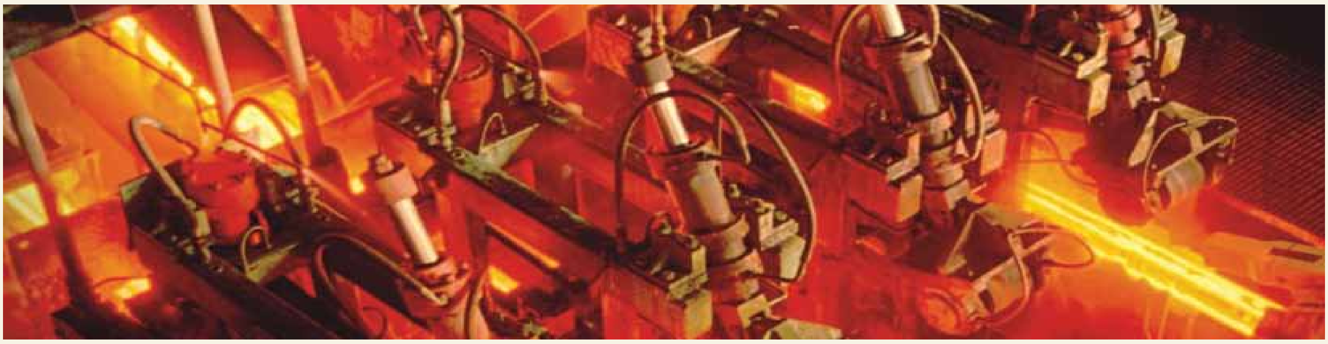
德龙控股

DELONG HOLDINGS

Annual Report 2010



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Our VISION

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

Corporate PROFILE

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

Delong Steel Limited ("Delong Steel")
Located 5km off Xingtai City in Hebei province, the People's Republic of China ("PRC"), Delong Steel is an important private enterprise in the province, employing a sizeable workforce of 5,748 and contributing significantly to the local economy. A member of the China Iron & Steel Association, Delong Steel is principally engaged in the manufacture and sale of hot-rolled coils ("HRC").

Sitting on a land area of over 900,000 square metres and ISO9001:2000-certified, the plant is outfitted with advanced steelmaking equipment, including multi-layered low-temperature sintering equipment, fully automated Programmable Logic Controller (PLC) production systems and ultrasonic cleaning technology. Since 2005, the company has invested over RMB 3.2 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 350 and 1,250 mm in width and 1.4 to 25.0 mm in thickness. The products, which can be customized to clients' specifications, are mainly used for the infrastructure, pipe-making, machinery and automatic industries.

Benefitting greatly from the 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 holding company.

Dezhong International Finance Leasing Co., Ltd ("Dezhong Leasing")
Operationally located in the PRC, the principal activity of Dezhong Leasing is in the business of purchasing 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.

Tianjin Qiruicheng International Trading Co., Ltd ("Tianjin Qiruicheng")
Operationally located in the PRC, the principal activities of Tianjin Qiruicheng are in the trading of steel and steel-related products and investment in resource-related projects.

Corporate STRUCTURE

- **Delong Holdings Limited (Singapore)**
  - 100% **Asia Paragon International Limited (British Virgin Islands)**
    - 100% **Delong Steel Limited (PRC)**
      - 100% **Tianjin Qiruicheng International Trading Co., Ltd (PRC)**
    - 100% **Dezhong International Finance Leasing Co., Ltd (PRC)**
  - 100% **Dexin Steel Pte Ltd (Singapore)**
    - 100% **Xingtai Xinlong Coal Gas Limited (PRC)**
    - 100% **Xingtai Delong Machinery and Mill Roll Co., Ltd (PRC)**

CHAIRMAN'S LETTER
to Shareholders

Dear Shareholders,

Despite global economic uncertainties and volatile commodity prices, Delong Holdings Limited ("Delong" or the "Company", together with its subsidiaries, the "Group") has reported a decent set of results for the financial year ended 31 December 2010 ("FY2010").

The Group has benefited from higher selling prices of our products, fuelled by rising demand for steel products in China. We remained profitable on the back of improved revenue, chalking up a net profit of RMB 326.6 million in the year under review. Credit should be given to the right strategies adopted by the board of directors and management of the Group.

Performance Overview

The Group has improved its financial position considerably in FY2010. We have increased our cash holding, with cash balance rising to RMB 509.7 million in FY2010 – up 75.7% from RMB 290.1 million in FY2009. Net cash generated from operating activities also rose substantially from RMB 12.0 million in FY2009 to RMB 1.2 billion in FY2010.

Thanks to our strong internal cashflow, the Company had been able to fully redeemed our Convertible Bonds (Restricted) in FY2010, resulting in a healthier balance sheet. We also recorded a RMB 34.7 million gain on early redemption of our Convertible Bonds (Restricted). Our net asset value per share increased 13.5% from RMB 3.84 as at 31 December 2009 to RMB 4.36 as at 31 December 2010. Our debt-to-equity ratio also improved from 1.13 to 0.62 during the same period.

Sales volume of 2.6 million tonnes in hot-rolled coil ("HRC") were slightly higher than in FY2009, and going forward the Company's order books were expected to remain strong in 2011. This positive outlook could be attributed to steady market demand for our products targeted at the infrastructure, construction and machinery fabrication industries.

For the whole year, the Group registered a 29.0% increase in revenue to RMB 9.9 billion in FY2010 from RMB 7.7 billion in FY2009, driven by higher average selling price and sales volume of HRC. Gross profit also increased by RMB 24.9 million or 3.6% from RMB 685.6 million in FY2009 to RMB 710.5 million in FY2010. Gross profit margin decreased slightly from 8.9% in FY2009 to 7.2% in FY2010, despite the significant increase in cost of goods sold compared to FY2009 – which reflected the Group's effectiveness in inventory management, production efficiency and cost control.

The Group's net profit for FY2010 was RMB 326.6 million. The Group's FY2010 net profit would have been RMB367.6 million if not for the one-off non-cash impairment charge of RMB41.0 million. Compared to FY2009 net profit, excluding the gain of RMB 272.3 million on restructuring of old convertible bonds, the Group's FY2010 net profit was lower by 7.3%.

Outlook and Strategy

Steel prices worldwide are expected to go higher during the first half of 2011, driven by increases in the cost of raw materials (such as coal and iron ore) and rises in demand resulting from re-stocking of inventories. However, the extent of the upside will depend on the pace of steel demand growth in 2011 – especially in China where the Government is pushing through policies in an effort to slow down the overheating economy and rein in investment expenditure.

Raw materials, such as iron ore and coal had in early 2011 saw prices rise rapidly on the back of recovering economies, characterised by increasing Chinese demand pushing against constrained global supply which was recently exacerbated by Australia floods. For iron ore purchase, the shift in international practice from annual benchmark pricing to quarterly pricing has added a new element of volatility to the market.

The combination of these factors points to a volatile 12 months ahead. In view of these uncertain trends, the Group maintains a cautious outlook for FY2011.

Going forward, we will pursue the following strategies:

Cost Reduction and Environmental Concern

The Group will remain vigilant in our cost control and inventory management to cope with the pressure from higher raw material prices.

We will also remain committed to achieving our environmental goals as our new co-generation power project which will be ready in September 2011. This will help us lower coal consumption thereby reducing costs by RMB 40 million per year. Our environmental efforts are also in line with the Chinese Government measures to lower emissions and pollution.

Delong has achieved cost savings from the recycling of waste gas, water and residue. Improvement in smelting technology and use of scrap steel have also contributed to the production efficiency of the Group.

Strategic Mergers and Acquisitions

The ongoing consolidation of the domestic steel sector – encouraged by PRC authorities – is opening up many opportunities for mergers and acquisitions. We continue to be on the active lookout for investment and acquisition opportunities in both the upstream and downstream sectors to enhance shareholder value.

CHAIRMAN'S LETTER
to Shareholders

Higher value-added products

We will continue to focus on higher-end products, which command better prices to boost our profit margins and deliver better returns to shareholders.

These products include silicon steel and pipes steel for the infrastructure industry, where demand continues to exceed supply. Silicon steel is used largely in the utilities sector to build dynamos and transformers for electricity generation, while pipes steel is used mainly to make pipelines to transport oil and gas.

We are confident that efforts in developing and marketing higher value-added products will optimize our product portfolio and improve profit margins for the Group.

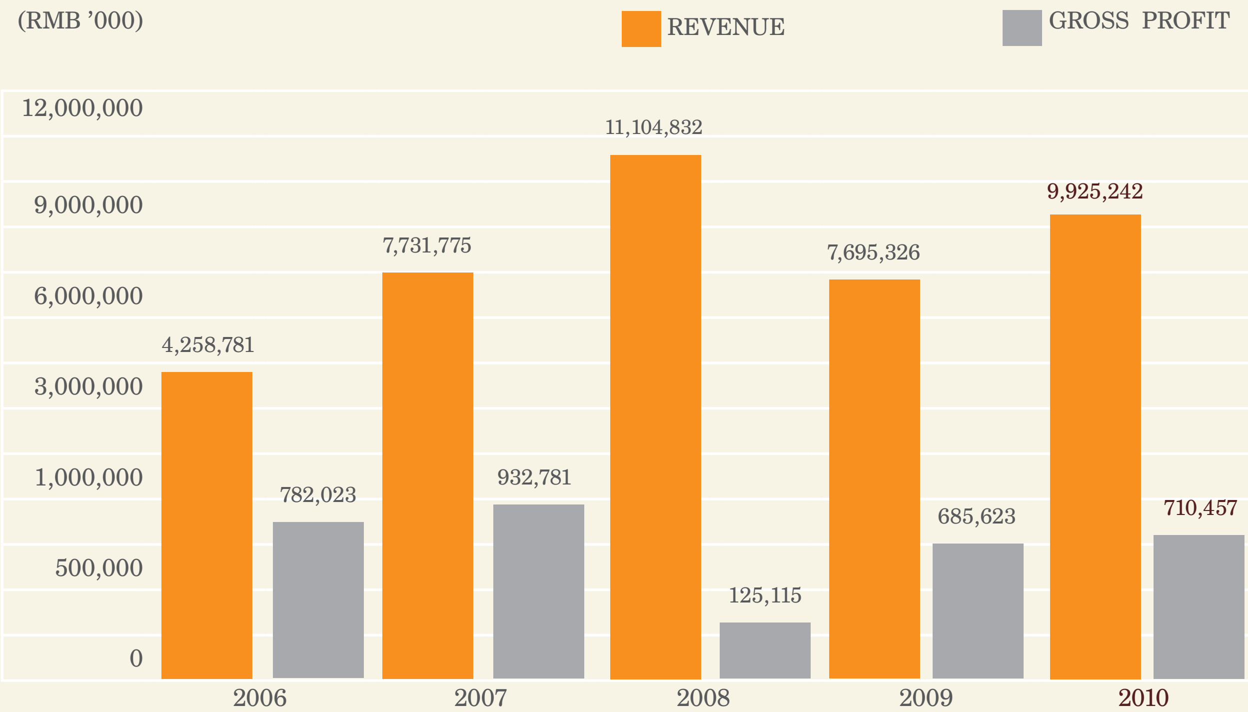
In Appreciation

On behalf of the Board of Directors, I would like to thank our shareholders and bondholders, for their faithful support. We also appreciate the unwavering support and dedication of our business partners and colleagues. We look forward to your continued support and contribution.

