



德龙控股
DELONG HOLDINGS

Singapore Office

One Finlayson Green, #06-03 Singapore 049246

Tel : +65 6535 2510

Fax : +65 6535 7505

Beijing Office

Building 5, District 5, Advanced Business Park

No. 188, West Street, South 4th Ring Road

Fengtai, Beijing

People's Republic of China 100070

Tel : (86) 10 6370 1199

Fax : (86) 10 6370 1741



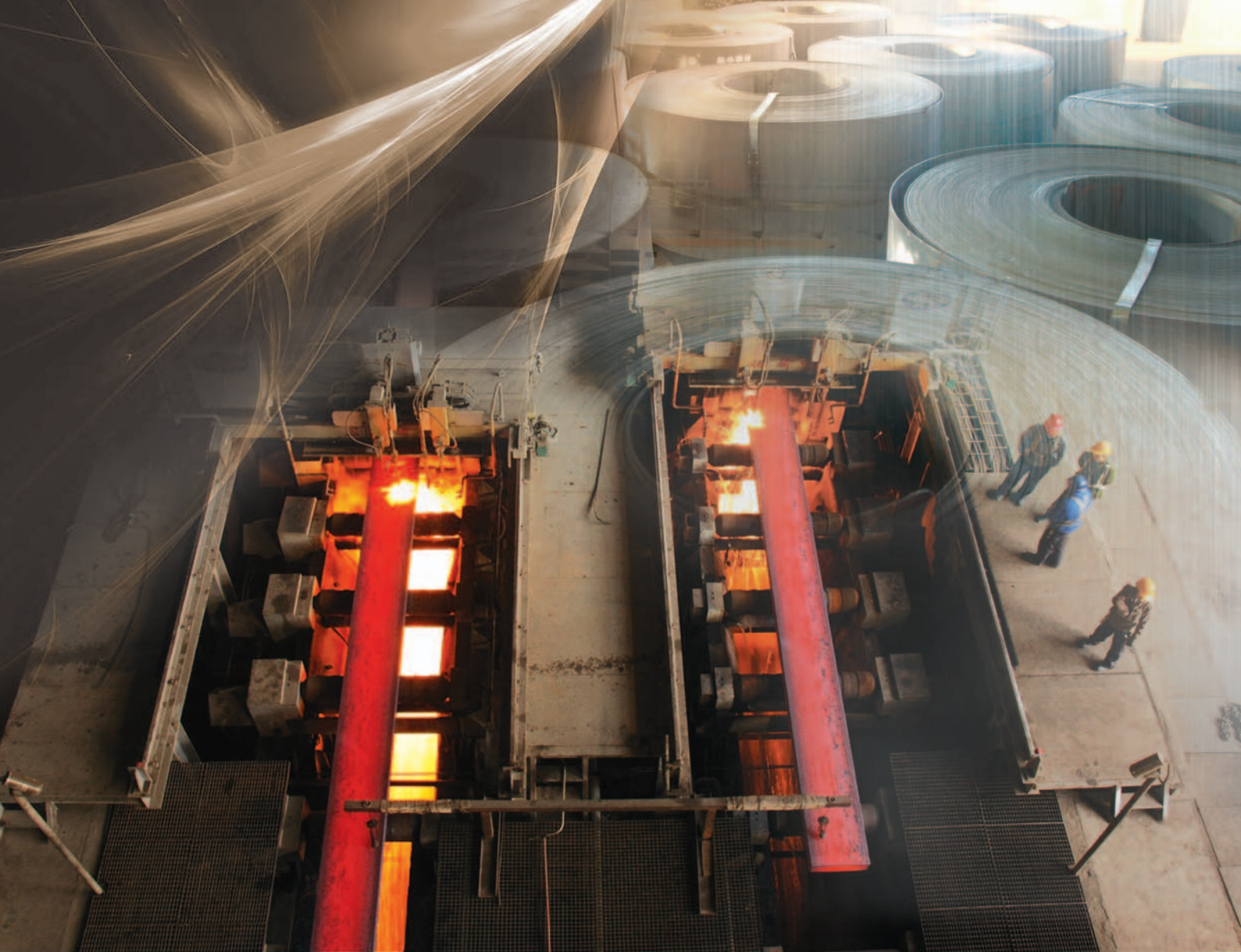
德龙控股
DELONG HOLDINGS

ANNUAL REPORT 2012



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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.





DEAR SHAREHOLDERS,

I am pleased to present the annual report for Delong Holdings Limited ("Delong" or the "Company", together with its subsidiaries, the "Group") for the financial year ended 31 December 2012 ("FY2012") and at the same time, share with shareholders the Group's developments and outlook.

FY2012 marked a year of exciting growth for the Group as we added our steel production capacity by about 50% to 3.8 million tonnes with the strategic acquisition of 80% equity interest in Laiyuan County Aoyu Steel Co. Ltd ("Aoyu Steel") in April 2012. This development is significant, as it marks the first major step in our efforts to establish Delong as one of the top steel players in the PRC's Hebei Province. With the additional capacity, we are now the seventh largest steel player in Hebei Province.

THE YEAR IN REVIEW

In FY2012, Group revenue increased 27.2% to RMB13.3 billion, from RMB10.4 billion in FY2011 as we recorded overall sales improvement and maiden contributions from Aoyu Steel. Since becoming a subsidiary of the Group in April 2012, Aoyu Steel contributed approximately RMB2.7 billion in revenue to the Group in FY2012.

In FY2012, overall sales volume was 53% higher, backed by the maiden contributions from Aoyu Steel. On a segmental basis, sales of HRC products rose to approximately 2.7 million tonnes in FY2012, from approximately 2.4 million tonnes in FY2011. Steel billet sales were significantly higher at 928,422 tonnes due to the maiden contributions from Aoyu Steel, from 1,244 tonnes in the previous year.

Gross profit soared 137.1% to RMB718.0 million in FY2012, mainly due to lower raw material prices and contributions from Aoyu Steel.

Corresponding, gross profit margin for FY2012 rose 2.5 percentage points to 5.4%, compared to 2.9% in FY2011.

As a result of the above, the Group is pleased to record a turnaround and report a net profit of RMB204.8 million in FY2012, as compared to a net loss of RMB12.1 million in FY2011.

LOOKING AHEAD

Our sterling performance in FY2012 has been made possible through the success of our acquisition growth strategy and prudent cost management. Over the years, we have built up a sizeable and loyal customer base in Hebei Province. Moving forward, we will continue to focus on our core strengths and effective growth strategies to sustain our growth.

