserve	29	141,072	141,072
Currency translation reserve		7,695	11,413
Retained profits	29	1,284,075	615,252
Total equity		2,056,677	1,347,171

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

Balance Sheet

As at 31 December 2009

	Note	Company	
		2009 RMB'000	2008 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	125,752	368,231
Financial assets, at fair value through profit and loss	13	964	4,819
Trade and other receivables	14	79	52
Other current assets	16	97	81
		126,892	373,183
Non-current assets			
Other receivables	17	1,161,175	1,085,992
Financial assets, available-for-sale	19	42,359	22,158
Investments in subsidiaries	20	1,884,916	1,884,916
Property, plant and equipment	23	22	43
		3,088,472	2,993,109
Total assets		3,215,364	3,366,292
LIABILITIES			
Current liabilities			
Trade and other payables	24	9,004	7,648
Borrowings from banks and other financial institutions	25	26	10
Convertible bonds	26	117,401	-
Current income tax liabilities	9	-	986
		126,431	8,644
Non-current liabilities			
Borrowings from banks and other financial institutions	25	-	29
Convertible bonds	26	641,646	1,388,810
Converted shares	27	167,602	-
		809,248	1,388,839
Total liabilities		935,679	1,397,483
NET ASSETS		2,279,685	1,968,809
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	2,059,133	2,059,133
Capital reserve	29	249,218	249,218
Fair value reserve	29	21,320	(23,081)
Accumulated losses		(49,986)	(316,461)
Total equity		2,279,685	1,968,809

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

Consolidated Statement Of Changes In Equity

For the financial year ended 31 December 2009

	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
Balance as at 1 January 2009	353,297	249,218	(23,081)	11,413	141,072	615,252	1,347,171
Total comprehensive income for the year	-	-	44,401	(3,718)	-	668,823	709,506
Balance as at 31 December 2009	353,297	249,218	21,320	7,695	141,072	1,284,075	2,056,677

	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
Balance as at 1 January 2008	350,713	249,404	-	(2,276)	141,072	1,097,814	1,836,727
Issue of shares pursuant to exercise of warrants (Note 28)	1,012	-	-	-	-	-	1,012
Issue of shares pursuant to Old Convertible Bonds (Note 28)	1,572	(186)	-	-	-	-	1,386
Dividend paid (Note 30)	-	-	-	-	-	(112,135)	(112,135)
Total comprehensive income for the year	-	-	(23,081)	13,689	-	(370,427)	(379,819)
Balance as at 31 December 2008	353,297	249,218	(23,081)	11,413	141,072	615,252	1,347,171

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

Consolidated Statement Of Cash Flows

For the financial year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Net profit /(loss)		668,823	(370,427)
Adjustments for:			
Income tax expense	9	59,705	(51,995)
Depreciation	6	361,023	332,214
Impairment charge for property, plant and equipment		-	102,369
Loss on disposal of property, plant and equipment		1,965	18,246
(Gain)/Loss on disposal of financial assets, fair value through profit or loss		(1,308)	538
Loss on disposal of financial assets, available-for-sale		1,208	-
Fair value (gain)/loss on financial assets, fair value through profit or loss		(214)	8,185
Gain on restructuring of convertible bonds		(272,298)	-
Fair value gain on convertible bonds		(11,369)	-
Fair value gain on convertible shares		(49,929)	-
Exchange (gain)/loss on convertible shares		(2,290)	-
Interest income		(18,062)	(46,417)
Interest expense		196,044	289,226
Share of profit of associated company		(100)	-
Unrealised currency translation (gains)/losses		(63,500)	97,650
Operating cash flow before working capital change		869,698	379,589
Changes in operating assets and liabilities			
Bank balances pledged		(46,956)	(468,754)
Receivables		(335,674)	(41,011)
Inventories		(412,239)	452,515
Payables		(54,084)	221,754
Cash generated from operations		20,745	544,093
Income tax paid		(8,768)	(66,114)
Net cash provided by operating activities		11,977	477,979
Cash flows from investing activities			
Payments for property, plant and equipment		(161,753)	(622,705)
Investment in associated company		(20,000)	-
Proceeds from disposal of financial assets, fair value through profit or loss		5,377	10,268
Proceeds from disposal of financial assets, available-for-sale		22,992	-
Proceeds from disposal of property, plant and equipment		3,822	1,586
Dividend received from financial assets, available for sale	19	-	11,842
Interest received		18,062	46,417
Net cash used in investing activities		(131,500)	(552,592)

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

Consolidated Statement Of Cash Flows

For the financial year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		2,723,085	2,443,416
Repayment of borrowings		(2,720,779)	(2,275,448)
Repayment of convertible bonds		(204,900)	-
Bonds restructuring expenses		(22,017)	-
Proceeds from warrants conversion		-	1,012
Dividend paid		-	(112,135)
Interest paid		(101,722)	(208,109)
Net cash used in financing activities		(326,333)	(151,264)
Net change in cash and cash equivalents			
		(445,856)	(225,877)
Cash and cash equivalents at beginning of financial year		676,399	985,433
Effects of currency translation on cash and cash equivalents		59,570	(83,157)
Cash and cash equivalents at end of financial year	11	290,113	676,399

Notes To The Financial Statements

For the financial year ended 31 December 2009

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 37.

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 Company’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 2009

On 1 January 2009, 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 relevant transitional provisions in the respective FRS and INT FRS. The following are the new or revised FRS that are relevant to the Group:

FRS 1(R)	Presentation of Financial Statements
FRS 108	Operating Segments
FRS 107	Improving Disclosures about Financial Statements
FRS 23(R)	Borrowing Costs

The adoption of the above FRS did not result in any substantial changes to the Group’s accounting policies nor any significant impact on these financial statements.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

FRS 1(R) requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income. Components of comprehensive income are presented in a separate statement of comprehensive income. The “cash flow statements” have been re-titled to “statements of cash flows”. Comparative figures have been restated to conform to the requirements of the revised standard.

FRS 108 requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. As the Group operates primarily in one business segment, the adoption of FRS 108 did not result in any significant impact on these financial statements.

Amendment to FRS 107 requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy (see Note 33). The adoption of the amendment results in additional disclosures but does not have an impact on the accounting policies and measurement bases adopted by the Group.

Revised FRS 23 removes the option to recognise immediately as expense borrowing costs that are attributable to qualifying assets, except for those borrowing costs on qualifying assets that are measured at fair value or inventories that are manufactured or produced in large quantities on a repetitive basis. As the Group has been capitalising the relevant borrowing costs, the revised standard did not have any impact to the Group.

2.2 Going concern

As of 31 December 2009, the current liabilities exceeded the current assets of the Group by RMB 311.1 million mainly due to the use of short-term borrowings to finance the property, plant and equipment and the inclusion in current liabilities of RMB117.4 million being the part of the convertible bonds due on 31 December 2010 (Note 26). 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 based on the following assumptions:

- (i) the Group’s bankers will provide continuing credit facilities to the Group; and
- (ii) sufficient cash will be generated from operating activities.

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 as current assets. The financial statements for the financial year ended 31 December 2009 do not include the adjustments that would result if the Group was unable to continue as a going concern.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.3 Revenue recognition

Revenue for the Group comprises 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. Revenue is recognised as follows:

(a) *Sale of goods and scrap materials*

Revenue from sales of goods and scrap materials are recognised when a Group entity has delivered the products to the customer, the customer has accepted the products 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.

2.4 Group accounting

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 income statement, balance sheet, statement of changes in equity and statement of cash flows for the year ended 31 December 2005 have been prepared as continuation of Asia Paragon's financial statements.