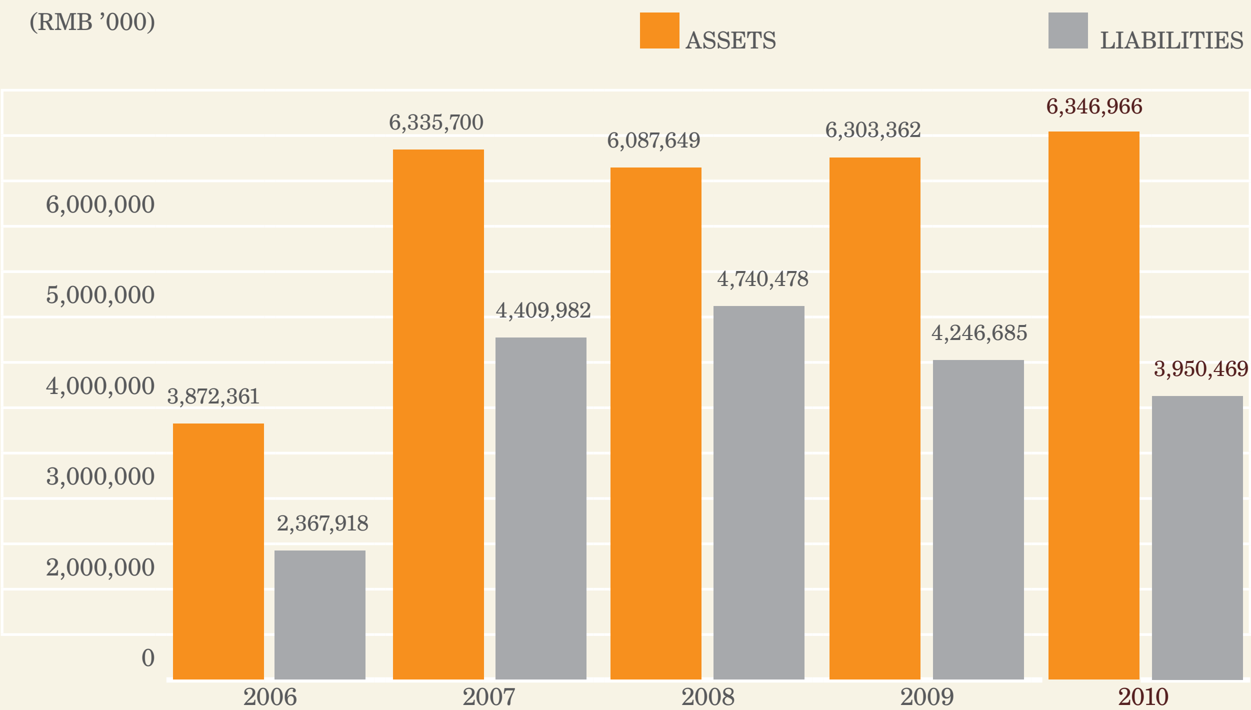
Ding Liguo
Executive Chairman

Financial HIGHLIGHTS

REVENUE & GROSS PROFIT

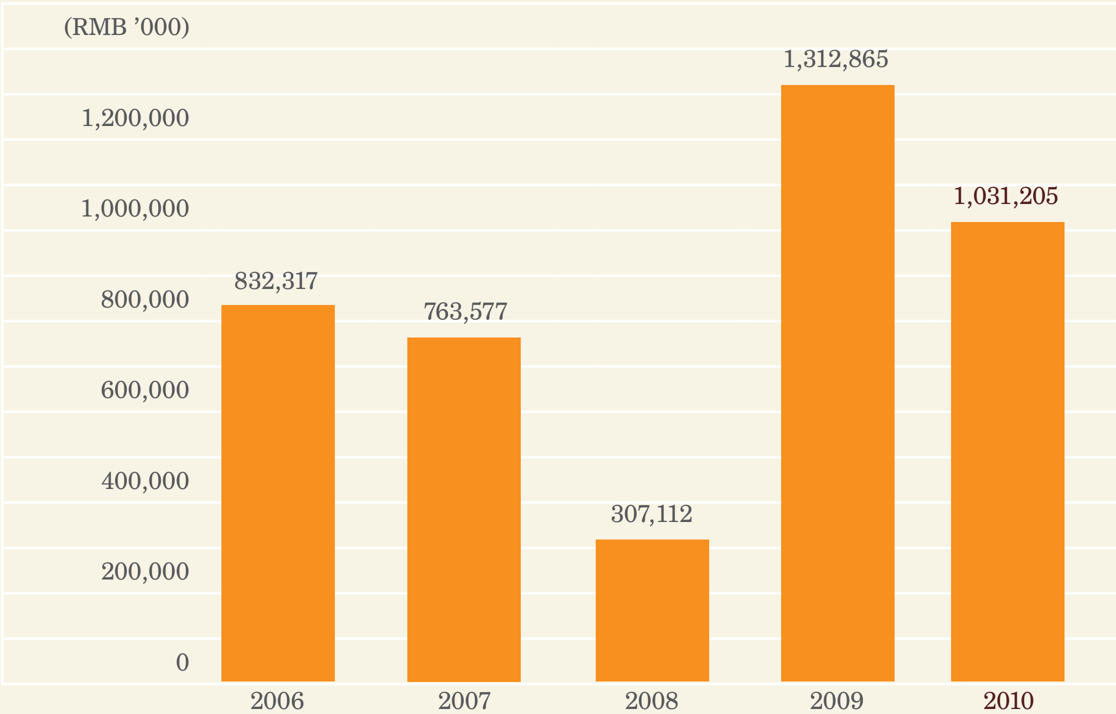


TOTAL ASSETS & LIABILITIES

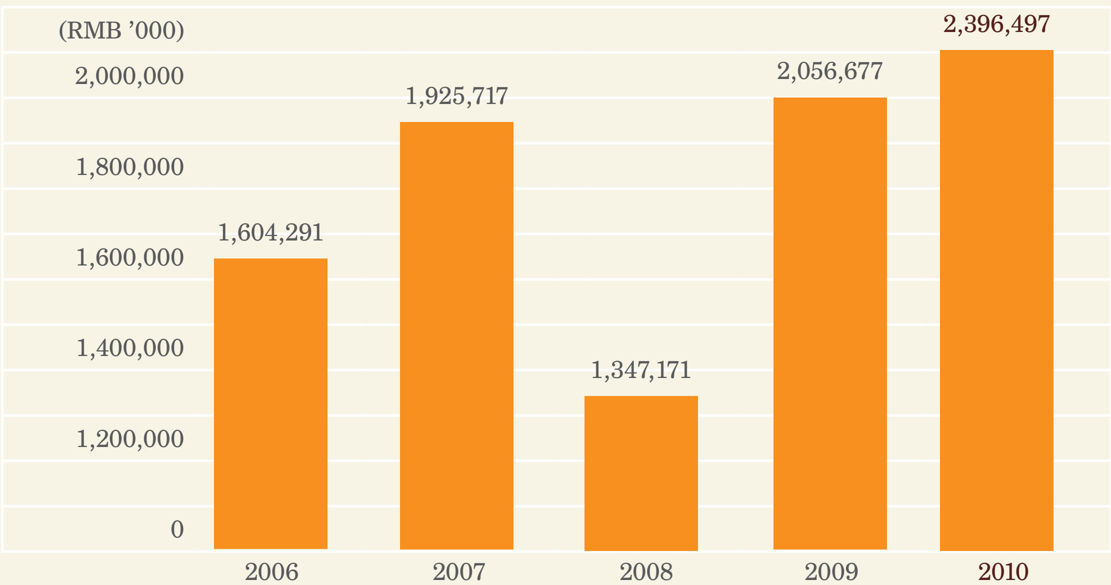


Financial HIGHLIGHTS

EBITDA



TOTAL EQUITY



Group's Five-Year Financial Highlights

RMB '000	FY2010	FY2009	FY2008	FY2007	FY2006
Revenue	9,925,242	7,695,326	11,104,832	7,731,775	4,258,781
Cost of Sales	(9,214,785)	(7,009,703)	(10,979,717)	(6,798,994)	(3,476,758)
Gross Profit	710,457	685,623	125,115	932,781	782,023
Net Profit/ (Loss) After Tax	326,554	668,823	(370,427)	470,123	662,691
EBITDA	1,031,205	1,312,865	307,112	763,577	823,317
Total Assets	6,346,966	6,303,362	6,087,649	6,335,700	3,872,361
Total Equity	2,396,497	2,056,677	1,347,171	1,925,717	1,604,291
Total Cash and Cash Equivalents	509,728	290,113	676,399	985,427	188,729

Financial Ratios	FY2010	FY2009	FY2008	FY2007	FY2006
Gross Profit Margin	7.2%	8.9%	1.2%	12.1%	18.3%
Net Profit Margin	3.3%	8.7%	-	6.1%	15.6%
Basic Earnings / (Loss) Per Share (RMB) [1]	0.60	1.25	(0.69)	0.88	1.25
Net Tangible Assets Per Share (RMB) [2]	4.36	3.84	2.52	3.60	3.02
Gearing (times) [3]	0.62	1.13	2.06	1.31	0.57
Return on Assets [4]	5.2%	10.6%	N.M	7.4%	17.1%
Return on Equity [5]	13.6%	32.5%	N.M	24.4%	41.3%

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 borrowings (including convertible bonds and convertible shares) divided by total equity.
4. Return on Assets is defined as net profit after tax divided by total assets.
5. Return on Equity is defined as net profit after tax divided by total equity.

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 the Chairman of Tangshan Liguo Enterprise Group Co., Ltd and from 1992 to 1998, he was the Chairman of Tangshan Changcheng Rolled Steel Factory. Prior to that, Mr Ding was an employee with Shenzhen Futian District Materials Bureau from 1991 to 1992. Mr Ding received a diploma in Machinery Manufacturing from the Hebei Technological Institute in the People Republic of China ("PRC").

Mr Zuo Shuowen
Mr Zuo is the **Executive Director** of the Company and is responsible for overseeing the operations of the Group. He joined the Group in 2003, and was promoted to General Manager of the Group's principal subsidiary , Delong Steel, in 2007. From 2000 to August 2003, he was an accounts manager of Tangshan Hengan Enterprise Co., Limited, overseeing all financial matters in that company. Mr Zuo received a diploma in Accountancy from the Hebei Hongrun Commercial School in the PRC in 1988.