The outlook for the PRC steel is filled with both opportunities and challenges. While the PRC economy had experienced a slowdown in its GDP growth in 2012 to 7.8%, market analysts have guided that the PRC economy is anticipated to rebound in 2013. The PRC Central Government had also recently unveiled that it will allocate RMB120.0 billion in 2013 for transport and infrastructure spending, which we strongly believe will propel growth for the steel sector.

Nonetheless, the path ahead is not without challenges. We continue to face margin pressures arising from increasing raw material and labour costs and market competition.

The National Development and Reform Commission ("NDRC") had recently submitted its proposal to consolidate Hebei Province's steel sector to the State Council for approval. The plan, when approved, will aim to reduce the number of steel players in Hebei Province via strategic mergers and acquisitions to fifteen large-scale steel groups, from over 700 steel mills currently.

To be ready for any challenges and opportunities, our plans for FY2013 remains focus on seeking earnings-accretive acquisitions to increase the Group's production capabilities and economies of scale. We continue to actively search for the acquisition targets and any strategic investments made will focus on enhancing the Group's market position, profitability, and long-term sustainable returns for the benefit of our shareholders.

A WORD OF THANKS

While the path ahead is expected to be challenging, we remain confident in the Group's ability to perform, guided by the leadership of our Board of Directors, the combined efforts of our management team and the support of our loyal shareholders.

In closing, I would like to extend my sincere appreciation and thanks to all Delong employees, directors, shareholders and business partners. I look forward to your continued support and assistance as we enter yet another year.

Ding Ligu

Executive Chairman

BOARD OF DIRECTORS

Mr Ding Liguo

Mr Ding is the *Executive Chairman* of the Company and is in charge of the overall management and direction of the Delong Group. From 1998 to 2003, Mr Ding was the Chairman of Tangshan 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 1988.

Mr Bai Baohua

Mr Bai is an *Independent Director* of the Company and Chairman of the Nominating and Remuneration Committees. He is also a Member of the Audit Committee. He was Vice-Chairman and subsequently General Manager of China Steel Industrial Trade Group Company from 1993 to 2001. Between 1980 and 1993, Mr Bai was with China Metallurgy Import and Export Company, where he rose through the ranks from engineer to general manager, placed in charge of the overall operations of the company. Between 1965 and 1983, Mr Bai was a technician with the Metallurgy Department Office (1973 to 1983), Gansu Jiuquan Steel Company (1969 to 1973) and China Foreign Metallurgy Construction Company (1965 to 1969). Mr Bai received a Bachelor of Engineering from the Beijing Technological University.

Mr Hee Theng Fong

Mr Hee is an *Independent Director* of the Company and a Member of the Audit, Remuneration and Nominating Committees. He is a practising lawyer with more than 20 years' experience in legal practice. Mr Hee's current appointments include being a Fellow of the Chartered Institute of Arbitrators (UK), Singapore Institute of Arbitrators, an Arbitrator of Singapore International Arbitration Centre, Beijing Arbitration Commission, Huizhou Arbitration Commission and China International Economic and Trade Arbitration Commission. He is 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 Lai Hock Meng

Mr Lai is an *Independent Director* of the Company and Chairman of the Audit Committee. He is also a member of the Remuneration and Nominating Committees. He is currently Chairman of Singapore based corporate advisory firm HML Consulting Group. Mr Lai is also a director of Champ Buyout III Pte Ltd, a private equity firm. Mr Lai has more than 28 years of experience in both public and private financial sectors, including central banking, investment banking, private banking, stockbroking and venture capital. In addition, he sits on the boards of several listed companies, including China Energy Ltd, China Essence Group Ltd, China Oilfield Technology Services Ltd, Metax Engineering Corp Ltd and ASTI Holdings Ltd. Mr Lai has a Bachelor of Arts (Honours) and a Masters of Arts from the University of Cambridge in England, majoring in Economics. He is also a Chartered Financial Analyst with the CFA Institute in the USA and a Fellow of the Chartered Institute of Marketing in the United Kingdom.

Mr Yuan Weimin

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

Ms Lan Jihong

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

Ms Yeo Lee Luang

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

Mr Guo Sanxiang

Mr Guo is the *General Manager* of Laiyuan County Aoyu Steel Co., Ltd ("Aoyu Steel") and is responsible for overseeing the operations of Aoyu Steel. From 2005-2009, Mr Guo was Executive Director of the Company. Between 2003-2004, Mr Guo was General Manager of Xingtai Delong Iron & Steel Co., Ltd. Between 1998 and 2002, he was Deputy General Manager and Head of a steel rolling factory with Tangshan Lefeng Steel Company. Between 1984 and 1998, Mr Guo was Vice-Head and Chief Engineer with the Tangshan Rolled Steel Factory. Mr Guo holds a Bachelor degree in Metal Pressure Processing from the Hebei Mining and Metallurgy College in the PRC.