For the purpose of reverse acquisition accounting, the cost of acquisition by Asia Paragon (the legal subsidiary) of the Company (the legal parent) is recorded as equity. The cost of acquisition is determined using the fair value of the issued equity of the Company before the acquisition being 165,850,000 shares at S\$0.075 per share totalling S\$12,439,000 (equivalent to RMB 62,350,488). It is deemed to be incurred by the legal subsidiary in the form of equity issued to the owners of the legal parent.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

Reverse acquisition (continued)

Since such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary (i.e. Asia Paragon Group),

- (i) the assets and liabilities of Asia Paragon Group are recognised and measured in the consolidated balance sheet at their pre-combination carrying amounts;
- (ii) the retained profits and other equity balances recognised in those consolidated financial statements are the retained profits and other equity balances of the Asia Paragon Group immediately before the business combination; and
- (iii) the amount recognised as issued equity in those consolidated financial statements is determined by adding to the issued equity of Asia Paragon immediately before the business combination the costs of the combination of the acquisition. However, the equity structure appearing in those consolidated financial statements (i.e. the number and type of equity instruments issued) reflect the equity structure of the legal parent (i.e. the Company), including the equity instruments issued by the legal parent (i.e. the Company) in connection with the combination.

In the Company's (i.e. the legal parent of the Group) separate financial statements, the investment in Asia Paragon (the legal subsidiary) is accounted for in accordance with the requirements of FRS 27 "Consolidated and Separate Financial Statements" (Note 2.8).

(a) *Subsidiaries*

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, 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 deconsolidated from the date on which that control ceases.

In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Please refer to Note 2.8 for the Company's accounting policy on investments in subsidiaries.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(b) *Associated companies*

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

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.

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 movements in reserves is recognised in equity directly. These post-acquisition movements 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.

Dilution gains and losses arising from investments in associated companies are recognised in profit or loss.

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).

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

(a) *Measurement (continued)*

(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 also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(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

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 reliably measured. 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

(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. This includes 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 written off to profit or loss. The cost of maintenance, repairs and minor improvements is charged to 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.

2.8 Investments in subsidiaries

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

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. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing, recoverable amount 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, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an 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 purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The designation of financial assets at fair value through profit or loss is irrevocable.

(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 2009

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 maturing 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" 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.10 Financial assets (continued)

(d) *Subsequent measurement (continued)*

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.

(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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.10 Financial assets (continued)

(e) *Impairment (continued)*

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

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is transferred 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 in profit or loss on debt securities. 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 Company's balance sheet.

Financial guarantee contracts are subsequently amortised to profit or loss over the period of the third parties' and subsidiaries' borrowings, unless the Group or the Company has incurred an obligation to reimburse the banks for an amount higher than the unamortised amount.

In this case, the financial guarantees contracts shall be carried at the expected amount payable to the bank in the Company's balance sheet.

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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.12 Borrowings (continued)

(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. 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 changes in fair value arises.

The equity component is recognised initially at its fair value in equity. 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 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 changes in fair values 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 2009

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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.15 Leases (continued)

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

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

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.

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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

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.

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 a reliable estimate of the amount can be made.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

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.

(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 Company's functional currency is Chinese Renminbi ("RMB"). The functional currencies of the Group's major operating subsidiaries are RMB. The financial statements were previously presented in Singapore Dollar as the Company is incorporated and listed in Singapore. As the activities of the Group are primarily conducted in RMB, the Company presents its financial statements in RMB with effect from 1 January 2009, so as to present the results, financial position and cash flows of the Group without the effect of the changes in the exchange rate between RMB and Singapore Dollar. The comparative figures which were previously presented in Singapore Dollar in the financial statements for the financial year ended 31 December 2008, are now presented in RMB in these financial statements.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

2.20 Currency translation (continued)

(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 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, 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.

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 cash flow statement, cash and cash equivalents include cash on hand, deposits with financial institutions and exclude balances which are subject to restrictions.

Notes To The Financial Statements

For the financial year ended 31 December 2009

2. Significant accounting policies (continued)

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 payments.

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 investment 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.

A subsidiary of the Group, Xingtai Delong Machinery and Mill Roll Co., Ltd ("Mill Roll CGU"), incurred a net loss for the financial year end. Mill Roll CGU produces and supplies high-end mill rollers to the domestic steel manufacturers. Mill Roll CGU started its trial production in March 2008 and has not achieved full capacity in 2009. As at 31 December 2009, the Mill Roll CGU's property, plant and equipment has a carrying amount of RMB381 million.

Management had assessed that no impairment charge is required for the Mill Roll CGU, based on the recoverable amount determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a four-year period from 2010 to 2013. The average annual growth rate estimated for the four-year period is 104% and cash flows beyond the four-year period are extrapolated using the estimated growth rate of 3.58%. The estimated gross margin and discount rate used in the projection was approximately 20% and 11% respectively. Management determined budgeted gross margin based on industry report and its expectations of the market development. The weighted average growth rates used for the four-year period was based on the fact that the CGU is still in the initial stage of its operations in 2009 and will reach its full production capability only in 2013, and the management's view that the steel industry is still recovering from the global economic crisis that commenced in late 2008. The weighted average growth rates used for the period beyond the four-year period were consistent with the forecasts included in industry reports. The discount rate used was after-tax and reflected specific risk relating to the Mill Roll CGU.

Notes To The Financial Statements

For the financial year ended 31 December 2009

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

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

If the management's estimated average annual growth rate used in the value-in-use calculation at 31 December 2009 for the initial four-year period is 90% or 80%, instead of 104%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB1.7 million and RMB72.3 million respectively, from the current carrying amount of RMB381 million.

If the management's estimated gross margin used in the value-in-use calculation at 31 December 2009 is 15% or 12%, instead of 20%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have remained the same or would have been reduced by approximately RMB12.6 million respectively.

If the management's estimated after-tax discount rate applied to the cash flows for the Mill Roll is raised to 12% instead of 11%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have remained the same, as at 31 December 2009.

(b) *Fair value estimation of convertible bonds and convertible shares*

In November 2009, with the approval of the bondholders and shareholders, the Company restructured the Old Convertible Bonds (Note 26). As the discounted cash flows and the terms and conditions of the restructured bonds are substantially different from the Old Convertible 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 and the Company. 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. 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. A Binomial Tree model was used to value the derivatives and the Discounted Cash Flow approach was employed to value the liability components.

If the discount rate used as an input to the valuation model is 12.4% or 10.4%, instead of 11.4%, the gain on restructuring would have increased/decreased, and the fair value on inception date of the new obligations would have decreased/increased, by approximately RMB12.0 million and RMB12.3 million respectively.

In addition, the fair values of the derivative liabilities components of the restructured bonds are positively correlated to changes in the share price and the volatility of the share price of the Company. If the volatility of the share price used in the valuation is 80% or 60% instead of 70%, the gain on restructuring would have decreased/increased, and fair value on inception date of the new obligations would have increased/decreased, by approximately RMB2.0 million and RMB1.4 million respectively. The share price itself is directly observable and the unadjusted quoted price has been used as an input to the valuation model.