Mr Bai Baohua
Mr Bai is an **Independent Director** of the Company and Chairman of the Nominating and Remuneration Committees. He is also a Member of the Audit Committee. He was Vice-Chairman and subsequently General Manager of China Steel Industrial Trade Group Company from 1993 to 2001. Between 1980 and 1993, Mr Bai was with China Metallurgy Import and Export Company, where he rose through the ranks from engineer to general manager, placed in charge of the overall operations of the company. Between 1965 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 received a Bachelor of Engineering from the Beijing Technological University.

Mr Hee Theng Fong
Mr Hee is an **Independent Director** of the Company and a Member of the Audit, Remuneration and Nominating Committees. He is a practicing lawyer with more than 20 years' experience in legal practice. Mr Hee holds appointments with several arbitration associations, including Chartered Institute of Arbitrators (UK), Singapore International Arbitration Centre, Beijing Arbitration Commission, Huizhou Arbitration Commission and China International Economic and Trade Arbitration Commission. Mr Hee is also a member of the Standing Committee of the Singapore Chinese Chamber of Commerce & Industry, and an independent director of several listed companies. He is regularly invited to speak on Directors' Duties and Corporate Governance in seminars organized by the Singapore Institute of Directors and the Singapore Exchange. Mr Hee holds a LLB (Honours) from the University of Singapore and also a Diploma in PRC Law.

Mr Lai Hock Meng
Mr Lai is an **Independent Director** of the Company and Chairman of the Audit Committee. He is also a member of the Remuneration and Nominating Committees. He is currently Chairman of Singapore based corporate advisory firm HML Consulting Group. Mr Lai is also a member of the investment committee of Tembusu Partners Pte Ltd, a private equity investments firm. Mr Lai has more than 26 years' experience in the financial industry, including central banking, investment banking, private banking, stockbroking and venture capital. In addition, he sits on the boards of several listed companies. Mr Lai has a Bachelor of Arts (Honours) and a Masters of Arts from the University of Cambridge in England, majoring in Economics. He is also an accredited Chartered Financial Analyst with the CFA Institute in the USA and a Fellow of the Chartered Institute of Marketing in the United Kingdom.

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

Mr Fok Hei Yu
Mr Fok was appointed as our **Non-Executive Director** on 1 December 2009. He is currently an executive director of Ferrier Hodgson, an international financial and restructuring advisory firm which he has worked in since 1997. He has accumulated significant knowledge and proven experience 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 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, Ms Lan was a Finance Manager of 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 received a Bachelor of Accountancy from the Tianjin Finance & Economic University, PRC.

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

Corporate INFORMATION

BOARD OF DIRECTORS

Ding Liguo	Executive Chairman
Zuo Shuowen	Executive Director
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

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

INVESTOR RELATIONS

Stratagem Consultants Pte Ltd
10 Anson Road,
#22-13 International Plaza
Singapore 079903
Tel: (65) 62270502
Fax: (65) 62275663

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 (the "Code") as reviewed by the Council on Corporate Disclosure Governance whose recommendations to revise the code have been accepted by the Government 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 directors and three independent directors, all of whom 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 "Directors' Profile" 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 risk 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 the financial results to the shareholders.

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 Liguo	6	6	4	4	-	-	-	-
Zuo Shuowen	6	6	4	4	-	-	-	-
Bai Baohua	6	5	4	4	1	1	1	1
Hee Theng Fong	6	6	4	4	1	1	1	1
Lai Hock Meng	6	6	4	4	1	1	1	1
Yuan Weimin	6	5	4	4	-	-	-	-
Fok Hei Yu	6	5	4	4	-	-	-	-

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 understanding and update 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 whom 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.

The composition of the Board is reviewed on an annual basis by a Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess 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 Company.

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 Liguo, 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.

The Executive Chairman and CEO are responsible for the day to day operations and business of the Group. Major decisions concerning the Group are subject to review and approval by the Board. His performance is reviewed by the Nominating Committee on a yearly basis and his remuneration package is reviewed on a yearly basis by the Remuneration Committee. Both the Nominating Committee and the Remuneration Committee comprise mainly 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.

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 Lai Hock Meng and Mr Hee Theng Fong 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 directors 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
			China Essence Group Ltd
			Metax Engineering Corp Limited
			China Energy Limited
			WesTech Electronic Ltd
			ASTI Holdings Ltd
			China Oilfield Technology Services Group
Yuan Weimin	Non-Executive Director	16 April 2008	Delong Holdings Limited
Fok Hei Yu	Non-Executive Director	1 December 2009	Delong Holdings Limited
			Kaisa Group Holdings Limited

According to Article 89 of the Company's Article of Association, Mr Ding Liguo, Mr Hee Theng Fong and Mr Yuan Weimin 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 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 sufficient information concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive management. They have unrestrictive access to the Company's records and information. They also receive management accounts as and when requested to enable them to exercise oversight over the Group's operational and financial performance. The Articles of Association of the Company provide for directors to convene meetings by teleconferencing or videoconferencing. When a physical Board meeting is not possible, timely communication with members of the Board can be achieved through electronic means.

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

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

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

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 package 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 executive 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 and business needs of the Group.

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

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 2010 is as follows:

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

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 S$250,000
Lan Jihong
Yeo Lee Luang
Qu Zhengping

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.

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

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. The Management currently provides the Board with management accounts of the Group's performance, position and prospects on a 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 discharge 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 auditor separately, at least once a year, without the presence of the 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 auditor, the scope and quality of its audit and the independence and objectivity of the external auditor.

Corporate GOVERNANCE REPORT

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 auditor.

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

The Audit Committee will meet with the Company's external auditor 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 the Delong Steel in reviewing and testing during the year the proper functioning and adequacy of the Company's internal control system. The Company's IAG is comprised of highly qualified personnel who meet the standards set by internationally recognized professional bodies. The IAG reports directly to the AC on internal audit matters and may request from it the necessary resources to adequately perform its functions. 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.

(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 the AGM and EGM to ensure a high level of accountability and to stay informed of the Group's strategies and goals. The AGM and EGM are the principal forum for dialogue with shareholders.

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

The Board 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 recognize electronic voting.

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

The Company's independent auditor, PricewaterhouseCoopers LLP, is invited to attend the AGM and is available to assist the directors in addressing any relevant queries by the shareholders relating to the conduct of the audit and the content of their auditor's report.

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

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

The Board of Directors confirms that for the financial year ended 31 December 2010, the Company has complied with the listing rules of the SGX-ST in respect of dealing in securities.

(F) MATERIAL CONTRACTS

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

(G) INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interest persons are reported in a timely manner to the AC and 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 2010.

The Audit Committee had reviewed the transactions and in its opinion, the transaction was carried out at arm's length commercial terms.

(H) RISK MANAGEMENT

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

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

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

The Group's financial risk management is discussed under Note 32 of the Notes to the Financial Statements, on pages 74 to 86 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 2010, the Company has generally adhered to the principles and guidelines as set out in the Code of Corporate Governance 2005.

Financial CONTENTS

Directors' REPORT

For the Financial Year Ended 31 December 2010

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2010 and the balance sheet of the Company as at 31 December 2010.

Directors

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

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

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares 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	
	At 31.12.2010	At 1.1.2010	**At 31.12.2010**	At 1.1.2010
The Company				
(No. of ordinary shares)				
Ding Liguo	**-**	-	**320,817,502**	320,817,502
Ultimate holding corporation				
- Honest Joy International Ltd				
(No. of ordinary shares of US$1 each)				
Ding Liguo	**700**	700	**300**	300
Immediate holding corporation				
- Best Decade Holdings Limited				
(No. of ordinary shares of US$1 each)				
Ding Liguo	**-**	-	**1,000**	1,000

Directors' interests in shares and debentures (continued)

(b) Mr Ding Liguo, 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 2011 were the same at 31 December 2010.

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
30 March 2011

ZUO SHUOWEN
Director

Statement by DIRECTORS

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 91 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 2010 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

30 March 2011

Independent AUDITOR'S REPORT

To The Members Of Delong Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Delong Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 30 to 91, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition, that transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent AUDITOR'S REPORT

To The Members Of Delong Holdings Limited (continued)

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 30 March 2011

Consolidated STATEMENT OF COMPREHENSIVE INCOME

For The Financial Year Ended 31 December 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000
Sales of goods		**9,925,242**	7,695,326
Cost of sales		**(9,214,785)**	(7,009,703)
Gross profit		**710,457**	685,623
Other income	4	**39,236**	42,537
Other gains – net	5	**99,920**	377,556
Expenses			
- Distribution and marketing		**(10,630)**	(4,644)
- Administrative		**(151,080)**	(149,330)
- Finance	8	**(225,515)**	(223,314)
Share of (loss)/ profit of associated company	21	**(100)**	100
Profit before income tax		**462,288**	728,528
Income tax expense	9	**(135,734)**	(59,705)
Net profit		**326,554**	668,823
Other comprehensive (loss)/income:			
Financial assets, available-for-sale			
- Fair value gains		**-**	33,306
- (Gains)/Losses previously recognised directly in equity now included in net profit		**(21,320)**	11,095
Currency translation differences		**(15,628)**	(3,718)
Other comprehensive (loss)/income, net of tax		**(36,948)**	40,683
Total comprehensive income attributable to equity holders of the Company		**289,606**	709,506
Earnings per share			
(expressed in RMB per share)	10		
- Basic		**0.60**	1.25
- Diluted		**0.54**	1.12

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

Balance SHEET
As at 31 December 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**509,728**	290,113
Bank balances pledged	12	**507,361**	685,745
Financial assets, at fair value through profit or loss	13	**1,204**	964
Trade and other receivables	14	**458,434**	244,550
Inventories	15	**1,262,405**	1,084,595
Other current assets	16	**367,443**	332,672
		3,106,575	2,638,639
Non-current assets			
Trade and other receivables	17	**127,774**	218,380
Financial assets, available-for-sale	19	**20,000**	52,359
Investment in associated company	21	**-**	20,100
Investment property	22	**15,611**	15,103
Property, plant and equipment	23	**3,038,279**	3,321,347
Deferred income tax assets	9	**38,727**	37,434
		3,240,391	3,664,723
Total assets		**6,346,966**	6,303,362
LIABILITIES			
Current liabilities			
Trade and other payables	24	**1,571,870**	1,456,924
Notes payables		**807,716**	448,000
Borrowings from banks and other financial institutions	25	**1,146,435**	924,237
Convertible bonds	26	**-**	117,401
Current income tax liabilities	9	**54,524**	3,147
		3,580,545	2,949,709
Non-current liabilities			
Borrowings from banks and other financial institutions	25	**71,825**	464,839
Convertible bonds	26	**153,986**	641,646
Convertible shares	27	**121,224**	167,602
Deferred income tax liabilities	9	**22,889**	22,889
		369,924	1,296,976
Total liabilities		**3,950,469**	4,246,685
NET ASSETS		**2,396,497**	2,056,677
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	**403,511**	353,297
Capital reserve	29	**249,218**	249,218
Fair value reserve	29	**-**	21,320
Statutory reserve	29	**141,072**	141,072
Currency translation reserve		**(7,933)**	7,695
Retained profits	29	**1,610,629**	1,284,075
Total equity		**2,396,497**	2,056,677