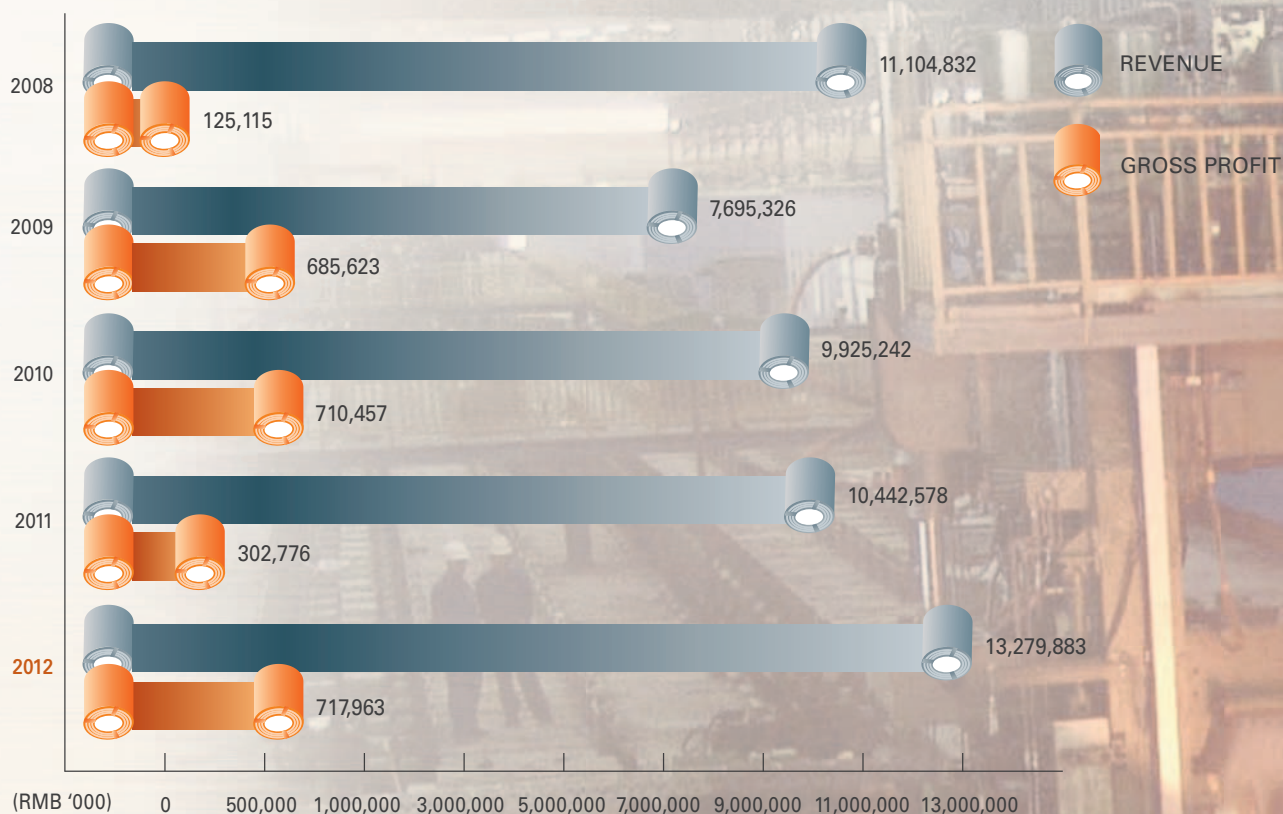
Mr Wu Yujie

Mr Wu is the *General Manager* of Xingtai Delong Machinery and Mill Roll Co., Ltd ("Xingtai-Delong") and is responsible for overseeing the operations of Xingtai Delong. Between 2007-2011, Mr Wu was General Manager of Tangshan Hengan Enterprises Co., Ltd. Between 2004-2006, Mr Wu was administration manager of Delong Steel Limited. Prior to that, Mr Wu was a deputy general manager in charge of administration with Xingtai Delong Iron & steel Co., Ltd from 2000 to 2004 and the head of the finance department of Tangshan Ligu Enterprises Group Co., Ltd from 1998 to 2000. Mr Wu holds a diploma in economic management from the Hebei Economic Management College, PRC.