Notes To The Financial Statements

For the financial year ended 31 December 2009

4. Other income

	Group	
	2009 RMB'000	2008 RMB'000
Sale of scrap materials	-	6,404
Government grants	6,500	5,979
Finance lease income	15,926	5,560
Interest income		
- bank deposits	16,284	45,259
- loan to investee company	1,778	1,158
Rental income from investment property	2,049	2,004
	42,537	66,364

5. Other gains/(losses) - net

	Group	
	2009 RMB'000	2008 RMB'000
Gain/(Loss) on disposal of financial assets at fair value through profit or loss	1,308	(538)
Fair value gain/(loss) on financial assets at fair value through profit or loss	214	(8,185)
Loss on disposal of financial assets, available-for-sale	(1,208)	-
Loss on disposal of property, plant and equipment	(1,965)	(18,246)
Currency translation gain – net	41,130	2,048
Gain on restructuring of convertible bonds	272,298	-
Fair value gain on convertible bonds	11,369	-
Fair value gain on convertible shares	49,929	-
Impairment charge for property, plant and equipment	-	(102,369)
Other	4,481	5,402
	377,556	(121,888)

Notes To The Financial Statements

For the financial year ended 31 December 2009

6. Expenses by nature

	<u>Group</u>	
	2009 RMB'000	2008 RMB'000
Raw materials, finished goods and consumables	6,226,317	10,116,546
Changes in inventories of raw materials, work-in-progress and finished goods	412,239	435,023
Inventory write-down	-	54,001
Depreciation of property, plant and equipment (Note 23)	360,703	331,877
Depreciation of investment property (Note 22)	320	337
Total depreciation	361,023	332,214
Employee compensation (Note 7)	159,531	154,844
Rental on operating leases	712	1,863
Transportation	2,163	26,851
Other expenses	1,692	55,437
Total cost of sales, distribution and marketing and administrative expenses	<u>7,163,677</u>	<u>11,176,779</u>

7. Employee compensation

	<u>Group</u>	
	2009 RMB'000	2008 RMB'000
Wages and salaries	146,076	142,641
Employer's contribution to defined contribution plans	13,455	12,203
	<u>159,531</u>	<u>154,844</u>

Notes To The Financial Statements

For the financial year ended 31 December 2009

8. Finance expenses

	Group	
	2009 RMB'000	2008 RMB'000
Interest expense		
- bank borrowings	74,801	136,834
- finance lease liabilities	1	954
- convertible bonds	99,292	92,602
- convertible shares	1,350	-
Less: Amount capitalised in construction-in-progress	(6,320)	(11,485)
Interest expenses on borrowings recognised in income statement	169,124	218,905
Bills discounting charges – net	26,920	70,321
Bank charges	27,270	5,725
Net finance expense	223,314	294,951

Borrowing costs on general financing were capitalised at a rate of 7.06% (2008: 7.34%).

9. Income taxes

(a) Income tax expense/(credit)

	Group	
	2009 RMB'000	2008 RMB'000
Tax expense/(credit) attributable to results is made up of:		
- Result from current financial year		
Current income tax		
- Singapore	-	612
- Foreign	37,130	3,975
	37,130	4,587
Deferred income tax	42,037	(56,582)
	79,167	(51,995)
- Over provision in preceding financial years		
Current income tax	(19,462)	-
	59,705	(51,995)

Notes To The Financial Statements

For the financial year ended 31 December 2009

9. Income taxes (continued)

- (b) The Group's operations are mainly in the PRC. The tax expense on the profit differs from the amount that would arise using the PRC income tax rate of 25% (2008: 25%) due to the following:

	Group	
	2009 RMB'000	2008 RMB'000
Profit/(Loss) before tax and share of profit of an associated company	728,428	(422,422)
Tax calculated at tax rate of 25% (2008: 25%)	182,107	(105,606)
Effects of:		
Different tax rates in other countries	(21,353)	10,776
Expenses not deducted for tax	1,099	23,673
Withholding tax on unremitted profits	22,889	-
Income not subject to tax	(48,675)	(5,979)
Income/(Losses) subject to concessionary rate	(56,811)	25,316
Statutory stepped income exemption	(89)	(175)
Tax charge/(credit)	79,167	(51,995)

Delong Steel Limited ("Delong Steel"), a wholly foreign-owned enterprise ("WFOE") established under the laws of the People's Republic of China, was exempt from the People's Republic of China enterprise income tax in the two financial years ended 31 December 2005 and 2006.

With effect from 1 January 2007, Delong Steel is entitled to a three-year 50% tax reduction from the People's Republic of China enterprise income tax of 30% whereby it pays income tax at a concessionary rate of 15%. Pursuant to the new China Corporate Income Tax Law, which was effective from 1 January 2008, the People's Republic of China enterprise income tax rate was reduced to 25% and Delong Steel pays income tax at a concessionary rate of 12.5%.

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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

9. Income taxes (continued)

(c) Movements in current income tax (recoverable)/liabilities

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Beginning of financial year	(5,753)	55,774	986	471
Income tax paid	(8,768)	(66,114)	(993)	(96)
Tax expense	37,130	4,587	-	611
Over provision in prior financial years	(19,462)	-	7	-
End of financial year	<u>3,147</u>	<u>(5,753)</u>	<u>-</u>	<u>986</u>

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Tax recoverable	-	(8,872)	-	-
Current income tax liabilities	3,147	3,119	-	986
	<u>3,147</u>	<u>(5,753)</u>	<u>-</u>	<u>986</u>

(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:

	Group	
	2009 RMB'000	2008 RMB'000
Deferred income tax assets		
- to be recovered within one year	8,216	25,591
- to be recovered after one year	29,218	30,991
	<u>37,434</u>	<u>56,582</u>
Deferred income tax liabilities		
- to be recovered within one year	-	-
- to be recovered after one year	22,889	-
	<u>22,889</u>	<u>-</u>

Notes To The Financial Statements

For the financial year ended 31 December 2009

9. Income taxes (continued)

(d) Deferred income taxes (continued)

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

	Tax losses RMB'000	Inventory write-down RMB'000	Unutilised capital allowances RMB'000	Unremitted profits RMB'000	Total RMB'000
2009					
Beginning of financial year	26,396	6,376	23,810	-	56,582
Charged to profit or loss	(14,374)	(2,993)	(1,781)	(22,889)	(42,037)
End of financial year	12,022	3,383	22,029	(22,889)	14,545

	Tax losses RMB'000	Inventory write-down RMB'000	Unutilised capital allowances RMB'000	Unremitted profits RMB'000	Total RMB'000
2008					
Beginning of financial year	-	-	-	-	-
Credited to profit or loss	26,396	6,376	23,810	-	56,582
End of financial year	26,396	6,376	23,810	-	56,582

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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

10. Earnings/(Losses) per share

(a) Basic earnings/(losses) per share

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

	2009	2008
Net result attributable to equity holders of the Company (RMB'000)	<u>668,823</u>	<u>(370,427)</u>
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	<u>535,478</u>	<u>535,101</u>
Basic earnings/(losses) per share (RMB)	<u>1.25</u>	<u>(0.69)</u>

(b) Diluted earnings/(losses) per share

For the purpose of calculating diluted earnings per share, 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. The previous convertible bonds which were extinguished on 26 November 2009, which could have been converted into ordinary shares of the Company, did not have a dilutive effect on conversion and hence were not included in the calculation of the diluted earnings per share.

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

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

(b) Diluted earnings/(losses) per share (continued)

	2009	2008
Net result attributable to equity holders of the Company (RMB'000)	668,823	(370,427)
Interest expense on convertible bonds and convertible shares	2,923	-
Currency translation gain on convertible shares	(2,290)	-
Fair value gain on derivative liability component of convertible bonds and convertible shares	(61,298)	-
Net result used to determine diluted earnings per share (RMB'000)	608,158	(370,427)
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	535,478	535,101
Adjustments for assumed conversion of convertible bonds and convertible shares ('000)	7,750	-
Weighted average number of ordinary shares for diluted earnings per share ('000)	543,228	535,101
Diluted earnings/(losses) per share (RMB)	1.12	(0.69)

11. Cash and cash equivalents

The cash and cash equivalents comprise the following:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash at bank and on hand	228,692	585,135	74,650	287,082
Fixed deposits with bank	61,421	91,264	51,102	81,149
Cash and cash equivalents per cash flow statement	290,113	676,399	125,752	368,231

The remittance of funds denominated in Renminbi ("RMB") out of the PRC is subject to the exchange 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 33(a)(i).

Notes To The Financial Statements

For the financial year ended 31 December 2009

12. Bank balances pledged

These bank balances, denominated in RMB, were pledged for notes payables and letter of credit facilities amounting to RMB448,000,000 as at 31 December 2009 (2008: RMB 565,076,000).