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

Balance SHEET

As at 31 December 2010

	Note	Company 2010 RMB'000	2009 RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**53,659**	125,752
Financial assets, at fair value through profit or loss	13	**1,204**	964
Trade and other receivables	14	**13**	79
Other current assets	16	**4,334**	97
		59,210	126,892
Non-current assets			
Other receivables	17	**650,589**	1,161,175
Financial assets, available-for-sale	19	**-**	42,359
Investments in subsidiaries	20	**1,884,916**	1,884,916
Property, plant and equipment	23	**74**	22
		2,535,579	3,088,472
Total assets		**2,594,789**	3,215,364
LIABILITIES			
Current liabilities			
Trade and other payables	24	**12,286**	9,004
Borrowings from banks and other financial institutions	25	**10**	26
Convertible bonds	26	**-**	117,401
Current income tax liabilities	9	**98**	-
		12,394	126,431
Non-current liabilities			
Borrowings from banks and other financial institutions	25	**61**	-
Convertible bonds	26	**153,986**	641,646
Converted shares	27	**121,224**	167,602
		275,271	809,248
Total liabilities		**287,665**	935,679
NET ASSETS		**2,307,124**	2,279,685
EQUITY			
Capital and reserves attributable to equity holder of the Company			
Share capital	28	**2,109,347**	2,059,133
Capital reserve	29	**249,218**	249,218
Fair value reserve	29	**-**	21,320
Accumulated losses		**(51,441)**	(49,986)
Total equity		**2,307,124**	2,279,685

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

Consolidated STATEMENT OF CHANGES IN EQUITY

For The Financial Year Ended 31 December 2010

	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Group							
Balance as at 1 January 2010	353,297	249,218	21,320	7,695	141,072	1,284,075	2,056,677
Issue of shares pursuant to exercise of convertible bonds and convertible shares (Note 28)	50,214	-	-	-	-	-	50,214
Total comprehensive income	-	-	(21,320)	(15,628)	-	326,554	289,606
Balance as at 31 December 2010	403,511	249,218	-	(7,933)	141,072	1,610,629	2,396,497
Balance as at 1 January 2009	353,297	249,218	(23,081)	11,413	141,072	615,252	1,347,171
Total comprehensive income	-	-	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

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

Consolidated STATEMENT OF CASH FLOWS
For The Financial Year Ended 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Cash flows from operating activities			
Net profit		**326,554**	668,823
Adjustments for:			
Income tax expense	9	**135,734**	59,705
Depreciation	6	**343,402**	361,023
Impairment charge for property, plant and equipment	23	**40,985**	-
Loss on disposal of property, plant and equipment		**-**	1,965
Gain on disposal of financial assets, fair value through profit or loss		**(23)**	(1,308)
(Gain)/Loss on disposal of financial assets, available-for-sale		**(14,395)**	1,208
Fair value loss/(gain) on financial assets, fair value through profit or loss		**401**	(214)
Gain on restructuring of convertible bonds		**-**	(272,298)
Fair value gain on convertible bonds		**(11,918)**	(11,369)
Fair value gain on convertible shares		**(19,521)**	(49,929)
Currency translation loss/(gain) on convertible shares		**6,159**	(2,290)
Gain on early redemption of convertible bonds (restrictive)		**(34,663)**	-
Interest income		**(20,682)**	(18,062)
Interest expense		**203,657**	196,044
Share of loss/(profit) of associated company		**100**	(100)
Unrealised currency translation gains		**(24,602)**	(63,500)
Operating cash flow before working capital change		**931,188**	869,698
Changes in operating assets and liabilities			
Bank balances pledged		**178,384**	(46,956)
Receivables		**(158,049)**	(335,674)
Inventories		**(163,114)**	(412,239)
Payables		**493,355**	(54,084)
Cash generated from operations		**1,281,764**	20,745
Income tax paid		**(85,650)**	(8,768)
Net cash provided by operating activities		**1,196,114**	11,977
Cash flows from investing activities			
Payments for property, plant and equipment		**(120,658)**	(161,753)
Investment in associated company		**-**	(20,000)
Proceeds from disposal of financial assets, fair value through profit or loss		**690**	5,377
Proceeds from disposal of financial assets, available-for-sale		**78,584**	22,992
Proceeds from disposal of property, plant and equipment		**-**	3,822
Purchase of finance assets, fair value through profit or loss		**(1,308)**	-
Purchase of finance assets, available-for-sale		**(64,815)**	-
Refund of paid-up capital from associate company		**20,000**	-
Dividend received from financial assets, available-for-sale	19	**11,665**	-
Interest received		**20,682**	18,062
Net cash used in investing activities		**(55,160)**	(131,500)

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

Consolidated STATEMENT OF CASH FLOWS
For The Financial Year Ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Cash flows from financing activities			
Proceeds from borrowings from banks and other financial institutions		**2,675,531**	2,723,085
Repayment of borrowings from banks and other financial institutions		**(2,846,468)**	(2,720,779)
Repayment of convertible bonds		**(586,000)**	(204,900)
Bonds restructuring expenses		**-**	(22,017)
Interest paid		**(172,652)**	(101,722)
Net cash used in financing activities		**(929,589)**	(326,333)
Net change in cash and cash equivalents		**211,365**	(445,856)
Cash and cash equivalents at beginning of financial year		**290,113**	676,399
Effects of currency translation on cash and cash equivalents		**8,250**	59,570
Cash and cash equivalents at end of financial year	11	**509,728**	290,113

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

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

1. General information

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

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

2. Significant accounting policies

2.1 Basis of preparation

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

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

Interpretations and amendments to published standards effective in 2010

On 1 January 2010, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

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

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

The revisions to FRS 27 principally change the accounting for transactions with non-controlling interests. Please refer to Notes 2.4(a) for the revised accounting policy on changes in ownership interest that results in a lost of control and 2.4(b) for that on changes in ownership interests that do not result in lost of control.

As the changes have been implemented prospectively, no adjustments were necessary to any of the amounts previously recognised in the financial statements. There were no transactions with non-controlling interests in the current financial year. Accordingly, these changes do not have any impact on the financial statements for the current financial year.

(b) Amendment to FRS 7 *Statement of Cash Flows* (effective for annual periods beginning on or after 1 January 2010)

Under the amendment, only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows. Previously, such expenditure could be classified as investing or operating activities in the statement of cash flows.

2. Significant accounting policies (continued)

2.2 Going concern

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

As of 31 December 2010, the current liabilities exceed the current assets of the Group by RMB474 million mainly due to the use of short-term borrowings to finance the property, plant and equipment. Management is of the view that financial institutions do not normally extend long-term borrowings to steel enterprises in the People's Republic of China ("PRC").

As at 31 December 2010, the Group has available credit facilities amounting to RMB1,467 million which are not yet utilised. These facilities will be available for draw down for the purpose of procuring raw materials or meeting working capital needs or replacing its short-term borrowings when they fall due.

The Group had satisfactorily maintained its credit facilities with the financial institutions in the PRC and had successfully renewed or rolled over its short-term borrowings when they fall due during the financial year. Management is not aware of any circumstances that may cause the financial institutions not to continue with the credit facilities.

During the financial year, the Group also early redeemed its Convertible Bonds (Restricted) of RMB 586 million (Note 26) largely through the use of cash flows generated from its operating activities. Management believes that the Group will continue to generate sufficient cash from its operating activities based on the Group's cash flow projections.

If these are not forthcoming, the Group may be unable to continue in operational existence for the foreseeable future and adjustments would have to be made to the financial statements to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the balance sheet. In addition, the Group may have to provide for further liabilities which may arise, and to classify the non-current assets and liabilities as current assets and liabilities. The financial statements for the financial year ended 31 December 2010 do not include the adjustments that would result if the Group was unable to continue as a going concern.

2.3 Revenue recognition

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

2. **Significant accounting policies** (continued)

2.3 Revenue recognition (continued)

(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 statements of comprehensive income, consolidated balance sheets, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended 31 December 2005 and after the business combination have been prepared as continuation of Asia Paragon's financial statements.

Since such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary (i.e. Asia Paragon Group), the assets and liabilities and equity (including issued equity and retained profits) at the date of Acquisition are accounted for as follows:

(i) the assets and liabilities of Asia Paragon Group are recognised and measured in the consolidated balance sheet at their pre-combination carrying amounts; and

(ii) the retained profits and equity balances recognised in those consolidated financial statements are the retained profits and equity balances of the Asia Paragon Group immediately before the business combination. However, the equity structure appearing in those consolidated financial statements (i.e. the number and type of equity instruments issued) reflect the equity structure of the legal parent.

(a) Subsidiaries

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

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

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

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 voting rights of 20% and above but not exceeding 50%. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

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

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

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

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

2.5 Property, plant and equipment

(a) *Measurement*

(i) *Property, plant and equipment*

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

(ii) *Component of costs*

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

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

(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:

	Estimated useful lives
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 measured reliably. All other repair and maintenance expenses are recognised as an expense during the financial year in which it is incurred.

(d) Disposal

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

(e) Construction in progress

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

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

2.6 Borrowing costs

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

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

2. Significant accounting policies (continued)

2.7 Investment property

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

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

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

2.8 Investments in subsidiaries

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

2.9 Impairment of non-financial assets

Property, plant and equipment
Investment property
Investment in subsidiaries and associated company

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

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

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

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

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

2. Significant accounting policies (continued)

2.10 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

(iii) Financial assets, available-for-sale

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

(b) Recognition and derecognition

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

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

(c) Initial measurement

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

2. Significant accounting policies (continued)

2.10 Financial assets (continued)

(d) Subsequent measurement

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

Changes in the fair values of financial assets, at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

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

(e) Impairment

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

(i) Loans and receivables

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

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

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

(ii) Financial assets, available-for-sale

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

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

2. Significant accounting policies (continued)

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's 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 Group and 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.

(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 in equity 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 values arises.

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

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

2. Significant accounting policies (continued)

2.12 Borrowings (continued)

(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.

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.

2. Significant accounting policies (continued)

2.15 Leases (continued)

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

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

(i) Lessor - Finance leases

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

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

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

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

(ii) Lessor - Operating leases

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

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

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

2.16 Inventories

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

2. 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 the amount has been realiably estimated.

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 financial statements are presented in Chinese Renminbi ("RMB") which is the functional currency of the Company.