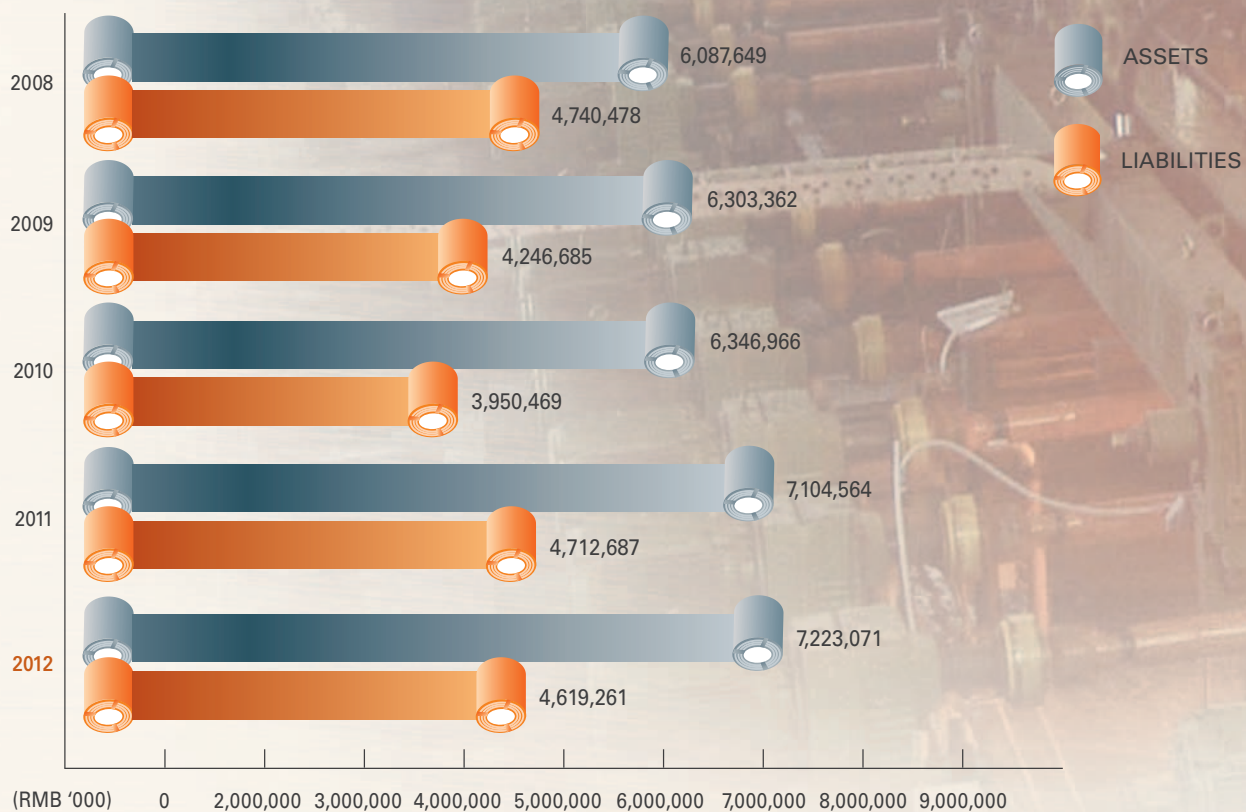


FINANCIAL HIGHLIGHTS

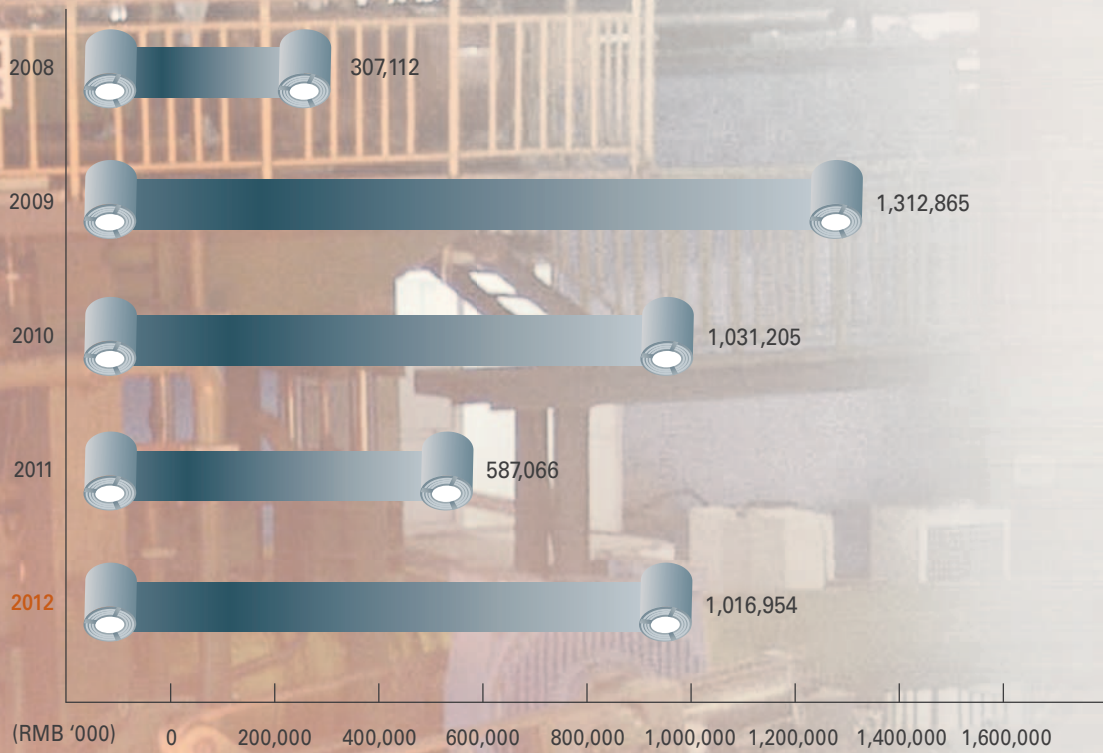
REVENUE & GROSS PROFIT



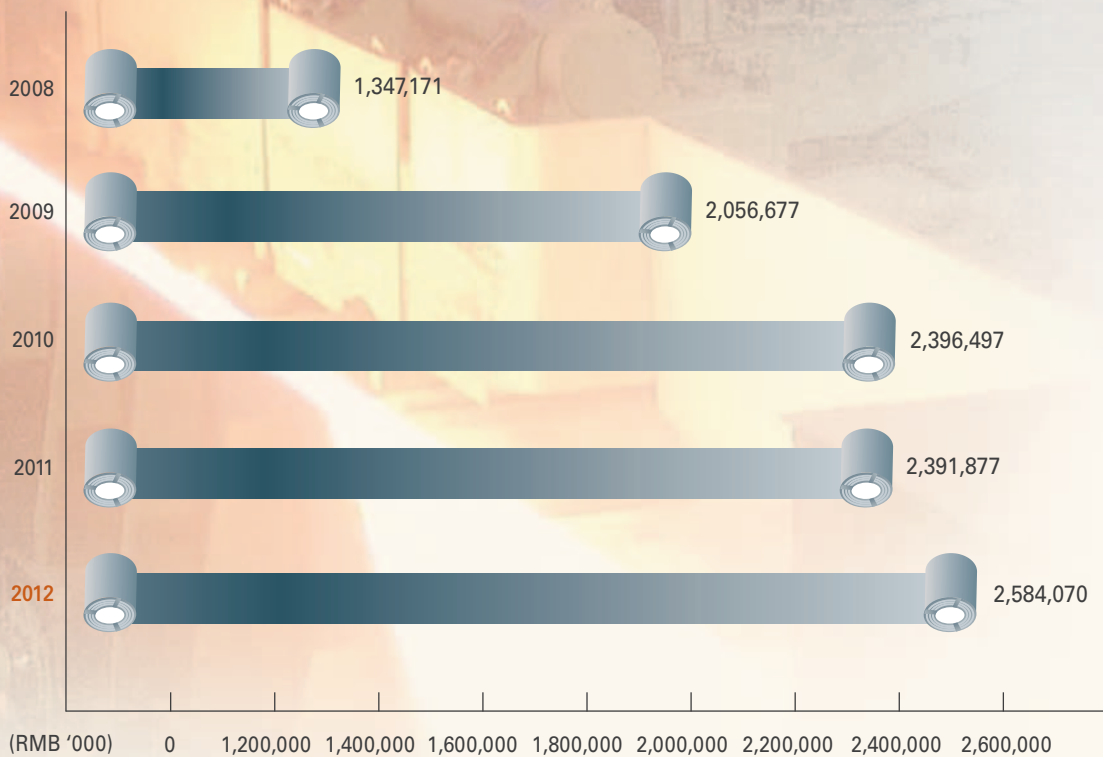
TOTAL ASSETS & LIABILITIES



EBITDA



TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY



GROUP'S FIVE-YEAR FINANCIAL HIGHLIGHTS

RMB '000	FY2012	FY2011	FY2010	FY2009	FY2008
Revenue	13,279,883	10,442,578	9,925,242	7,695,326	11,104,832
Cost of Sales	(12,561,920)	(10,139,802)	(9,214,785)	(7,009,703)	(10,979,717)
Gross Profit	717,963	302,776	710,457	685,623	125,115
Net Profit / (Loss) After Tax and Non-controlling Interest	204,776	(12,072)	326,554	668,823	(370,427)
EBITDA	1,016,954	587,066	1,031,205	1,312,865	307,112
Total Assets	7,223,071	7,104,564	6,346,966	6,303,362	6,087,649
Total Equity Attributable to Owners of the Company	2,584,070	2,391,877	2,396,497	2,056,677	1,347,171
Total Cash and Cash Equivalents	642,894	1,016,569	509,728	290,113	676,399

FINANCIAL RATIOS	FY2012	FY2011	FY2010	FY2009	FY2008
Gross Profit Margin	5.4%	2.9%	7.2%	8.9%	1.1%
Net Profit Margin	1.5%	-	3.3%	8.7%	-
Basic (Loss) / Earnings Per Share (RMB) ¹	0.37	(0.02)	0.60	1.25	(0.69)
Net Tangible Assets Per Share (RMB) ²	4.69	4.37	4.36	3.84	2.52
Gearing (times) ³	1.02	1.36	0.62	1.13	2.06
Return on Assets ⁴	2.8%	-	5.2%	10.6%	-
Return on Equity ⁵	7.9%	-	13.6%	32.5%	-

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 and notes payable (including convertible bonds and convertible shares) divided by total equity attributable to owners of the company.
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 attributable to owners of the company.

Delong Holdings Limited is principally engaged in the manufacture and sale of hot-rolled steel coils and billets, 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 4,934 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 meters and ISO9001:2000-certified, the plant is outfitted with advanced steelmaking equipment, including multi-layered low-temperature sintering equipment, fully automated Programmable Logic Controller (PLC) production systems and ultrasonic cleaning technology. Since 2005, the company has invested over RMB 3.4 billion to upgrade its facilities and improve its annual production capacity through a technological enhancement programme. Today, it boasts a fully-integrated steel plant capable of handling production from raw material processing through final product packaging.