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

	<u>Group and Company</u>	
	2009	2008
	RMB'000	RMB'000
<u>Held for trading</u>		
Listed equity securities – Hong Kong	964	4,819

14. Trade and other receivables - current

	<u>Group</u>		<u>Company</u>	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables (Note 18)	34,925	-	-	-
Trade receivables	31,662	23,500	79	52
Notes receivable	177,963	127,055	-	-
Other receivables	-	415	-	-
	244,550	150,970	79	52

15. Inventories

	<u>Group</u>	
	2009	2008
	RMB'000	RMB'000
Raw materials	722,787	76,330
Work-in-progress	130,206	138,693
Finished goods	95,763	291,930
Production supplies	135,839	165,403
	1,084,595	672,356

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB 6,640,894,000 (2008: RMB 10,604,602,000).

Notes To The Financial Statements

For the financial year ended 31 December 2009

16. Other current assets

	<u>Group</u>		<u>Company</u>	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Deposits	783	9,343	56	81
Prepayments	231,264	145,617	41	-
Other	100,625	72,049	-	-
	332,672	227,009	97	81

17. Trade and other receivables – non-current

	<u>Group</u>		<u>Company</u>	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Finance lease receivables (Note 18)	194,908	58,477	-	-
Due from an investee company	23,472	23,472	-	-
Loans to subsidiaries	-	-	1,161,175	1,085,992
	218,380	81,949	1,161,175	1,085,992

Loans to subsidiaries are unsecured, interest-free, and are not expected to be repaid in the next 12 months.

Amount due from an investee company was non-trade, unsecured, bearing interest at 6.903% per annum (2008: 6.903% per annum).

The carrying amounts of loans and advance to subsidiaries approximate their fair values.

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

	<u>Group</u>		<u>Borrowing rates</u>	
	2009 RMB'000	2008 RMB'000	2009 %	2008 %
Finance lease receivables (Note 18)	194,908	58,477	7.26	7.41

Notes To The Financial Statements

For the financial year ended 31 December 2009

18. Finance lease receivables

The Group leases equipment to third parties under finance leases. The various agreements terminate in 2012 and 2014.

	Group	
	2009 RMB'000	2008 RMB'000
Gross receivables due		
-Not later than one year	35,868	4,476
-Later than one year but within five years	244,865	67,325
	280,733	71,801
Less: Unearned finance income	(50,900)	(13,324)
Net investment in finance leases	229,833	58,477

The net investment in finance leases is analysed as follows:

	Group	
	2009 RMB'000	2008 RMB'000
-Not later than one year (Note 14)	34,925	-
-Later than one year but within five years (Note 17)	194,908	58,477
	229,833	58,477

19. Financial assets, available-for-sale

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Beginning of financial year	32,158	67,081	22,158	57,081
Dividend received	-	(11,842)	-	(11,842)
Fair value gain/(losses) recognised in equity	33,306	(23,081)	33,306	(23,081)
Disposals	(13,105)	-	(13,105)	-
End of financial year	52,359	32,158	42,359	22,158

Notes To The Financial Statements

For the financial year ended 31 December 2009

19. Financial assets, available-for-sale (continued)

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Listed securities				
- 12,000,000 shares in Cape Lambert Resources Limited ("Cape Lambert")	-	13,105	-	13,105
Unlisted securities				
- 10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd	10,000	10,000	-	-
- Option to subscribe for 28,000,000 shares in Cape Lambert	42,359	9,053	42,359	9,053
	52,359	32,158	42,359	22,158

Investment in Hebei Zhongmei Xuyang Coking Co., Ltd, a privately-owned enterprise established in the People's Republic of China and is 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 RMB69.8 million (2008: RMB54.6 million).

Cape Lambert Resources Limited (formerly known as Cape Lambert Iron Ore Limited) is a company incorporated in the state of Western Australia and is listed on the Australian Securities Exchange. Cape Lambert is in the business of mining for minerals such as iron ore.

The investment in Cape Lambert, which was structured as an outright purchase of shares with an option to subscribe for additional shares, has been accounted for as available-for-sale financial assets ("AFS") as the management had the intention to hold for long term investment in order to secure a stable supply of raw materials from Cape Lambert.

The option to subscribe for shares (the "Options") in Cape Lambert entitles the Company, for a period of three and a half years from 4 September 2008, to subscribe, in whole or in part, for 28,000,000 new shares in Cape Lambert at the subscription price of A\$0.377 per share. The cost of the unexercised Option is a substantial component of the total cost of the shares to be acquired upon the exercise of the Option. As the shares are categorised as available-for-sale financial assets, the Option is similarly categorised.

During the financial year, due to a change in intention to hold the investment for the long term, the Group decided to dispose of its shares in Cape Lambert. It is also the Group's intention to subscribe for the shares under its option for disposal. In accordance with Singapore Financial Reporting Standard 39 *Financial Instruments: Recognition and Measurement*, the investment remains in the available-for-sale financial assets category.

Notes To The Financial Statements

For the financial year ended 31 December 2009

20. Investment in subsidiaries

	<u>Company</u>	
	2009	2008
	RMB'000	RMB'000
Unquoted equity investment at cost	1,884,916	1,884,916

Details of subsidiaries are provided in Note 37.

21. Investment in associated company

	<u>Group</u>	
	2009	2008
	RMB'000	RMB'000
Unquoted equity investment at cost	20,000	-
Incorporated during the financial year	20,000	-
Share of profit	100	-
End of financial year	20,100	-
The summarised financial information of associated company is as follows:		
- Assets	146,823	-
- Liabilities	46,321	-
- Revenue	52,967	-
- Net profit	502	-

Details of associated company are provided in Note 37.

Notes To The Financial Statements

For the financial year ended 31 December 2009

22. Investment property

	Group	
	2009 RMB'000	2008 RMB'000
<i>Cost</i>		
At 1 January	22,352	23,528
Currency translation differences	324	(1,176)
At 31 December	<u>22,676</u>	<u>22,352</u>
<i>Accumulated depreciation</i>		
At 1 January	7,141	7,176
Depreciation	320	337
Currency translation differences	112	(372)
At 31 December	<u>7,573</u>	<u>7,141</u>
Net book value	<u>15,103</u>	<u>15,211</u>

It is the intention of the Group to hold the investment property for long-term rental yields. The fair value of the investment property approximates RMB19,807,000 (2008: RMB14,386,000) as at the balance sheet date, as advised by an independent professional valuer on the highest-and-best-use basis. The investment property is leased to a non-related party under operating leases (Note 32) and is 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 following amounts are recognised in profit or loss:

	Group	
	2009 RMB'000	2008 RMB'000
Rental income	2,049	2,004
Direct operating expenses arising from investment properties that generated rental income	6	5
Property tax and other direct operating expenses arising from an investment property that did not generate rental income	<u>551</u>	<u>900</u>

Notes To The Financial Statements

For the financial year ended 31 December 2009

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 2009	71,056	965,398	3,146,769	79,189	343,314	4,605,726
Additions	-	1,214	2,920	7,983	153,185	165,302
Disposals	-	(6,618)	(30,690)	(4,700)	-	(42,008)
Transfers in/(out)	-	-	101,463	318	(101,781)	-
At 31 December 2009	71,056	959,994	3,220,462	82,790	394,718	4,729,020
<i>Accumulated depreciation</i>						
At 1 January 2009	7,415	160,388	881,345	34,043	-	1,083,191
Charge for the year	1,448	43,620	303,811	11,824	-	360,703
Disposals	-	(3,353)	(29,986)	(2,882)	-	(36,221)
At 31 December 2009	8,863	200,655	1,155,170	42,985	-	1,407,673
Net book value						
At 31 December 2009	62,193	759,339	2,065,292	39,805	394,718	3,321,347
<i>Cost</i>						
At 1 January 2008	65,668	822,177	2,883,541	71,030	272,259	4,114,675
Additions	5,388	30,825	16,534	8,167	473,376	534,290
Disposals	-	(22,932)	(16,586)	(3,721)	-	(43,239)
Transfers in/(out)	-	135,328	263,280	3,713	(402,321)	-
At 31 December 2008	71,056	965,398	3,146,769	79,189	343,314	4,605,726
<i>Accumulated depreciation</i>						
At 1 January 2008	6,364	104,153	536,676	25,159	-	672,352
Charge for the year	1,051	41,620	278,065	11,141	-	331,877
Disposals	-	(11,517)	(9,583)	(2,307)	-	(23,407)
Impairment charge	-	26,132	76,187	50	-	102,369
At 31 December 2008	7,415	160,388	881,345	34,043	-	1,083,191
Net book value						
At 31 December 2008	63,641	805,010	2,265,424	45,146	343,314	3,522,535