(b) Transactions and balances

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

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

2. Significant accounting policies (continued)

2.20 Currency translation (continued)

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

2.23 Share capital

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

2.24 Dividends to Company's shareholders

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

3. Critical accounting estimates, assumptions and judgements

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

(a) Estimated impairment of non-financial assets

Property, plant and equipment and 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, assumption and judgements.

A subsidiary of the Group, Xingtai Delong Machinery and Mill Roll Co., Ltd ("Mill Roll CGU"), had performed below expectation and incurred a net loss for the year ended 31 December 2010. Accordingly, the management carried out an assessment for impairment for the Mill Roll CGU. An impairment loss of RMB41 million in respect of the plant and equipment of Mill Roll CGU has been recognised and included in "cost of sales" for the year ended 31 December 2010, based on the recoverable amount determined based on value-in-use. As at 31 December 2010, the Mill Roll CGU's property, plant and equipment has a carrying amount of RMB340 million after adjusting for the impairment loss.

Mill Roll CGU produces and supplies high-end mill rollers to the domestic steel manufacturers. Mill Roll CGU started trial production in March 2008 and has not achieved full capacity at the date of this report. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a four-year period from 2011 to 2014. The average annual growth rate estimated for the four-year period is 70% and cash flows beyond the four-year period are projected using the estimated annual growth rate of 14% for the next five years. Cash flows beyond the initial nine-year period are projected using the estimated growth rate of 6%. The estimated gross margin is based on industry report and expectation of the market development and the estimated discount rate used in the value-in-use calculation was approximately 11%. The average annual growth rates used for the four-year period was based on the fact that the CGU will continue to expand its production capability. The average annual growth rates used for the period beyond the four-year period were consistent with the forecasts found in industry reports. The discount rate used reflected specific risk relating to the Mill Roll CGU.

If the management's estimated average annual growth and discount rate used in the value-in-use calculation for the initial four-year period had been 65% instead of 70%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB23 million, from the current carrying amount of RMB340 million.

If the management's estimated average annual growth rate used in the value-in-use calculation for the fifth to nine year period had been 8% instead of 14%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB71 million.

If the management's estimated gross margin used in the value-in-use calculation for the initial four-year period had been lower by 2%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB25 million.

If the management's estimated after-tax discount rate applied to the cash flows for the Mill Roll CGU had been raised to 12% instead of 11%, the carrying amount of the property, plant and equipment in the Mill Roll CGU would have been reduced by approximately RMB33 million.

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

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4. Other income

	Group	
	2010	2009
	RMB'000	RMB'000
Government grants	**510**	6,500
Finance lease income	**15,807**	15,926
Interest income		
- bank deposits	**17,906**	16,284
- loan to investee company	**2,776**	1,778
Rental income from investment property	**2,237**	2,049
	39,236	42,537

5. Other gains – net

	Group	
	2010	2009
	RMB'000	RMB'000
Gain on disposal of financial assets at fair value through profit or loss – net	**23**	1,308
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(401)**	214
Gain/(Loss) on disposal of financial assets, available-for-sale	**14,395**	(1,208)
Loss on disposal of property, plant and equipment	**-**	(1,965)
Currency translation gain – net	**12,617**	41,130
Gain on restructuring of convertible bonds (Note 26)	**-**	272,298
Fair value gain on convertible bonds (Note 26)	**11,918**	11,369
Fair value gain on convertible shares (Note 27)	**19,521**	49,929
Gain on early redemption of convertible bonds (Note 26)	**34,663**	-
Other	**7,184**	4,481
	99,920	377,556

6. Expenses by nature

	Group 2010 RMB'000	Group 2009 RMB'000
Raw materials, finished goods and consumables	**8,968,611**	7,050,795
Changes in inventories of raw materials, work-in-progress and finished goods	**(177,810)**	(412,239)
Impairment of property, plant and equipment (Note 23)	**40,985**	-
Depreciation of property, plant and equipment (Note 23)	**343,065**	360,703
Depreciation of investment property (Note 22)	**337**	320
Total depreciation	**343,402**	361,023
Employee compensation (Note 7)	**186,573**	159,531
Rental on operating leases	**825**	712
Transportation	**6,548**	2,163
Other expenses	**7,361**	1,692
Total cost of sales, distribution and marketing and administrative expenses	**9,376,495**	7,163,677

7. Employee compensation

	Group 2010 RMB'000	Group 2009 RMB'000
Wages and salaries	**176,244**	146,076
Employer's contribution to defined contribution plans	**10,329**	13,455
	186,573	159,531

8. Finance expenses

	Group 2010 RMB'000	Group 2009 RMB'000
Interest expense		
- bank borrowings	**86,299**	74,801
- finance lease liabilities	**1**	1
- convertible bonds	**71,713**	99,292
- convertible shares	**13,583**	1,350
Less: Amount capitalised into construction-in-progress	**(13,713)**	(6,320)
Interest expenses on borrowings recognised in income statement	**157,883**	169,124
Bills discounting charges – net	**45,774**	26,920
Bank charges	**21,858**	27,270
Net finance expense	**225,515**	223,314

Borrowing costs on general financing were capitalised into the costs of construction-in-progress at a rate of 5.46% (2009: 7.06%).

9. Income taxes

(a) Income tax expense

	Group	
	2010	2009
	RMB'000	RMB'000
Tax expense is made up of:		
- Provision on the profit for the financial year		
Current income tax		
- Singapore	**99**	-
- Foreign	**136,848**	37,130
	136,947	37,130
Deferred income tax	**(1,293)**	42,037
	135,654	79,167
- Under/(Over) provision in preceding financial years		
Current income tax	**80**	(19,462)
	135,734	59,705

(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% (2009: 25%) due to the following:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before tax and share of profit of an associated company	**462,288**	728,428
Tax calculated at tax rate of 25% (2009: 25%)	**115,572**	182,107
Effects of:		
Different tax rates in other countries	**2,425**	(21,353)
Expenses not deducted for tax	**18,780**	1,099
Withholding tax on unremitted profits	**-**	22,889
Income not subject to tax	**(1,034)**	(48,675)
Income subject to concessionary rate	**-**	(56,811)
Statutory stepped income exemption in Singapore	**(89)**	(89)
Tax charge	**135,654**	79,167

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

9. Income taxes (continued)

With effect from 1 January 2007, Delong Steel is entitled to a three-year 50% tax reduction from the PRC 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 2009, the PRC 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.

(c) Movements in current income tax liabilities

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of financial year	**3,147**	(5,753)	**-**	986
Income tax paid	**(85,650)**	(8,768)	**(87)**	(993)
Tax expense	**136,947**	37,130	**99**	-
Under/(Over) provision in prior financial years	**80**	(19,462)	**86**	7
End of financial year	**54,524**	3,147	**98**	-

(d) Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relates to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Deferred income tax assets		
- to be recovered within one year	**7,169**	8,216
- to be recovered after one year	**31,558**	29,218
	38,727	37,434
Deferred income tax liabilities		
- to be recovered within one year	**22,889**	-
- to be recovered after one year	**-**	22,889
	22,889	22,889

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
2010					
Beginning of financial year	12,022	3,383	22,029	(22,889)	14,545
Credited/(Charged) to profit or loss	(5,006)	10,246	(3,947)	-	1,293
End of financial year	**7,016**	**13,629**	**18,082**	**(22,889)**	**15,838**
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

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

10. Earnings per share

(a) Basic earnings per share

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

	2010	2009
Net profit attributable to equity holders of the Company (RMB'000)	**326,554**	668,823
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**544,279**	535,478
Basic earnings per share (RMB)	**0.60**	1.25

10. Earnings per share (continued)

(b) Diluted earnings 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.

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.

	2010	2009
Net profit attributable to equity holders of the Company (RMB'000)	**326,554**	668,823
Interest expense on convertible bonds and convertible shares	**27,075**	2,923
Currency translation gain on convertible shares	**5,202**	(2,290)
Fair value gain on derivative liability component of convertible bonds and convertible shares	**(28,387)**	(61,298)
Net profit used to determine diluted earnings per share (RMB'000)	**330,444**	608,158
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**544,279**	535,478
Adjustments for assumed conversion of convertible bonds and convertible shares ('000)	**64,201**	7,750
Weighted average number of ordinary shares for diluted earnings per share ('000)	**608,480**	543,228
Diluted earnings per share (RMB)	**0.54**	1.12

11. Cash and cash equivalents

The cash and cash equivalents comprise the following:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**457,895**	228,692	**12,760**	74,650
Fixed deposits with bank	**51,833**	61,421	**40,899**	51,102
Cash and cash equivalents per cash flow statement	**509,728**	290,113	**53,659**	125,752

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 32(a)(i).

12. Bank balances pledged

These bank balances, denominated in RMB, were pledged as security for notes payables and letter of credit facilities amounting to RMB807,716,000 as at 31 December 2010 (2009: RMB448,000,000).

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

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Held for trading		
Listed equity securities – Hong Kong	**512**	964
Listed equity securities – Australia	**692**	-
	1,204	964

14. Trade and other receivables - current

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables (Note 18)	**60,516**	34,925	**-**	-
Trade receivables	**71,185**	31,662	**13**	79
Notes receivable	**300,486**	177,963	**-**	-
Due from an investee company	**26,247**	-	**-**	-
	458,434	244,550	**13**	79

15. Inventories

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**954,059**	722,787
Work-in-progress	**86,106**	130,206
Finished goods	**115,248**	95,763
Production supplies	**106,992**	135,839
	1,262,405	1,084,595

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB8,790,801,000 (2009: RMB6,638,556,000).

16. Other current assets

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	**58**	783	**58**	56
Prepayments	**291,474**	231,264	**4,276**	41
Other	**75,911**	100,625	**-**	-
	367,443	332,672	**4,334**	97

17. Trade and other receivables – non-current

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables (Note 18)	**127,774**	194,908	**-**	-
Due from an investee company	**-**	23,472	**-**	-
Loans to subsidiaries	**-**	-	**650,589**	1,161,175
	127,774	218,380	**650,589**	1,161,175

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

Amount due from an investee company was non-trade, unsecured, bearing interest at 6.903% per annum as at 31 December 2009.