Delong Steel's key products are HRC ranging from 350 to 1,250 mm in width and 1.4 to 25.0 mm in thickness. The products, which can be customized to clients' specifications, are mainly used for the infrastructure, pipe-making and machinery industries. As at 31 December 2012, the total HRC production from the two lines stood at 2.6 million tonnes a year.

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

Laiyuan County Aoyu Steel Co., Ltd ("Aoyu Steel")

Located in Fengle Village, Laiyuan Town, Laiyuan County, Hebei Province, the People's Republic of China ("PRC"), Aoyu Steel is principally engaged in the manufacture and sale of pig iron, steel billets and trading of steel materials. Aoyu Steel has a staff strength of 1898 employees and an annual manufacturing production capacity of 1,200,000 tonnes. The main customers of Aoyu Steel are located in the Tianjin and Hebei area.

Dexin Steel Pte Ltd ("Dexin Steel")

Operationally located in Singapore, Dexin Steel is an investment holding company and iron ore trading and procurement center.



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

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

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

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

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

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

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

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

Dexin Holdings Pte Ltd ("Dexin Holdings")

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

Dexin Holdings Cambodia Pte Ltd ("Dexin Cambodia")

Operationally located in the Cambodia, the principal activities of Dexin Cambodia are in the trading of steel and steel related products and investment in steel-related projects.

CORPORATE STRUCTURE



Legal Representative

- ⁽¹⁾ Mr Ding Liguo
- ⁽²⁾ Ms Lan Jihong
- ⁽³⁾ Mr Wu Yujie

BOARD OF DIRECTORS**Ding Liguo***Executive Chairman*

First appointed: 8 March 2005
 (re-appointed on 19 April 2011)

Zuo Shuowen*Executive Director*

First appointed: 1 January 2010
 (re-appointed on 30 April 2012)

Yuan Weimin*Non-Executive Director*

First appointed: 16 April 2008
 (re-appointed on 19 April 2011)

Bai Baohua*Independent Director*

First appointed: 8 March 2005
 (re-appointed on 30 April 2012)

Hee Theng Fong*Independent Director*

First appointed: 1 June 2006
 (re-appointed on 19 April 2011)

Lai Hock Meng*Independent Director*

First appointed: 15 June 2007
 (re-appointed on 30 April 2012)

AUDIT COMMITTEE**Lai Hock Meng***(Chairman)***Hee Theng Fong****Bai Baohua****NOMINATING COMMITTEE****Bai Baohua***(Chairman)***Hee Theng Fong****Lai Hock Meng****REMUNERATION COMMITTEE****Bai Baohua***(Chairman)***Hee Theng Fong****Lai Hock Meng****COMPANY SECRETARY****Yeo Lee Luang***Certified Public Accountant (Singapore)***SHARE REGISTRAR**

B.A.C.S Private Limited

63 Cantonment Road

Singapore 089758

Tel: (65) 6593 4848

REGISTERED OFFICE

One Finlayson Green

#06-03

Singapore 049246

Tel: (65) 6535 2510

Fax: (65) 6535 7505

Website: www.dlholdings.comInvestor Relations Website: delong.listedcompany.com**COMPANY REGISTRATION NUMBER**

199705215G

AUDITOR

Deloitte & Touche LLP

6 Shenton Way #32-00

Tower Two

Singapore 068809

Tel: (65) 6224 8288

Partner-in-charge: Mr. Yang Chi Chih*(Appointed since 2012)***PRINCIPAL BANKERS**

Agricultural Bank of China

Industrial and Commercial Bank of China

Bank of China

China Minseng Bank

DBS Singapore

CORPORATE GOVERNANCE REPORT

The Board of Directors and Management of Delong Holdings Limited are committed to a high standard of corporate governance and transparency and to the protection of shareholders' interest. The Company's corporate governance policies and processes are in line with the revised Code of Corporate Governance (the "Code") released by the Council on Corporate Disclosure and Governance in May 2012.

This report describes the Company's corporate governance policies and processes for the financial year ended 31 December 2012 with specific reference to specific guideline in the Code.

(A) BOARD MATTERS

The Board's Conduct on Affairs

Board, Composition and Guidance

The Board of Directors (the "Board") comprises two Executive Directors, one Non-Executive Director and three Independent Directors. The particulars of the directors are set out on pages 4. The directors are not related to one another.

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

Guideline 1.3

To assist in the execution of its responsibilities, the Board has established the following committees, namely an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees are chaired by Independent Directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis.

Guideline 1.4

To facilitate the ease, frequency and speed of Board meetings, the Company's Articles of Association allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via tele-conference.

Guideline 1.5

The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcement of financial results, annual reports and any acquisition or disposal of material assets. There are internal guidelines on matters that require the Board's approval, such as changes in the Company's constitution and structure, material capital commitments etc. These guidelines were approved by the Board.

Continuing Education

Guideline 1.6

The Board recognizes the important of appropriate orientation training and continuing education for its Directors. Newly appointed Directors are fully briefed as to the business activities of the Group and its strategic directions. Newly appointed Directors receive a formal letter explaining their statutory duties and responsibilities as a director.

The Directors are also updated in a timely manner on regulatory changes which have a bearing on the Company and the Directors' obligations towards the Company.

With effect from 1 January 2013, all Directors are encouraged to obtain at least 3 hours continuing education each financial year by way of seminars, courses and other programs relating to the discharge of their duties as directors. The Company is prepared to undertake funding for such continuing education.

Attendances and number of meetings

Guideline 1.4

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

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Number of meetings held	6	4	1	1
	Number of Meetings Attended			
Directors:				
Ding Ligu	6	4*	NA	NA
Bai Baohua	6	4	1	1
Zuo Shuowen	6	4*	NA	NA
Hee Theng Fong	6	4	1	1
Lai Hock Meng	6	4	1	1
Yuan Weimin	6	4*	NA	NA
Fok Hei Yu (Resigned on 15 June 2012)	1	1*	NA	NA

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

* - Attendance by invitation to the Committee

Chairman and Chief Executive Officer

Guideline 3.1

Mr. Ding Ligu is both the Chairman and the Chief Executive Officer of the Company.

As Chairman, Mr. Ding Ligu's major responsibilities are:

- to ensure that Board meetings are held when necessary to enable the Board to perform its duties and facilities the Company's operations;
- to set meeting agendas in consultation with the secretary and the Executive Director;
- to review all Board papers;
- to provide adequate, timely and relevant materials and Board papers to the Board members to help to ensure the quality, quantity and timeliness of the flow of information between the management and the Board; and
- to assist in ensuring compliance with the Company's guidelines on corporate governance.