Notes To The Financial Statements

For the financial year ended 31 December 2009

23. Property, plant and equipment (continued)

	Office renovation RMB'000	Office equipment RMB'000	Total RMB'000
<i>Company</i>			
<i>Cost</i>			
At 1 January and 31 December 2009	428	100	528
<i>Accumulated depreciation</i>			
At 1 January 2009	428	57	485
Depreciation charge	-	21	21
At 31 December 2009	428	78	506
<i>Net book value</i>			
At 31 December 2009	-	22	22
<i>Cost</i>			
At 1 January and 31 December 2008	428	100	528
<i>Accumulated depreciation</i>			
At 1 January 2008	169	37	206
Depreciation charge	259	20	279
At 31 December 2008	428	57	485
<i>Net book value</i>			
At 31 December 2008	-	43	43

- (a) Certain property, plant and equipment with a total carrying amount as at 31 December 2009 of approximately RMB2,346.7 million (31 December 2008: RMB1,190.5 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 impairment charge during the previous financial year was mainly in respect of property, plant and equipment which were no longer in use.

Notes To The Financial Statements

For the financial year ended 31 December 2009

24. Trade and other payables

	<u>Group</u>		<u>Company</u>	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables to:				
- Third parties	745,677	577,245	-	-
VAT and other taxes payable	26,183	38,577	-	-
Payable to contractors for construction-in-progress	78,283	81,054	-	-
Advances from customers	504,125	573,526	-	-
Other accrual for operating expenses	5,811	8,252	4,150	1,848
Staff and workers' bonus and welfare fund (a)	32,656	13,853	-	-
Deposits from tenant	526	519	-	-
Deposits from staff and workers	11,873	3,476	-	-
Due to directors (non-trade)	3,793	7,333	3,793	5,609
Deferred income	13,511	15,172	-	-
Other payables	34,486	77,696	1,061	191
	1,456,924	1,396,703	9,004	7,648

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

- (a) The subsidiaries in 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

25. Borrowings from banks and other financial institutions

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
<u>Current</u>				
Finance lease liabilities	26	10	26	10
Bank borrowings				
- Unsecured	124,046	143,869	-	-
- Secured (a)	666,626	647,108	-	-
- Guaranteed (b)	133,539	239,462	-	-
	924,237	1,030,449	26	10
<u>Non-current</u>				
Finance lease liabilities	-	29	-	29
Bank borrowings				
- Unsecured	9,482	15,381	-	-
- Secured (a)	455,357	340,911	-	-
	464,839	356,321	-	29
Total borrowings	1,389,076	1,386,770	26	39

(a) Security granted

As at 31 December 2009 these bank loans were secured by certain property, plant and equipment (Note 23) and an investment property (Note 22).

(b) Borrowing guaranteed

The bank loans were guaranteed by third parties, and Mr Ding Liguu, a Director of the Company. In return, the Group has provided guarantees to banks for borrowings of certain of these third parties as at 31 December 2009 (see Note 31).

(c) Fair value of non-current borrowings

The carrying amounts of borrowings approximate their fair values. Most of the borrowings bear variable interest rates.

26. Convertible bonds

On 8 June 2007, the Company issued zero coupon convertible bonds denominated in RMB with a nominal value of RMB 1,532,000,000, 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:

Notes To The Financial Statements

For the financial year ended 31 December 2009

26. Convertible bonds (continued)

- (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 Convertible Bonds (Restricted) are denominated in RMB with a nominal value of RMB734.4 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 (Restricted) are 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

The nominal value of the Convertible Bonds (Restricted) will 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 is a discount.

At the end of each quarter, subject 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 are required to be credited into a designated bank account under the terms and conditions of the Convertible Bonds (Restricted). There is a requirement for mandatory redemption of the Convertible Bonds (Restricted) whenever there is at least US\$1 million standing to the credit of the designated bank account. The redemption amount will be applied to redeem the bonds in part on a pro-rata basis. Mandatory redemption on or before 31 December 2011 will be at the nominal value less mandatory redemption discount. Mandatory redemption discount will 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

26. Convertible bonds (continued)

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

The Convertible Bonds (Restricted) are 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), subject to certain restrictions for conversion. As long as a restrictive covenant is present in the existing facilities granted by two major banks in the People's Republic of China to the Group which prohibits 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) will, in all respect, rank *pari passu* with the existing shares in issue. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds (Restricted) will 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.

As long as any bond remains outstanding, the Group shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon any part of their 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 Old Convertible 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

26. Convertible bonds (continued)

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 (Note 5).

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

	<u>Group and Company</u>			2008 Old Convertible Bonds RMB'000
	2009	2009	Old	
	Convertible Bonds RMB'000	Convertible Bonds (Restricted) RMB'000	Convertible Bonds RMB'000	
Beginning of financial year	-	-	1,388,810	1,297,594
Fair value of convertible bonds issued on 26 November 2009	170,636	591,448	-	-
Less:	(36,202)	-	-	-
Derivative liability component				
Liability component recognised on restructuring	134,434	591,448	-	-
Amortisation of interest expense	1,573	6,759	83,190	84,315
Amortisation of convertible bond issuing expenses	-	-	7,770	8,287
Conversion into new ordinary shares	-	-	-	(1,386)
Convertible bonds extinguished	-	-	(1,479,770)	-
End of financial year	136,007	598,207	-	1,388,810

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

	<u>Group and Company</u>	
	2009	2008
	RMB'000	RMB'000
Beginning of financial year	-	-
Derivative liability recognised on initial recognition	36,202	-
Fair value gains	(11,369)	-
End of financial year	24,833	-

The fair value of the liability component of the convertible bonds, which are not actively traded, approximates its carrying amount as at 31 December 2009, based on cash flows discounted at a borrowing rate of 11.4%. The fair value of the Old Convertible Bonds was approximately RMB366.7 million as at 31 December 2008 based on indicative quoted price provided by a reputable market information service provider, assuming the fair value of the equity component was negligible.

Notes To The Financial Statements

For the financial year ended 31 December 2009

26. Convertible bonds (continued)

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

	Group and Company	
	2009	2008
	RMB'000	RMB'000
<u>Current</u>		
Convertible Bonds (Restricted)	117,401	-
<u>Non-current</u>		
Old Convertible Bonds	-	1,388,810
Convertible Bonds	136,007	-
Convertible Bonds (Restricted)	480,806	-
Derivative liability – Convertible Bonds	24,833	-
	641,646	1,388,810
Total convertible bonds	759,047	1,388,810

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 respect with the ordinary shares except as follows:

- (a) Convertible Share holders (“Holders”) have the put options to put 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 call on 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.

Notes To The Financial Statements

For the financial year ended 31 December 2009

27. Convertible shares (continued)

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 2009 RMB'000
<hr/>	
<u>Non-derivative liability component</u>	
Fair value of the Convertible Shares issued	218,471
Less: Derivative liability component at fair value (below)	(101,770)
Non-derivative liability component on initial recognition	116,701
Amortisation of interest expense during the financial year	1,350
Currency translation difference	(2,290)
At end of financial year	115,761
 <u>Derivative liability component</u>	
On initial recognition	101,770
Fair value gain during the financial year	(49,929)
At end of financial year	51,841
 Total carrying amount of Convertible Shares at end of financial year	167,602

The fair value of the liability component of the Convertible Shares approximates its carrying amount as at 31 December 2009, based on cash flows discounted at a borrowing rate of 11.4%.