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:

	Group		Borrowing rates	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**%**	%
Finance lease receivables (Note 18)	**127,774**	194,908	**7.22**	7.26

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18. Finance lease receivables

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

	Group	
	2010	2009
	RMB'000	RMB'000
Gross receivables due		
-Not later than one year	**63,042**	35,868
-Later than one year but within five years	**154,829**	244,865
	217,871	280,733
Less: Unearned finance income	**(29,581)**	(50,900)
Net investment in finance leases	**188,290**	229,833

The net investment in finance leases is analysed as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
-Not later than one year (Note 14)	**60,516**	34,925
-Later than one year but within five years (Note 17)	**127,774**	194,908
	188,290	229,833

19. Financial assets, available-for-sale

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of financial year	**52,359**	32,158	**42,359**	22,158
Additions	**64,815**	-	**54,815**	-
Dividend received	**(11,665)**	-	**(11,665)**	-
Fair value gain recognised in equity/other comprehensive income	**-**	33,306	**-**	33,306
Disposals	**(85,509)**	(13,105)	**(85,509)**	(13,105)
End of financial year	**20,000**	52,359	**-**	42,359

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

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted securities				
- 10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd	**10,000**	10,000	**-**	-
- 8.62% equity interest in Tianjin United Mercantile Exchange Co., Ltd	**10,000**	-	**-**	-
- Option to subscribe for 28,000,000 shares in Cape Lambert	**-**	42,359	**-**	42,359
	20,000	52,359	**-**	42,359

Investment in Hebei Zhongmei Xuyang Coking Co., Ltd, a privately-owned enterprise established in the PRC and principally engaged in coking, is carried at cost, as the Directors are of the view that the fair value cannot be reliably measured. There is no active market for this unlisted equity investment and its fair value cannot currently be estimated within a reasonable range. There is currently no intention to dispose of this investment in the foreseeable future. For information purposes only and without asserting it to be a fair value disclosure, the Group's share of the net assets of the investee company, based on its latest unaudited financial information, is approximately RMB71.6 million (2009: RMB69.8 million).

In September 2010, the Group acquired 8.62% equity interest in Tianjin United Mercantile Exchange Co., Ltd ("Tianjin United"), a privately-owned enterprise established in the People's Republic of China, for RMB10.0 million. Tianjin United is principally engaged in forward contract transactions and provision of market information. The fair value of the Tianjin United approximates its carrying amount as at 31 December 2010.

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 Resources Limited ("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 (which were subsequently sold in 2009) 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 2009, 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, the Group exercised its option to subscribe for 28.0 million new shares in Cape Lambert for RMB54.8 million, and disposed of all of the newly subscribed shares. The dividend received from Cape Lambert during the financial year was recorded against the cost of investment as this was considered a partial realisation of the Group's cost of investment.

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20. Investment in subsidiaries

	Company	
	2010	2009
	RMB'000	RMB'000
Unquoted equity investment at cost	**1,884,916**	1,884,916

Details of subsidiaries are provided in Note 36.

21. Investment in associated company

	Group	
	2010	2009
	RMB'000	RMB'000
Unquoted equity investment at cost	**-**	20,000
Beginning of financial year	**20,100**	-
Acquisition of subsidiary	-	20,000
Share of (losses)/profits	**(100)**	100
Refund of paid up capital	**(20,000)**	-
End of financial year	**-**	20,100
The summarised financial information of associated company		
- Assets	**-**	146,823
- Liabilities	**-**	46,321
- Revenue	**-**	52,967
- Net profit	**-**	502

Details of associated company are provided in Note 36.

During the financial year, the paid up capital contributed by the Group was refunded. The associated company is currently in the process of being liquidated.

22. Investment property

	Group	
	2010	2009
	RMB'000	RMB'000
Cost		
At 1 January	**22,676**	22,352
Currency translation differences	**1,284**	324
At 31 December	**23,960**	22,676
Accumulated depreciation		
At 1 January	**7,573**	7,141
Depreciation	**337**	320
Currency translation differences	**439**	112
At 31 December	**8,349**	7,573
Net book value	**15,611**	15,103

It is the intention of the Group to hold the investment property for long-term rental yields. The Directors are of the opinion that the fair value of the investment property approximates RMB20,929,000 (2009: RMB19,807,000, 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 31) 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	
	2010	2009
	RMB'000	RMB'000
Rental income	**2,237**	2,049
Direct operating expenses arising from investment properties that generated rental income	**980**	557

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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						
Cost						
At 1 January 2010	71,056	959,994	3,220,462	82,790	394,718	4,729,020
Additions	1,897	3,003	346	9,096	101,336	115,678
Disposals	-	(22,453)	(126,102)	(3,622)	-	(152,177)
Transfers in/(out)	-	4,762	128,397	732	(133,891)	-
At 31 December 2010	72,953	945,306	3,223,103	88,996	362,163	4,692,521
Accumulated depreciation and impairment losses						
At 1 January 2010	8,863	200,655	1,155,170	42,985	-	1,407,673
Charge for the year	3,589	53,200	274,824	11,452	-	343,065
Impairment charged	-	-	40,985	-	-	40,985
Disposals	-	(17,734)	(116,887)	(2,860)	-	(137,481)
At 31 December 2010	12,452	236,121	1,354,092	51,577	-	1,654,242
Net book value						
At 31 December 2010	**60,501**	**709,185**	**1,869,011**	**37,419**	**362,163**	**3,038,279**
Cost						
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
Accumulated depreciation						
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

23. Property, plant and equipment (continued)

	Office renovation RMB'000	Office equipment RMB'000	Total RMB'000
Company			
Cost			
At 1 January 2010	428	100	528
Additions	-	72	72
At 31 December 2010	428	172	600
Accumulated depreciation			
At 1 January 2010	428	78	506
Depreciation charge	-	20	20
At 31 December 2010	428	98	526
Net book value			
At 31 December 2010	**-**	**74**	**74**
Cost			
At 1 January and 31 December 2009	428	100	528
Accumulated depreciation			
At 1 January 2009	428	57	485
Depreciation charge	-	21	21
At 31 December 2009	428	78	506
Net book value			
At 31 December 2009	-	22	22

(a) Certain property, plant and equipment with a total carrying amount as at 31 December 2010 of approximately RMB1,886.9 million (2009: RMB2,346.7 million), are pledged as security for certain bank borrowings (Note 25(a)).

(b) For capitalised interest in construction in progress, please refer to Note 8 to the financial statements.

(c) The Group recognised an impairment loss of RMB41 million in respect of the property, plant and equipment and included in 'cost of sales' for the year ended 31 December 2010, based on the recoverable amount determined based on value-in-use (Note 3(a)).

24. Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables to:				
- Third parties	**675,080**	745,677	**-**	-
VAT and other taxes payable	**54,491**	26,183	**-**	-
Payable to contractors for construction-in-progress	**59,590**	78,283	**-**	-
Advances from customers	**674,865**	504,125	**-**	-
Other accrual for operating expenses	**2,645**	5,811	**2,080**	4,150
Staff and workers' bonus and welfare fund (a)	**56,904**	32,656	**-**	-
Deposits from tenant	**564**	526	**-**	-
Deposits from staff and workers	**978**	11,873	**-**	-
Due to directors (non-trade)	**5,049**	3,793	**5,049**	3,793
Deferred income	**11,842**	13,511	**-**	-
Other payables	**29,862**	34,486	**5,157**	1,061
	1,571,870	1,456,924	**12,286**	9,004

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

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

25. Borrowings from banks and other financial institutions

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Finance lease liabilities	**10**	26	**10**	26
Bank borrowings				
- Unsecured	**-**	124,046	**-**	-
- Secured (a)	**694,192**	666,626	**-**	-
- Guaranteed (b)	**452,233**	133,539	**-**	-
	1,146,435	924,237	**10**	26
Non-current				
Finance lease liabilities	**61**	-	**61**	-
Bank borrowings				
- Unsecured	**24,411**	9,482	**-**	-
- Secured (a)	**47,353**	455,357	**-**	-
	71,825	464,839	**61**	-
Total borrowings	**1,218,260**	1,389,076	**71**	26

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

(a) Security granted

As at 31 December 2010 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 certain third parties, and Mr Ding Liguo, a Director of the Company. In return, the Group has provided guarantees to banks for borrowings of these third parties as at 31 December 2010 (see Note 30).

26. Convertible bonds

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

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

(a) Initial cash settlement of US$30 million (equivalent to RMB204,900,000).

(b) Issue of 43,534,458 Convertible Shares (Note 27) at fair value of RMB218,471,000.

(c) Issue of Convertible Bonds with a nominal value of RMB158,900,000.

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

26. Convertible bonds (continued)

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

The Company has fully redeemed the Convertible Bonds (Restricted) during the financial year. The difference between the carrying value of Convertible Bonds (Restricted) and cash settlement was recorded as a gain on early redemption (Note 5).

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

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

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

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

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

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

26. Convertible bonds (continued)

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

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

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

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

The difference between the carrying amount of the Old Convertible Bonds (that is, the liability component of the convertible bonds) and the fair value of the new obligations on inception date was recorded as a gain on restructuring (Note 5) in the financial year ended 31 December 2009.

26. Convertible bonds (continued)

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

	Convertible Bonds RMB'000	Convertible Bonds (Restricted) RMB'000	Old Convertible Bonds RMB'000
Group and Company			
2010			
Beginning of financial year	**136,007**	**598,207**	**-**
Amortisation of interest expense	**16,875**	**54,838**	**-**
Payment of interest	**(8,196)**	**(32,382)**	**-**
Repayment of principal	**-**	**(620,663)**	**-**
Conversion into new ordinary shares	**(3,070)**	**-**	**-**
End of financial year	**141,616**	**-**	**-**
2009			
Beginning of financial year	-	-	1,388,810
Fair value of convertible bonds issued on 26 November 2009	170,636	591,448	-
Less: Derivative liability component	(36,202)	-	-
Liability component recognised on restructuring	134,434	591,448	-
Amortisation of interest expense	1,573	6,759	83,190
Amortisation of convertible bond issuing expenses	-	-	7,770
Conversion into new ordinary shares	-	-	-
Convertible bonds extinguished	-	-	(1,479,770)
End of financial year	136,007	598,207	-

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

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Beginning of financial year	**24,833**	-
Derivative liability recognised on initial recognition	**-**	36,202
Gain on change in fair value	**(11,918)**	(11,369)
Conversion into new ordinary shares	**(545)**	-
End of financial year	**12,370**	24,833

26. Convertible bonds (continued)

The fair value of the liability component of the convertible bonds, which are not actively traded, was approximately RMB146,973,000 (2009: RMB734,214,000) as at 31 December 2010, based on cash flows discounted at an effective interest rate of 10.0% (2009: 11.4%). The effective interest rate represents the market interest rate that would be available to the Group determined by benchmarking with comparable debt instruments in the market at the balance sheet date.

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

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Current		
Convertible Bonds (Restricted)	**-**	117,401
Non-current		
Convertible Bonds	**141,616**	136,007
Convertible Bonds (Restricted)	**-**	480,806
Derivative liability – Convertible Bonds	**12,370**	24,833
	153,986	641,646
Total convertible bonds	**153,986**	759,047

27. Convertible shares

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

(a) Convertible Share holders ("Holders") have the put options to put up to 50% of the Convertible Shares on each of 26 November 2013 and 26 November 2014, for redemption 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.

27. Convertible shares (continued)

(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.