CORPORATE GOVERNANCE REPORT

Being the Chief Executive Officer, Mr Ding has overall responsibility for the management and daily operation of the Group, and is supported by the Executive Director and executive officers. Mr Ding, the Executive Director and executive officers are not related to one another.

The Board has not adopted the recommendation of the Code for a separation of the offices of the Chairman and Chief Executive Officer. The Board is of the view that there are already sufficiently strong and independent elements on the Board to enable independent exercise of objective judgment on affairs and operations of the Group by members of the Board, taking into account factors such as the number of Independent and Non-Executive Directors on the Board, the appointment of a Lead Independent Director as well as the contributions made by each member at Board meetings.

The Board has established three committees as stated below. All the Remuneration, Nominating and Audit Committees comprise of only Independent Directors.

In view of the above, the Board is of the opinion that the role of Mr Ding as Chairman and Chief Executive Officer of the Company concurrently does not affect the independence of the Board.

Lead Independent Director

Mr Lai Hock Meng, upon the recommendation of the Nominating Committee, was elected and appointed by the Board as the Lead Independent Director on 1 March 2013.

The major duties and responsibilities of the Lead Independent Director are:

- to meet with shareholders if they have concerns which have not been resolved by the Chairman, Chief Executive Officer or Chief Financial Officer through the normal channels or for where such contact is inappropriate;
- to lead the Independent and Non-Executive Directors in providing and facilitating a non-executive perspective and contributing a balance of viewpoints on the Board in particular, acting as principal liaison between the Independent and Non-Executive Directors and the Chairman on sensitive issues;
- to coordinate the activities of Independent and Non-Executive Directors and the schedule of meetings of the Independent and Non-Executive Directors and chair such meetings without the presence of the Executive Director, if necessary;
- to prepare minutes of any such meetings of the Independent and Non-Executive Directors, share the minutes with the full Board not later than at the next meeting of the Board and deliver the minutes to the Company;
- to promote high standards of corporate governance; and
- to undertake such further responsibilities as may be determined by the Board from time to time.

Board Membership and Performance

Guideline 4.1

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

Chairman : Bai Baohua

Member : Hee Theng Fong

Member : Lai Hock Meng

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

Guideline 4.6

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

Guideline 5.1

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

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

Guideline 4.2

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

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

Guideline 4.4

The NC also reviewed and was satisfied that any director who has multiple Board representation is able to and has been adequately carrying out effectively the duties as a Director. All Directors are required to declare their other Board representations. On 1 January 2013, the Board resolved to limit each director with full time job and without full time job to holding not more than 6 and 10 directorships respectively, in listed companies including the Company.

Policy on the independence of Independent Directors

The Company is committed to have a strong independent element on the Board and has adopted a policy and established a process to obtain and maintain the requisite degree of independent representation for good and sound governance. As prescribed by the policy, the process:-

CORPORATE GOVERNANCE REPORT

- Establishes the methodology the Board shall use to assess the independence of each independent Director bearing in mind the definition of independence in the Code;
- Identifies the information that shall be collected from each independent Director to make the assessment of independence; and
- Fixes the elements of disclosure to shareholders with regard to the assessment to be made, including the disclosure of any relationships and associations that may be perceived to affect the independence or objectivity of an Independent Director.

The process requires the NC to make a formal assessment and report to the Board their findings as to whether the Independent Directors are independent of management and independent in character and judgment and whether there are any business or other relationships that could materially affect or interfere with the exercise of objective, unfettered or independent judgment by the Independent Directors or the Independent Directors' ability to fulfill their mandate and duties. The Board's rigorous review of the process is an important element in this process as the NC itself comprises only independent directors. The key features of the process are briefly set out below.

On an annual basis, the NC shall require each Independent Director to complete, confirm and sign a Declaration of Independence, the content and form of which has been approved. Each declaration shall be reviewed by the other members of the NC. This forms the basis of the assessment. All relevant facts and circumstances shall be considered in making the assessment. Generally (but without limiting the scope of the factors which may be taken into account), in accordance with best practices, independence is, prima facie, established if the criteria set out below is met.

A Director is independent if he or she:

- a) is not an executive Director of the Company or any of its related corporation and have not been employed by the Company or any of its related corporations in the current or any of the past three financial years;
- b) does not have an immediate family member, who is, or has been in any of the past three financial years, employed by the Company or any of its related corporation as a senior executive officer and whose remuneration is determined by the Company's Remuneration Committee;
- c) does not accept any significant compensation from the Company or any of its related corporation for the provision of services, for the current or immediate past financial year, other than compensation for board service;
- d) is not a shareholder of or a partner in (with 10% or more stake), or an executive director of, or a director of any organisation to which the Company or any of its subsidiaries made or from which the Company or any of its subsidiaries received, significant payments or materials services (in excess of an aggregate of S\$200,000 per annum) in the current or immediate past financial year;
- e) does not have a relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with his/her exercise of independent business judgment to act in the best interests of the Company and carrying out my functions as an independent director and a member of any Board committee(s);
- f) is not directly associated with, a 10% shareholder of the Company in the current or immediate past financial year; and
- g) has not served on the Board for a period which could, or could reasonably be perceived to , materially interfere with the independent Director's ability to act in the best interests of the Company

Independent Directors are obliged to update the Board with any new information in relation to interests or relationships relevant to independence. The Board shall re-assess independence as and when any new interests or relationships are disclosed or come to light, as well as annually.

Following this process, the NC shall report to the Board, drawing to its attention in particular any failure to meet any of the above criteria and to any other relevant circumstances and the NC shall make recommendations. However, it is the Board's duty and prerogative to determine the sufficiency or otherwise of independence and to determine its composition. In accordance with best practices and the Code, the Board shall provide a justification if an appointee fails to meet any of the criteria above but the Board still considers the appointee an independent Director.

The Board shall make the following disclosure to shareholders in the Company's Annual Report with regard to the matter of Independent Directors:

- the status of each of its members, that is whether each is an independent or non-independent director (and any change in status that occurred during the year) and their period of office.
- The justification for designating any member an Independent Director who fails to meet all the criteria stated above or whose status requires an explanation for any reason.
- The policy and criteria mentioned above.

Independent and non-independent Directors standing for re-election will be so identified in the Notice of Annual General Meeting. If the Board's assessment of a Director's independence changes, that change will be disclosed immediately through an announcement on the Singapore Exchange website and the Company's website.