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For the financial year ended 31 December 2009

28. Share capital

Issued ordinary share capital

	<u>Group and Company</u>		<u>Group</u>		<u>Company</u>	
	2009	2008	2009	2008	2009	2008
	Shares	Shares	RMB'000	RMB'000	RMB'000	RMB'000
	'000	'000				
At beginning of the financial year	535,478	534,992	353,297	350,713	2,059,133	2,056,549
Issue of shares pursuant to exercise of warrants (a)	-	414	-	1,012	-	1,012
Issue of shares pursuant to Old Convertible Bonds	-	72	-	1,572	-	1,572
At end of the financial year	535,478	535,478	353,297	353,297	2,059,133	2,059,133

(a) Exercise of warrants to subscribe for new ordinary shares at an exercise price of \$0.50 each.

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

The warrants had expired in October 2008.

29. Reserves

(a) Capital reserve

Capital reserve comprises the equity component of the Old Convertible Bonds (Note 26) issued in June 2007.

(b) Fair value reserve

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

29. Reserves (continued)

(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 2009, approximately RMB 126,974,000 (2008: RMB 126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Acquisition (Note 2.4).

30. Dividends

	<u>Group and Company</u>	
	2009	2008
	RMB'000	RMB'000
<u>Ordinary dividends paid</u>		
Final exempt (one-tier) dividend paid in respect of the financial year ended 31 December 2007 of 4.15 cents per ordinary share	-	112,135

No dividends were declared for the financial years ended 31 December 2008 and 2009.

31. Contingent liabilities

As at 31 December 2009, guarantees given to banks by the Group in respect of bank loans granted to third parties amounted to approximately RMB479.1 million (2008: RMB94.1 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 2009, guarantees given to banks by the Company in respect of bank loans granted to subsidiaries amounted to approximately RMB9.1 million (2008: RMB10.0 million).

Notes To The Financial Statements

For the financial year ended 31 December 2009

32. Commitments

(a) Capital commitments

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

	<u>Group</u>	
	2009	2008
	RMB'000	RMB'000
Property, plant and equipment	181,132	395,827

(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:

	<u>Group</u>		<u>Company</u>	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	432	414	-	-
Later than 1 year but not later than 5 years	1,726	1,657	-	-
Later than 5 years	17,873	17,567	-	-
	20,031	19,638	-	-

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.

(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:

	<u>Group</u>		<u>Company</u>	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,366	2,076	-	-
Later than 1 year but not later than 5 years	-	1,381	-	-
	1,366	3,457	-	-

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. 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 PRC 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 2009

33. 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 2009</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	800,304	74,129	119,486	1,069	34,193	1,029,181
Trade and other receivables	564,259	-	-	-	79	564,338
Inter-company balances	608,076	474,374	-	-	1,438,386	2,520,836
	<u>1,972,639</u>	<u>548,503</u>	<u>119,486</u>	<u>1,069</u>	<u>1,472,658</u>	<u>4,114,355</u>
Financial liabilities						
Borrowings	1,712,086	426,874	-	-	176,765	2,315,725
Other financial liabilities	1,895,368	-	-	-	9,556	1,904,924
Inter-company balances	608,076	474,374	-	-	1,438,386	2,520,836
	<u>4,215,530</u>	<u>901,248</u>	<u>-</u>	<u>-</u>	<u>1,624,707</u>	<u>6,741,485</u>
Net financial (liabilities)/assets	(2,242,891)	(352,745)	119,486	1,069	(152,049)	(2,627,130)
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	2,242,891	-	-	-	(1,343)	2,241,548
Currency exposure	<u>-</u>	<u>(352,745)</u>	<u>119,486</u>	<u>1,069</u>	<u>(153,392)</u>	<u>(385,582)</u>

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. 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
<i>At 31 December 2008</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	936,381	139,003	242,152	14,429	20,200	1,352,165
Trade and other receivables	314,178	-	-	-	133	314,311
Inter-company balances	611,174	394,370	-	-	1,256,232	2,261,776
	<u>1,861,733</u>	<u>533,373</u>	<u>242,152</u>	<u>14,429</u>	<u>1,276,565</u>	<u>3,928,252</u>
Financial liabilities						
Borrowings	2,482,636	282,934	-	-	10,010	2,775,580
Other financial liabilities	1,953,588	-	-	-	8,191	1,961,779
Inter-company balances	611,174	394,370	-	-	1,256,232	2,261,776
	<u>5,047,398</u>	<u>677,304</u>	<u>-</u>	<u>-</u>	<u>1,274,433</u>	<u>6,999,135</u>
Net financial (liabilities)/assets	(3,185,665)	(143,931)	242,152	14,429	2,132	(3,070,883)
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	3,185,665	-	-	-	(59)	3,185,606
Currency exposure	<u>-</u>	<u>(143,931)</u>	<u>242,152</u>	<u>14,429</u>	<u>2,073</u>	<u>114,723</u>

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. 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
<u>Company</u>						
<i>At 31 December 2009</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	-	25,470	119,486	964	23,155	169,075
Trade and other receivables	-	-	-	-	1,161,351	1,161,351
	-	25,470	119,486	964	1,184,506	1,330,426
Financial liabilities						
Borrowings	759,047	-	-	-	167,628	926,675
Other financial liabilities	-	-	-	-	9,004	9,004
	759,047	-	-	-	176,632	935,679
Net financial (liabilities)/assets	(759,047)	25,470	119,486	964	1,007,874	394,747
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	759,047	-	-	-	-	759,047
Currency exposure	-	25,470	119,486	964	1,007,874	1,153,794

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. 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
<i>At 31 December 2008</i>						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	-	129,079	242,152	14,367	9,610	395,208
Trade and other receivables	-	-	-	-	1,086,125	1,086,125
	-	129,079	242,152	14,367	1,095,735	1,481,333
Financial liabilities						
Borrowings	1,388,810	-	-	-	39	1,388,849
Other financial liabilities	-	-	-	-	7,648	7,648
	1,388,810	-	-	-	7,687	1,396,497
Net financial (liabilities)/ assets	(1,388,810)	129,079	242,152	14,367	1,088,048	84,836
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	1,388,810	-	-	-	-	1,388,810
Currency exposure	-	129,079	242,152	14,367	1,088,048	1,473,646

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If the value of USD, SGD and AUD change against the RMB by 2% (2008 2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	2009		2008	
	Profit after tax RMB'000	Equity RMB'000	Profit after tax RMB'000	Equity RMB'000
Group				
USD against RMB				
- strengthened	(5,291)	-	(2,879)	-
- weakened	5,291	-	2,879	-
SGD against RMB				
- strengthened	(2,301)	-	43	-
- weakened	2,301	-	(43)	-
AUD against RMB				
- strengthened	1,157	847	4,104	740
- weakened	(1,157)	(847)	(4,104)	(740)
Company				
USD against RMB				
- strengthened	509	-	2,582	-
- weakened	(509)	-	(2,582)	-
SGD against RMB				
- strengthened	20,157	-	21,761	-
- weakened	(20,157)	-	(21,761)	-
AUD against RMB				
- strengthened	1,543	847	4,104	740
- weakened	(1,543)	(847)	(4,104)	(740)

(ii) Price risk

The Group is exposed to equity securities price risk because of the investments held by the Group 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 or options to subscribe for securities listed in Australia. The Group continually monitors its price risk exposure arising from its investments.

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

If prices for equity securities listed in Australia and Hong Kong change by 5% (2008: 5%) with all other variables including tax rate being held constant, the effect on profit after tax and equity will be:

	2009		2008	
	Profit after tax RMB'000	Equity RMB'000	Profit after tax RMB'000	Equity RMB'000
<u>Group and Company</u>				
Listed in ASX				
- increased by	-	2,118	-	1,108
- decreased by	-	(2,118)	-	(1,108)
Listed in Hong Kong				
- increased by	36	-	241	-
- decreased by	(36)	-	(241)	-

(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 increased/decreased by 1% (2008: 1 %) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by RMB9,530,380 (2008: RMB10,938,300) as a result of higher/lower interest expense on these borrowings.