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	
	2010	2009
	RMB'000	RMB'000
Non-derivative liability component		
At beginning of financial period	**115,761**	-
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	**13,583**	1,350
Conversion into new ordinary shares	**(36,887)**	-
Currency translation difference	**6,159**	(2,290)
At end of financial year	**98,616**	115,761
Derivative liability component		
At beginning of financial period	**51,841**	-
On initial recognition	**-**	101,770
Gain on change in fair value	**(19,521)**	(49,929)
Conversion into new ordinary shares	**(9,712)**	-
At end of financial year	**22,608**	51,841
Total carrying amount of Convertible Shares at end of financial year	**121,224**	167,602

27. Convertible shares (continued)

The fair value of the liability component of the Convertible Shares, which are not actively traded, was approximately RMB103,770,000 (2009: RMB115,761,000) as at 31 December 2010, based on cash flows discounted at an effective interest rate of 10.0% (2009: 11.4%). The effective interest rate represents the market interest rate that would be available to the Group determined by benchmarking with comparable debt instruments in the market at the balance sheet date.

28. Share capital

Issued ordinary share capital

	Group and Company		Group		Company	
	2010 Shares '000	2009 Shares '000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
At beginning of the financial year	**535,478**	535,478	**353,297**	353,297	**2,059,133**	2,059,133
Issue of shares pursuant to conversion of convertible bonds and convertible shares	**14,375**	-	**50,214**	-	**50,214**	-
At end of the financial year	**549,853**	535,478	**403,511**	353,297	**2,109,347**	2,059,133

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

29. Reserves

(a) Capital reserve

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

(b) Fair value reserve

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

(c) Statutory reserve

The subsidiaries in the 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.

29. Reserves (continued)

(d) Retained profits

As at 31 December 2010, approximately RMB126,974,000 (2009: RMB126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Acquisition (Note 2.4).

30. Contingent liabilities

As at 31 December 2010, guarantees given to banks by the Group in respect of bank loans granted to third parties amounted to approximately RMB279.0 million (2009: RMB479.1 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 2010, guarantees given to banks by the Company in respect of bank loans granted to subsidiaries amounted to approximately RMB8.5 million (2009: RMB9.1 million).

31. Commitments

(a) Capital commitments

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

	Group	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment	**175,494**	181,132

31. Commitments (continued)

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

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**480**	432	**-**	-
Later than 1 year but not later than 5 years	**1,918**	1,726	**-**	-
Later than 5 years	**19,384**	17,873	**-**	-
	21,782	20,031	**-**	-

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:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,375**	1,366	**-**	-
Later than 1 year but not later than 5 years	**3,958**	-	**-**	-
	6,333	1,366	**-**	-

32. Financial risk management

Financial risk factors

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

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

32. Financial risk management (continued)

(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.

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						
At 31 December 2010						
Financial assets						
Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale	902,976	74,093	41,591	620	19,013	1,038,293
Trade and other receivables	662,106	-	-	-	71	662,117
Intra-group balances	561,970	517,723	-	-	327,365	1,407,058
	2,127,052	591,816	41,591	620	346,449	3,107,528
Financial liabilities						
Borrowings	1,302,141	61,490	-	-	129,839	1,493,470
Other financial liabilities	2,366,718	-	-	-	12,868	2,379,586
Intra-group balances	561,970	517,723	-	-	327,365	1,407,058
	4,230,829	579,213	-	-	470,072	5,280,114
Net financial (liabilities)/assets	(2,103,777)	12,603	41,591	620	(123,623)	(2,172,586)
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	2,103,777	-	-	-	7,397	2,111,174
Currency exposure	-	12,603	41,591	620	(116,226)	(61,412)

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	RMB RMB'000	USD RMB'000	AUD RMB'000	HKD RMB'000	SGD RMB'000	Total RMB'000
Group						
At 31 December 2009						
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
Intra-group balances	608,076	474,374	-	-	1,438,386	2,520,836
	1,972,639	548,503	119,486	1,069	1,472,658	4,114,355
Financial liabilities						
Borrowings	1,712,086	426,874	-	-	176,765	2,315,725
Other financial liabilities	1,895,368	-	-	-	9,556	1,904,924
Intra-group balances	608,076	474,374	-	-	1,438,386	2,520,836
	4,215,530	901,248	-	-	1,624,707	6,741,485
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	-	(352,745)	119,486	1,069	(153,392)	(385,582)

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For The Financial Year Ended 31 December 2010

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	RMB RMB'000	USD RMB'000	AUD RMB'000	HKD RMB'000	SGD RMB'000	Total RMB'000
Company						
At 31 December 2009						
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	-	-	-	-	1,161,310	1,161,310
	-	25,470	119,486	964	1,184,465	1,330,385
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	1,007,833	394,706
Less: Net financial liabilities/(assets) denominated in the respective entities functional currency	759,047	-	-	-	-	759,047
Currency exposure	-	25,470	119,486	964	1,007,833	1,153,753

If the value of USD, SGD and AUD had changed against the RMB by 2% (2009:2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position would have been as follows:

	2010		2009	
	Profit after tax RMB'000	**Equity RMB'000**	Profit after tax RMB'000	Equity RMB'000
Group				
USD against RMB				
- strengthened	**189**	**-**	(5,291)	-
- weakened	**(189)**	**-**	5,291	-
SGD against RMB				
- strengthened	**(1,743)**	**-**	(2,301)	-
- weakened	**1,743**	**-**	2,301	-
AUD against RMB				
- strengthened	**624**	**-**	1,157	847
- weakened	**(624)**	**-**	(1,157)	(847)

Notes TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2010

32. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	2010		2009	
	Profit after tax RMB'000	**Equity RMB'000**	Profit after tax RMB'000	Equity RMB'000
Company				
USD against RMB				
- strengthened	**5,527**	**-**	423	-
- weakened	**(5,527)**	**-**	(423)	-
SGD against RMB				
- strengthened	**3,268**	**-**	16,730	-
- weakened	**3,268**	**-**	(16,730)	-
AUD against RMB				
- strengthened	**690**	**-**	1,280	847
- weakened	**(690)**	**-**	(1,280)	(847)

(ii) Price risk

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

If prices for equity securities listed in Australia and Hong Kong had changed by 5% (2009: 5%) with all other variables including tax rate being held constant, the effect on profit after tax and equity would have been:

	2010		2009	
	Profit after tax RMB'000	**Equity RMB'000**	Profit after tax RMB'000	Equity RMB'000
Group and Company				
Listed in ASX				
- increased by	**29**	**-**	-	2,118
- decreased by	**(29)**	**-**	-	(2,118)
Listed in Hong Kong				
- increased by	**21**	**-**	40	-
- decreased by	**(21)**	**-**	(40)	-

32. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are to a certain extent dependent on changes in market interest rates. The Group has not entered into any hedging activity during the year. Nevertheless, the Group's exposure to fair value interest rate risk and cash flow interest rate risk are controlled and monitored on a regular basis.

The Group's borrowings by means of convertible bonds are denominated in RMB and effectively at a fixed interest rate. Other borrowings at variable rates on which effective hedges have not been entered into are denominated mainly in RMB and USD. If the interest rates had increased/decreased by 1% (2009: 1 %) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by RMB12,096,000 (2009: RMB9,530,000) as a result of higher/lower interest expense on these borrowings.

(b) Credit risk

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

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

The Group and the Company do not hold any collateral except for the finance leased assets. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Corporate guarantees provided to banks on:				
- subsidiaries' loans	**-**	-	**8,545**	9,137
- third parties' loans	**279,000**	479,100	**-**	-

32. Financial risk management (continued)

(b) Credit risk (continued)

As at 31 December 2010, the finance lease receivables were due from one debtor (2009: one debtor), Tangshan Delong Steel Co., Ltd. The Group's credit exposure to Tangshan Delong Steel Co., Ltd at the balance sheet date was as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Finance lease receivables	**188,290**	229,833
Corporate guarantees provided to banks on third parties' loans	**313,370**	324,000
	501,660	553,833

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
By geographical areas				
People's Republic of China	**949,300**	795,421	**323,224**	603,167
Singapore	**4,351**	181	**331,712**	558,184
	953,651	795,602	**654,936**	1,161,351
By types of customers				
Non-related parties	**953,651**	795,602	**4,347**	176
Related parties	**-**	-	**650,589**	1,161,175
	953,651	795,602	**654,936**	1,161,351

(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 2.2) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 11.

32. Financial risk management (continued)

(c) Liquidity risk (continued)

Management monitors rolling forecasts of the liquidity reserve (comprises undrawn borrowing facility (Note 2.2) and cash and cash equivalents (Note 11)) on the basis of expected cash flow of the Group and the Company. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring liquidity ratios, and maintaining debt financing plans.

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

	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Group		
At 31 December 2010		
Notes payables	**807,716**	**-**
Trade and other payables	**1,571,870**	**-**
Borrowings from banks and financial institutions	**1,192,456**	**76,287**
Convertible bonds	**-**	**158,704**
Convertible shares	**-**	**136,753**
Financial guarantee contracts	**279,000**	**-**
At 31 December 2009		
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	-

32. Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Company		
At 31 December 2010		
Trade and other payables	**12,286**	**-**
Borrowings from banks and financial institutions	**10**	**61**
Convertible bonds	**-**	**158,704**
Convertible shares	**-**	**136,753**
Financial guarantee contracts	**8,545**	**-**
At 31 December 2009		
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	-

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) was 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net debt	**983,742**	2,025,612	**221,622**	800,923
Total equity	**2,396,497**	2,056,677	**2,307,124**	2,279,685
Total capital	**3,380,239**	4,082,289	**2,528,746**	3,080,608
Gearing ratio	**29.1%**	49.6%	**8.8%**	26.0%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2009 and 2010.

32. Financial risk management (continued)

(e) Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group and Company				
At 31 December 2010				
Assets				
Financial assets at fair value through profit or loss - equity held for trading	1,204	-	-	1,204
Total assets	1,204	-	-	1,204
Liabilities				
Convertible bonds - derivative liability component	-	-	12,370	12,370
Convertible shares - derivative liability component	-	-	22,608	22,608
Total liabilities	-	-	34,978	34,978
At 31 December 2009				
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 used the Binomial Tree model and market data inputs which were based on market conditions existing at each balance sheet date.

32. 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 included the quoted market price of the Company's shares at the balance sheet date of S$0.57 (2009: S$0.725) per share and the volatility of the share price of 70% (2009: 69%). If the share price used in the valuation had been S$0.627 (2009: S$0.798) or S$0.513 (2009: S$0.653) instead of S$0.57 (2009: S$0.725), the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB6.8 million (2009: RMB12.0 million) and RMB6.0 million (2009: RMB12.3 million) respectively. If the volatility of the share price used in the valuation had been 80% (2009: 79%) or 60% (2009: 59%), instead of 69% (2009: 79%), the fair value of the derivative components of the convertible bonds and convertible shares would have increased/decreased by approximately RMB3.3 million (2009: RMB1.9 million) and RMB4.3 million (2009: RMB2.7 million) respectively.