Guideline 2.3 and 4.7

Mr Bai Baohua, Mr Hee Theng Fong and Mr Lai Hock Meng have satisfied the criteria stipulated in the above policy and the Board is of the view they are in fact independent and non-executive directors. For key information relating to the directors, please refer to the particulars of the Directors as set out on pages 4. The dates of first appointment and last re-appointment of each director are provided in the corporate information section on page 11.

The Company's Article of Association require one-third of our Directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr. Ding Liguu, Mr. Bai Baohua and Mr Hee Theng Fong will retire by rotation. Mr. Ding Liguu, Mr. Bai Baohua and Mr Hee Theng Fong will be standing for election. After taking into account their contribution and performance the NC has recommended to the Board that Mr. Ding Liguu, Mr. Bai Baohua and Mr Hee Theng Fong be re-nominated for re-appointment at the forthcoming AGM.

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

CORPORATE GOVERNANCE REPORT

DIRECTORSHIPS

Guideline 4.4

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

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

ACCESS TO INFORMATION

Guideline 6.1

All directors are from time to time furnished with sufficient information concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive management. They have unrestricted access to the Company's records and information. They also receive management accounts as and when requested to enable them to exercise oversight over the Group's operational and financial performance.

Guideline 6.2

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.

Guideline 6.3

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.

Guideline 6.4

The appointment and the removal of the Company Secretary is subject to the approval of the Board.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Level and Mix of Remuneration

Guideline 7.1

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

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

Guideline 7.2

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

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

Principle 8 and 9

The Company adopts a remuneration package for employees including Executive Directors, which is made up of a fixed and a variable component. The fixed component is the basic salary and the variable component is the performance bonus that is linked to the Group's performance and individual performance.

Guideline 9.1

Service contracts with the executive chairman and executive director are for a fixed appointment period and the notice period in each of the service contracts is three months. There are no onerous clauses or 'golden handshake' provisions in connection with termination.

These service contracts are subject to the review and approval of the Remuneration Committee.

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

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

CORPORATE GOVERNANCE REPORT

Disclosure of Remuneration

Guideline 9.2

The Board supports and is keenly aware of the need for transparency. However, after deliberation and debate, the Board is of the view that full disclosure of the specific remuneration of each individual Director, the CEO and the Group's key management personnel is not in the best interests of the Company and therefore shareholders. Inter alia, the Board took into account the very sensitive nature of the matter, the relative size of our Group, the competitiveness business environment we operate in and the irrevocable negative impact such disclosure would have on the Group.

The breakdown of the level and mix of remuneration of each Director and the key executives for the year ended 31 December 2012 is as follows:

Remuneration of Directors

Remuneration band & name of Director	Directors' fees	Salary	Bonus	Allowances/ Benefits	Total
Between RMB3,750,000 and RMB5,000,000					
Ding Liguo	-	100%		-	100%
Below RMB1,250,000					
Zuo Shuowen	-	77%	21%	2%	100%
Bai Baohua	100%	-		-	100%
Hee Theng Fong	100%	-		-	100%
Lai Hock Meng	100%	-		-	100%
Yuan Weimin	100%	-		-	100%
Fok Hei Yu (Resigned on 15 June 2012)	100%	-		-	100%

Guideline 8.3

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

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

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

Guideline 9.3

Remuneration of executive officers

Remuneration band & name of executive officer	Salary	Bonus	Allowances/ benefits	Total
Between RMB1,250,000 and RMB2,500,000				
Lan Jihong	64%	35%	1%	100%
Below RMB1,250,000				
Yeo Lee Luang	86%	14%	-	100%
Guo Sanxiang	65%	35%	-	100%
Wu Yujie	74%	24%	2%	100%

Guideline 9.4

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

(C) ACCOUNTABILITY AND AUDIT***Accountability*****Principle 10**

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 analysts or simultaneously with such meetings. The Company also announces its quarterly financial results as required by the Code. Financial results and annual reports are announced or issued within the mandatory period.

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

Audit Committee**Guideline 12.1**

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

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

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

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

- to review the scope, approach and results of the audit;
- to review (i) quarterly, half yearly and yearly announcement of financial results and (ii) the consolidated financial statements, balance sheets and statements of comprehensive income, and the external auditor's reports on those financial statements, before submission to the Board for approval.
- to review and discuss with external auditors any suspected fraud or irregularities, or failure of internal controls or rule and regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;

CORPORATE GOVERNANCE REPORT

- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors.
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST listing Manual;
- to review the adequacy and effectiveness of the internal control framework and risk management processes and help ensure adequate measures are in place;
- to review the compliance with the Code of Best Practice on Security Transactions;
- to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual.
- to review the scope of work of the internal auditors.
- to review annually the adequacy and the effectiveness of the internal audit function.
- to oversee the Company's risk management framework and policies, to determine the Company's levels of risk tolerance and risk policies, and oversee Management in the design, implementation and monitoring of the risk management and internal control systems.
- to review the adequacy and effectiveness of the Company's risk management and internal control system, including financial, operational, compliance and information technology annually, either internally or with the assistance of any competent third parties.
- to review assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems.

Guideline 12.5

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

Guideline 12.6

The AC confirms that there was no non-audit service provided by the Company's auditor during the year. The AC has recommended their re-appointment at the forthcoming AGM.

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

Guideline 12.7

The Board has formulated a written Whistle Blowing policy which has been disseminated through the Group and is an integral part of the Company Handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

The Whistle Blowing Officers are the internal auditors of the Company. Any Whistle Blowing Officer to whom a concern has been raised is obliged to make a report to the Audit Committee of the substance of the concern without breaching employee confidentiality. The AC is obliged to review all reports received and take or approve appropriate action.

The policy requires that the Whistle Blowing Officer shall consider any concern raised seriously even if made anonymously.

The policy covers all and any improprieties and wrongdoings:

- affecting the financial position of the company;
- relating to the honesty and integrity of the company's dealings;
- relating to the honesty and integrity of any employee or director in the course of his or her employment or dealing with or on behalf of the Company.

A whistle blower can choose to raise a concern by any means convenient including sending a letter or email or by telephone to any Whistle Blowing officer directly. The concern is appropriately and expeditiously dealt with and could be referred to the police or an independent investigator depending on the nature of the disclosure and the outcome of preliminary investigations.

All concerns raised must be referred to the AC in a timely manner.

Guideline 12.8

It is the Company's practice for our external auditor to present the AC with their audit plan and with updates relating to any change of accounting standards impacting on the financial statements before an audit commences. It is also the responsibility of the CFO to update the Board on any changes in accounting standards which may have an impact on the financial statements. During the financial year under review, the changes in accounting standards did not have any impact on the Company's financial statements.