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(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>	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate guarantees provided to banks on:				
- subsidiaries' loans	-	-	9,137	9,976
- third parties' loans	479,100	94,097	-	-

As at 31 December 2009, the finance lease receivables were due from one debtor (2008: one debtor), Tangshan Delong Steel Co., Ltd. The Group's credit exposure to Tangshan Delong Steel Co., Ltd at the balance sheet date is as follows:

	<u>Group</u>	
	2009	2008
	RMB'000	RMB'000
Finance lease receivables	229,833	58,477
Corporate guarantees provided to banks on - third parties' loans	324,000	-
	553,833	58,477

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(b) Credit risk (continued)

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

	<u>Group</u>		<u>Company</u>	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
<u>By geographical areas</u>				
People's Republic of China	795,421	459,790	603,167	536,653
Singapore	181	138	558,184	549,472
	795,602	459,928	1,161,351	1,086,125
<u>By types of customers</u>				
Non-related parties	795,602	459,928	176	133
Related parties	-	-	1,161,175	1,085,992
	795,602	459,928	1,161,351	1,086,125

(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.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities (Note 25) 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 25) 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 these; monitoring liquidity ratios; and maintaining debt financing plans.

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(c) Liquidity risk (continued)

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
<u>Group</u>		
<i>At 31 December 2009</i>		
Notes payables	448,000	-
Trade and other payables	939,288	-
Borrowings from banks and financial institutions	963,139	474,330
Convertible bonds	187,301	746,833
Convertible shares	-	193,722
Financial guarantee contracts	479,100	-
<i>At 31 December 2008</i>		
Notes payables	565,076	-
Trade and other payables	808,005	-
Borrowings from banks and financial institutions	1,072,802	391,191
Convertible bonds	-	1,776,064
Financial guarantee contracts	94,097	-
	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
<u>Company</u>		
<i>At 31 December 2009</i>		
Trade and other payables	9,004	-
Borrowings from banks and financial institutions	26	-
Convertible bonds	187,302	746,833
Convertible shares	-	193,722
Financial guarantee contracts	9,137	-
<i>At 31 December 2008</i>		
Trade and other payables	7,648	-
Borrowings from banks and financial institutions	10	29
Convertible bonds	-	1,776,064
Financial guarantee contracts	9,976	-

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(c) Liquidity risk (continued)

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. The restructuring of the convertible bonds during the financial year ended 31 December 2009 (Note 26) is part of the management of liquidity risk by the Group and the Company.

(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.

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Net debt	2,025,612	2,099,181	800,923	1,020,618
Total equity	2,056,677	1,347,171	2,279,685	1,968,809
Total capital	4,082,289	3,446,352	3,080,608	2,989,427
Gearing ratio	49.6%	60.9%	26.0%	34.1%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2008 and 2009.

(e) Fair value measurements

Effective 1 January 2009, the Group adopted the amendment to FRS 107 which requires disclosure of the categorisation of fair value measurements into three levels within the fair value measurement hierarchy based on the observability and significance of the inputs used in the valuation model:

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(e) Fair value measurements (continued)

The following table presents the assets and liabilities measured at fair value at 31 December 2009.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<u>Group and Company</u>				
Assets				
Financial assets at fair value through profit or loss – equity held for trading	964	-	-	964
Available-for-sale financial assets – Unlisted equity options	-	-	42,359	42,359
Total assets	964	-	42,359	43,323
Liabilities				
Convertible bonds – derivative liability component	-	-	24,833	24,833
Convertible shares – derivative liability component	-	-	51,841	51,841
Total liabilities	-	-	76,674	76,674

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 uses the Binomial Tree model and market data inputs which are based on market conditions existing at each balance sheet date.

Key market data inputs used in the valuation of the available-for-sale financial assets include the quoted market price of the underlying shares at the balance sheet date of A\$0.53 and the volatility of the share price of 59%. If the share price used in the valuation is A\$0.58 or A\$0.48, instead of A\$0.53, the fair value of the available-for-sale financial assets at the balance sheet date would have increased/decreased by approximately RMB8.4 million and RMB8.1 million respectively. If the volatility of the share price used in the valuation is 69% or 49%, instead of 59%, the fair value of the available-for-sale financial assets at the balance sheet date would have increased/decreased by approximately RMB1.5 million and RMB1.2 million respectively.

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(e) Fair value measurements (continued)

Key market data inputs used in the valuation of the derivative components of the convertible bonds and convertible shares include the quoted market price of the Company's shares at the balance sheet date of S\$0.725 and the volatility of the share price of 69%. If the share price used in the valuation is S\$0.798 or S\$0.653 instead of S\$0.725, the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB12.0 million and RMB12.3 million respectively. If the volatility of the share price used in the valuation is 79% or 59%, instead of 69%, the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB1.9 million and RMB2.7 million respectively.

In addition, while the Group's convertible bonds and convertible shares are measured at amortised cost using the effective interest rate method, they were recognised at fair value at inception and such fair values were determined by using valuation techniques. Such fair value measurements are categorised as Level 3 within the fair value hierarchy. The most significant input to these fair value measurements is the effective interest rate of 11.4% per annum used to discount the future contracted cash flows. The effective interest rate of 11.4% represents 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. The effect of changes to the discount rate on valuation of the convertible bonds and convertible shares on the inception date are set out in Note 3(b).

The following table presents the changes in Level 3 financial assets/(liabilities) instruments for the financial year ended 31 December 2009:

	Available-for-sale financial assets RMB'000	Convertible bonds – derivative component RMB'000	Convertible shares – derivative component RMB'000
Opening balance	22,158	-	-
Sold during the financial year	(13,105)	-	-
Derivatives recognised upon restructuring of convertible bonds	-	(36,202)	(101,770)
Gains and losses recognised in equity	33,306	-	-
Gains and losses recognised in profit or loss	-	11,369	49,929
Closing balance	42,359	(24,833)	(51,841)

Notes To The Financial Statements

For the financial year ended 31 December 2009

33. Financial risk management (continued)

(e) Fair value measurements (continued)

The carrying amount of trade and other receivables and payables, and notes payables are assumed to approximate their fair values. The fair value of financial liabilities (such as convertible bonds and convertible shares) for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is 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 value of other borrowings approximates their carrying amount.

34. 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.

35. 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) Key management personnel compensation

The key management personnel compensation is as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other short term employee benefits	7,946	8,136
Post-employment benefits – defined contribution plans	2,269	2,286
	10,215	10,422

Included in the above was total compensation to directors of the Company amounting to RMB 6,774,840 (2008: RMB 6,856,350), including directors' fees of RMB 1,221,107 (2008: RMB 1,161,177).