In addition, while the Group's convertible bonds and convertible shares (accounted as a financial liability) were measured at amortised cost using the effective interest rate method, they were recognised at fair value at balance sheet date and such fair values were determined by using valuation techniques. Such fair value measurements were categorised as Level 3 within the fair value hierarchy. The most significant input to these fair value measurements was the effective interest rate of 11.4% (2009: 11.4%) per annum used to discount the future contracted cash flows. The effective interest rate of 11.4% (2009: 11.4%) represented the market interest rate that would be available to the Group if it were to issue a single debt instrument, instead of issuing compound financial instruments, and was determined by benchmarking with comparable debt instruments in the market at the date of issue.

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

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

32. Financial risk management (continued)

(e) Fair value measurements (continued)

	Available-for-sale financial assets RMB'000	Convertible bonds - derivative component RMB'000	Convertible shares - derivative component RMB'000
2009			
Opening balance	22,158	-	-
Sold during the financial year	(13,105)	-	-
Derivatives recognised upon restructuring of convertible bonds	-	(36,202)	(101,770)
Gains on change in fair value recognised in equity	33,306	-	-
Gains on change in fair value recognised in profit or loss	-	11,369	49,929
Closing balance	42,359	(24,833)	(51,841)

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

(f) Financial instruments by category

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Loans and receivables	**1,679,266**	1,540,196	**704,319**	1,287,062
Financial liabilities at amortised cost	**3,873,056**	4,220,649	**287,567**	935,679

Notes TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2010

33. Immediate and ultimate holding corporation

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

34. Related party transactions

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

Key management personnel compensation

The key management personnel compensation is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries and other short term employee benefits	**7,574**	7,946
Post-employment benefits - defined contribution plans	**1,942**	2,269
	9,516	10,215

Included in the above was total compensation to directors of the Company amounting to RMB6,698,543 (2009: RMB6,774,840), including directors' fees of RMB1,538,250 (2009: RMB1,221,100).

35. Segment information

The Group was primarily operating in one single business segment i.e. the manufacture and sale of hot-rolled steel coils. Substantially all the Group's operations were carried out in the PRC. 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 2010 is as follows:

2010	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
External Sales	10,047,514	-	10,047,514
Inter-segment sales	(122,272)	-	(122,272)
Sales to external parties	9,925,242	-	9,925,242
Adjusted EBITDA*	977,062	35,285	1,012,347
Depreciation	(343,045)	(357)	(343,402)
Impairment loss on property, plant and equipment	(40,985)	-	(40,985)
Share of loss of associated company			(100)
Finance expense			(225,515)
Unallocated:			
Gain on early redemption of convertible bonds			34,663
Gain on change in fair value of convertible bonds			11,918
Gain on change in fair value of convertible shares			19,521
Currency exchange loss on convertible shares			(6,159)
Profit before income tax			462,288
Total assets	6,287,295	59,671	6,346,966
Total assets includes:			
Additions to property, plant and equipment	115,577	101	115,678
Total liabilities	3,590,938	359,531	3,950,469

Notes TO THE FINANCIAL STATEMENTS
For The Financial Year Ended 31 December 2010

35. **Segment information** (continued)

2009	Manufacturing RMB'000	Other RMB'000	Total RMB'000
REVENUE			
External Sales	7,697,664	-	7,697,664
Inter-segment sales	(2,338)	-	(2,338)
Sales to external parties	7,695,326	-	7,695,326
Adjusted EBITDA*	894,946	84,223	979,169
Depreciation	(361,003)	(20)	(361,023)
Share of profit of associated company			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			49,929
Profit before income tax			728,528
Total assets	5,808,584	494,778	6,303,362
Total assets includes:			
Investment in associated company	-	20,100	20,100
Additions to property, plant and equipment	165,302	-	165,302
Total liabilities	3,266,493	980,192	4,246,685

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

36. List of companies in the Group

Name of Company	Principal activities	Country of incorporation	Equity holding 2010 %	Equity holding 2009 %
Held by the Company				
Asia Paragon International Limited [a]	Investment holding	British Virgin Islands	**100**	100
Dexin Steel Pte Ltd [b]	Investment holding	Singapore	**100**	100
Held by Asia Paragon				
Delong Steel Limited [c]	Production and sales of hot-rolled steel coils	PRC	**100**	100
Dezhong International Finance Leasing Co., Ltd [d]	Financial Leasing activities	PRC	**100**	100
Held by Dexin Steel				
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
Held by Delong Steel				
Delong Hongyun Trading Co., Ltd [d]	Investment in resource-related projects and trading in steel and steel-related products	PRC	**-**	100
Tianjin Qiruicheng International 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

36. 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 Zhong Xing Cai Guang Hua Certified Public Accountants Co., Ltd for local statutory reporting. For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform an audit of Delong Steel Limited for consolidation purposes.

(d) For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform an audit for consolidation purposes.

(e) For the audit of the consolidated financial statements of Delong Holdings Limited, PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Guangzhou Branch) was engaged to perform a review for consolidation purposes.

37. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

- Amendments to FRS24 – Related party disclosures (effective for annual periods beginning on or after 1 January 2011)
- INT FRS 119 Extinguishing financial liabilities with equity instruments (effective for annual periods commencing on or after 1 July 2010)

The management anticipates that the adoption of the above FRS and amendments to FRS in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption, except for the amendments to FRS 24 – Related party disclosures.

The amendment removes the requirement for government-related entities to disclose details of all transactions with government and other government-related entities. It also clarifies and simplifies the definition of a related party. However, the revised definition of a related party will also mean that some entities will have more related parties and will be required to make additional disclosures.

Management is currently considering the revised definition to determine whether any additional disclosures will be required and has yet to put systems in place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

38. 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 30 March 2011.

Statistics Of Shareholdings

As at 11 March 2011

Authorised and fully paid-up capital	:	RMB 2,109,347,000
No. of Shares issued	:	549,853,930
Voting Rights	:	1 Vote per share
Class of Shares	:	Ordinary share

Size of Shareholdings			No. of Shareholders	%	No. of Shares	%
1	-	999	675	29.70	261,912	0.05
1,000	-	10,000	1,193	52.49	4,704,108	0.86
10,001	-	1,000,000	394	17.33	22,236,839	4.04
1,000,001		and above	11	0.48	522,651,071	95.05
Total			2,273	100.00	549,853,930	100.00

Top Twenty Shareholders	No. of Shares	%
Best Decade Holdings Limited	320,817,502	58.35
HSBC (Singapore) Nominees Pte Ltd	81,049,708	14.74
Merrill Lynch (Singapore) Pte Ltd	53,562,392	9.74
DBS Nominees Pte Ltd	35,130,315	6.39
Phillip Securities Pte Ltd	10,720,537	1.95
Citibank Nominees Singapore Pte Ltd	5,678,997	1.03
Inaya Limited	5,000,000	0.91
Morgan Stanley Asia (Singapore) Securities Pte Ltd	4,716,470	0.86
AGC Asia 2 Ltd	3,000,000	0.55
UOB Kay Hian Pte Ltd	1,852,750	0.34
Raffles Nominees (Pte) Ltd	1,122,400	0.20
Teo Chee Kok	815,000	0.15
Yong Foong Yee	587,000	0.11
Bank of Singapore Nominees Pte Ltd	579,000	0.10
DBSN Services Pte Ltd	535,273	0.10
OCBC Securities Private Ltd	529,425	0.10
Kim Eng Securities Pte. Ltd.	428,876	0.08
CIMB Securities (Singapore) Pte Ltd	418,712	0.07
United Overseas Bank Nominees Pte Ltd	411,853	0.07
Shane Tang	343,000	0.06
	527,299,210	95.90

Statistics Of Shareholdings

As at 11 March 2011

	Direct Interest		Deemed Interest	
Substantial Shareholers	**No. of Shares**	**%**	**No. of Shares**	**%**
Best Decade Holdings Limited	320,817,502	58.35	-	-
Golden Top Group Limited	-	-	320,817,502 [1]	58.35
Ding Liguo	-	-	320,817,502 [2]	58.35
Zhao Jing	-	-	320,817,502 [2]	58.35
Evraz S.A Group	53,557,498 [3]	9.74	29,296,500 [4]	5.33
Mastercroft Limited	29,296,500 [3]	5.33	-	-

Notes

1. Golden Top Group Limited owns 100% of the share capital in Best Decade Holdings Limited ("Best Decade") and is therefore deemed to be interested in the shares of the company held by Best Decade.

2. Mr Ding Liguo and Madam Zhao Jing hold 70% and 30% respectively of the share capital in Golden Top Group Limited. They are therefore deemed interested in the shares of the company held by Best Decade.

3. Share are held through nominees account.

4. Mastercroft Limited is a subsidiary of Evraz S.A Group. As such Evraz S.A Group is deemed to be interested in the shares held by Mastercroft Limited.

Public Shareholding

Based on the register of shareholdings and to the best of the Company, as at 11 March 2011, 26.58% of the Company's shares were held in public. The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Delong Holdings Limited will be held at Maxwell Chambers, 32 Maxwell Road #03-01, Singapore 069115 on Tuesday, 19 April 2011, 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 2010 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to Article 89 of the Company's Articles of Association:-

   Mr. Ding Liguo (Retiring under Article 89) **(Resolution 2)**
   Mr. Hee Theng Fong (Retiring under Article 89) **(Resolution 3)**
   Mr. Yuan Weimin (Retiring under Article 89) **(Resolution 4)**

   Mr. Hee Theng Fong will, upon re-election as Director of the Company, remain as member 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 RMB1,538,250 for the financial year ended 31 December 2010. (2009: RMB1,221,100) **(Resolution 5)**

4. To re-appoint Messrs PricewaterhouseCoopers LLP as the Independent Auditor of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

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 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 7)**

BY ORDER OF THE BOARD

Yeo Lee Luang

Company Secretary
Singapore, 4 April 2011

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.

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

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

ANNUAL GENERAL MEETING PROXY FORM

*I/We________________________________(Name) *NRIC / Passport No.____________________________

of____

being a *member/members of **DELONG HOLDINGS LIMITED** ("the Company") hereby appoint

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

and/or (delete as appropriate)

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

as *my/our *proxy/proxies to attend and to vote for *me/us on *my/our behalf, at the Annual General Meeting of the Company to be held at Maxwell Chambers, 32 Maxwell Road #03-01, Singapore 069115 on Tuesday, 19 April 2011, at 11.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarised below, the *proxy/proxies will vote or abstain from voting at *his/their discretion.

No.	Resolutions	For**	Against**
1	Directors' Reports and Audited Financial Statements for the year ended 31 December 2010		
2	Re-election of Mr Ding Liguo as a Director		
3	Re-election of Mr Hee Theng Fong as a Director		
4	Re-election of Mr Yuan Weimin as a Director		
5	Approval of Directors' fees amounting to RMB 1,538,250		
6	Re-appointment of Messrs PricewaterhouseCoopers LLP as Auditors		
7	Authority to allot and issue new shares		

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

Dated this day of 2011.

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.

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德龙控股
DELONG HOLDINGS

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