Notes To The Financial Statements

For the financial year ended 31 December 2009

36. 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 2009 is as follows:

	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
External Sales	7,695,627	48,655	7,744,282
Inter-segment sales	(2,338)	(30,692)	(33,030)
Sales to external parties	<u>7,693,289</u>	<u>17,963</u>	<u>7,711,252</u>
Adjusted EBITDA*			
Depreciation	(361,003)	(20)	(361,023)
Share of profit of associated company	-	100	100
Finance expense			(223,314)
Unallocated:			
Gain on restructuring of convertible bonds			272,298
Fair value gain on convertible bonds			11,369
Fair value gain on convertible shares			<u>49,929</u>
Profit before income tax			<u><u>728,528</u></u>
Total assets			
	<u>5,808,584</u>	<u>494,778</u>	<u>6,303,362</u>
Total assets includes:			
Investment in associated company	-	20,100	20,100
Additions to property, plant and equipment	165,302	-	165,302
Total liabilities			
	<u>3,266,493</u>	<u>980,192</u>	<u>4,246,685</u>

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

36. Segment information (continued)

The segment information for the reportable segments for the year ended 31 December 2008 is as follows:

	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
Total segment sales	11,115,814	27,140	11,142,954
Inter-segment sales	(10,981)	(21,581)	(32,562)
Sales to external parties	<u>11,104,833</u>	<u>5,559</u>	<u>11,110,392</u>
Adjusted EBITDA*	349,170	(42,058)	307,112
Depreciation	(332,102)	(112)	(332,214)
Impairment charge for property, plant and equipment	(102,369)	-	(102,369)
Unallocated:			
Finance expense			(294,951)
Loss before income tax			<u>(422,422)</u>
Total assets	<u>5,555,973</u>	<u>531,676</u>	<u>6,087,649</u>
Total assets includes:			
Additions to property, plant and equipment	548,560	-	548,560
Total liabilities	<u>3,312,232</u>	<u>1,428,246</u>	<u>4,740,478</u>

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

Notes To The Financial Statements

For the financial year ended 31 December 2009

37. List of companies in the Group

Name of Company	Principal activities	Country of incorporation	Equity holding	
			2009	2008
<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%
DL Resources (Australia) Pty Ltd ^(a)	Investment holding	Australia	-	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>				
Delong Hongyun Trading Co., Ltd ^(d)	Investment in resource-related projects and trading in steel and steel-related products	PRC	100%	-
Bohai Steel Alliance Co., Ltd ^(a)	Import and export of raw materials finished products and technology	PRC	20%	-

Notes To The Financial Statements

For the financial year ended 31 December 2009

37. List of companies in the Group (continued)

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 Xing Tai Jin Zheng 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.

38. Event occurring after the balance sheet date

Subsequent to the financial year end, the Group submitted the application for voluntary deregistration of Delong Hongyun Trading Co., Ltd to the department of Industrial and Commerce for approval. At the date of this report, the application is still pending the department of Industrial and Commerce's approval. The deregistration is not expected to have a material financial effect to the Group.

39. New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

- (a) FRS 27 (revised) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009).

FRS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply FRS 27 (revised) prospectively to transactions with minority interests from 1 January 2010.

Notes To The Financial Statements

For the financial year ended 31 December 2009

39. New or revised accounting standards and interpretations (continued)

- (b) FRS 103 (revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009)

FRS 103 (revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply FRS 103 (revised) prospectively to all business combinations from 1 January 2010.

40. 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 31 March 2010.

Statistics Of Shareholdings

As at 16 March 2010

Issued and fully paid-up capital	:	S\$413,198,537.87
No. of Shares	:	542,544,121
Voting Rights	:	1 Vote per share
Class of Shares	:	Ordinary share

Size of Shareholdings			No. of Shareholders	%	No. of Shares	%
1	-	999	694	32.01	267,851	0.05
1,000	-	10,000	1,207	55.67	4,492,959	0.83
10,001	-	1,000,000	255	11.76	14,919,465	2.75
1,000,001	and above		12	0.56	522,863,846	96.37
Total			2,168	100.00	542,544,121	100.00

Top Twenty Shareholders	No. of Shares	%
Best Decade Holdings Limited	320,817,502	59.13
HSBC (Singapore) Nominees Pte Ltd	81,059,322	14.94
Merrill Lynch (Singapore) Pte Ltd	53,584,989	9.88
DBS Nominees Pte Ltd	36,565,297	6.74
Citibank Nominees Singapore Pte Ltd	9,815,732	1.81
Morgan Stanley Asia (Singapore) Securities Pte Ltd	4,922,470	0.91
DB Nominees (S) Pte Ltd	4,421,158	0.82
Key Consultant Investments Ltd	4,026,000	0.74
AGC Asia 2 Lrd	3,000,000	0.55
UOB Kay Hian Pte Ltd	1,890,250	0.35
Raffles Nominees (Pte) Ltd	1,436,126	0.26
Citigroup Global Markets Limited	1,325,000	0.24
Teo Chee Kok	815,000	0.15
United Overseas Bank Nominees Pte Ltd	777,553	0.14
Kim Eng Securities Pte. Ltd.	709,700	0.13
Goh Hong Soon @ Goh Ah Lam	589,000	0.11
Yong Foong Yee	587,000	0.11
DBS Vickers Securities (S) Pte Ltd	472,925	0.09
Phillip Securities Pte Ltd	383,813	0.07
Lee Ah Bah @ Lee Beng Hoe	304,100	0.06
	<u>527,502,937</u>	<u>97.23</u>

Statistics Of Shareholdings

As at 16 March 2010

SUBSTANTIAL SHAREHOLDERS	<u>Direct Interest</u>		<u>Deemed Interest</u>	
	No.of Shares	%	No.of Shares	%
Best Decade Holdings Limited	320,817,502	59.13	-	-
Golden Top Group Limited	-	-	320,817,502 ⁽¹⁾	59.13
Ding Liguó	-	-	320,817,502 ⁽²⁾	59.13
Zhao Jing	-	-	320,817,502 ⁽²⁾	59.13
HSBC (Singapore) Nominees Pte Ltd	81,059,322	14.94	-	-
Merrill Lynch (Singapore) Pte Ltd	53,584,989	9.88	-	-
DBS Nominees Pte Ltd	36,565,297	6.74	-	-

Notes

- (1) Golden Top Group Limited owns 100% of the share capital in Best Decade Holdings Limited ("Best Decade") and is therefore deemed interested in the shares of the Company held by Best Decade
- (2) Mr Ding Liguó 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.

Public shareholding

Based on the register of shareholdings and to the best knowledge of the Company, as at 16 March 2010, 40.87% of the Company's shares were held in the hands of 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 32 Maxwell Road, Singapore 069115 on Friday, 30 April 2010, 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 2009 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to Articles 88 and 89 of the Company's Articles of Association:-
 - (1) Mr. Zuo Shuowen (Retiring under Article 88) **(Resolution 2)**
 - (2) Mr. Fok Hei Yu (Retiring under Article 88) **(Resolution 3)**
 - (3) Mr. Bai Baohua (Retiring under Article 89) **(Resolution 4)**
 - (4) Mr. Lai Hock Meng (Retiring under Article 89) **(Resolution 5)**

Mr. Lai Hock Meng and Mr. Bai Baohua will, upon re-election as Directors of the Company, remain as members of the Audit 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 approve the payment of Directors' fees of RMB 1,221,100.00 for the financial year ended 31 December 2009. (2008: RMB 1,161,180.00) **(Resolution 6)**
4. To re-appoint Messrs PricewaterhouseCoopers LLP as the Independent Auditor of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**
5. To transact any other business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

6. 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, 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

Notice Of Annual General Meeting

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] **(Resolution 8)**

BY ORDER OF THE BOARD

Yeo Lee Luang

Company Secretary
Singapore, 9 April 2010

EXPLANATORY NOTE:-

The Ordinary Resolution proposed in item 6 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.

DELONG HOLDINGS LIMITED
(Company Registration. No. 199705215G)
(Incorporated in the Republic of Singapore)

ANNUAL GENERAL MEETING
PROXY FORM

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

*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 32 Maxwell Road, Singapore 069115 on Friday, 30 April 2010, 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**
2	Re-election of Mr Zuo Shuowen as a Director		
3	Re-election of Mr Fok Hei Yu as a Director		
4	Re-election of Mr Bai Baohua as a Director		
5	Re-election of Mr Lai Hock Meng as a Director		
6	Approval of Directors' fees amounting to RMB 1,221,100.00		
7	Re-appointment of Messrs PricewaterhouseCoopers as Auditors		
8	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 _____ 2010.

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.

DELONG HOLDINGS LIMITED

3 RAFFLES PLACE

07-01 BHARAT BUILDING

SINGAPORE 048617

TEL: +65 6329 6426

FAX: +65 6535 7505

德龙控股有限公司

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