INTERNAL CONTROLS

Guideline 13.1

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

As part of the annual statutory audit of the financial statements, the independent auditor also reports to the AC and management on material internal control weaknesses which have come to their attention during the course of the statutory audit, one of which is that the auditors could not observe that a subsidiary, Xingtai Delong Machinery and Mill Roll Co. Ltd's ("Xingtai Mill Roll"), has exercised effective monitoring controls over the collection of outstanding trade receivables. The independent auditor carries out, in the course of the statutory audit, an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate to the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Guideline 11.3 and Listing Rule 1207 (10)

To strengthen Xingtai Mill Roll's monitoring control over the collection of outstanding receivables, the management will be imposing the following additional internal control procedures:

- a. Xingtai Mill Roll will set up a credit review committee who will meet once every fortnight to review the recoverability of its outstanding trade receivables and formulate any action plans, if necessary, to recover outstanding trade receivables that are overdue from their respective credit terms.
- b. Xingtai Mill Roll has to report to the Company's management on a quarterly basis the age profiles of the outstanding trade receivables, and provide supporting documents to explain and justify why the credit review committee believes that overdue trade receivables remain recoverable.
- c. On a quarterly basis, management will present the aging of the Group's trade receivables at the end of each reporting period to the Audit Committee for review.

The ineffective monitoring controls over the collection of outstanding trade receivables was an isolated event and was attributable to certain weaknesses in implementing the existing internal control procedures by the subsidiary's management.

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

The Board is of the view, with the concurrence of the AC, that there are adequate internal controls in place to address financial, operational, compliance and information technology controls, and risk management systems during the financial year and up to the date of this report after considering the following:

- work done and reports by the internal and external auditors given during the year;
- the lack of any concern by a whistle blower;
- the review done by an external Enterprise Risk Management consultant;
- assurances obtained from the CEO and CFO that
 - (a) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and
 - (b) regarding the effectiveness of the Company's risk management and internal control systems.

INTERNAL AUDIT

Guideline 13.4

The AC is assisted by the Internal Audit Group ("IAG") of Delong Steel in reviewing and testing during the year the proper functioning and adequacy of the Company's internal control system. The Company's IAG is comprised of highly qualified personnel who meet the standards set by 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) SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS**CONDUCT OF SHAREHOLDER MEETINGS****Principle 15*****Investor Relations Practices and Guideline***

The main objectives of the Company's Investor Relations (IR) are to:

- maintain an open and active dialogue with existing and potential shareholders.
- Ensure all investors have equal and adequate access to clear, comprehensive, and relevant information on a timely basis.

Guideline 15.2

The Company's primary communication platforms are its annual report, announcement posted on the SGXNET and Company website. The Company augments its communications via regular analyst/media briefing, one-on-one meetings and conference calls.

The Company announces its financial results via SGXNET.

Guideline 15.4

Regular media and analyst briefings are organized to enable a better appreciation of the Group's performance and developments. The Company holds investor briefings, inviting the media and analyst, after the release of the quarterly and full year financial results.

Our website www.dlholdings.com is updated in a timely manner with the Group's latest announcements. In addition, shareholders can also view our latest financial highlights, financial reports, company presentations, investor factsheet, annual reports and stock quote under our investor portal, www.listedcompany.com/ir/delong. Anyone may subscribe to the Company's announcements by registering for "email alerts" via our website.

Guideline 15.3

To enhance and encourage communication with investors, the Company provides contact details of our Investor Relations Consultants in our investor portal.

The Company conducts its IR on the following principles:

- Information deemed to be price-sensitive is disseminated without delay via announcements and/or press releases on SGXNET;
- Discuss only publicly-available and publicly known information during dialogues with investors and analyst, principally following announcement of financial results;
- Maintain a blackout period prior to the planned release of financial statements during which no meetings and presentations will be held with analysts or investors. The blackout period is two weeks for quarterly financial results and one month for the full-year financial results;
- Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions;
- Announce the date of release of quarterly financial reports at least a week in advance;

CORPORATE GOVERNANCE REPORT

- Operate an open policy with regard to investor/email enquiries; and
- Management and IR team are accessible to requests for one-on-one meetings and conference calls with investors and analysts.

Encouraging Greater Shareholder Participation

Annual reports and notices of AGMs are sent to all shareholders. Such notices are also published in the local newspapers and announced via SGXNET. Shareholders are encouraged to attend the Company's AGMs.

Guideline 16.3

At AGMs, the CEO will conduct a presentation on the Company's developments, financial results, outlook and strategy to provide shareholders with updates on the Company's progress. Shareholders also have the opportunity to share with and communicate their views to the Board. The Chairpersons of the Audit, Nominating and Remuneration Committees as well as the external auditors are requested to be present and available to address any queries by shareholders.

Guideline 16.2

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

(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 two weeks before the announcement of the Company's quarterly results and one month before full year financial 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. Officers and Directors are also prohibited from dealing in the Company's shares on short-term considerations.

The Board of Directors confirms that for the financial year ended 31 December 2012, the Company has complied with the listing rules of the SGX-ST in respect of dealing in securities.

(F) MATERIAL CONTRACTS

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

(G) INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interest persons are reported in a timely manner to the AC and those transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders. The interested person transactions for the financial year ended 31 December 2012 are as follows:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual	
	FY 2012 RMB'000	FY2011 RMB'000	FY 2012 RMB'000	FY2011 RMB'000
*Hebei Delong Modern Special Tube Manufacturing Co., Ltd	652	5,775	-	-

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

(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 4 of the Notes to the Financial Statements, on page 62 to 71 of the Annual Report.

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

(I) AUDITOR'S REMUNERATION

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

	2012 RMB'000	2011 RMB'000
Fees on audit services paid/payable to:		
- Auditor of the Company	2,498	1,855
Fees on non-audit services paid/payable to		
- Other auditors	712	307

CORPORATE GOVERNANCE REPORT

(J) APPOINTMENT OF AUDITORS

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

(K) CORPORATE SOCIAL RESPONSIBILITY

The Group has been actively performing its corporate social responsibility (“CSR”) while pursuing the best possible profitability, safeguarding interests of our shareholders, employees, customers, business partners and the society in general, striving to improve our execution efficiency and quality in virtue of our expertise and competitive superiority and combining performance of our social responsibility with enhancement of our competitive edges.

Environmental Protection and Sustainable Development

The Group places much importance on environmental protection, energy-saving and emission-reduction, and has continuously formulated and improved a series of regulation policies to improve our environmental management.

Through technology upgrade, the Group actively accelerates the promotion of energy-saving and emission-reduction and waste treatment technologies so as to substantially reduce the emission of pollutant and improve the utilization of resources.

The Group will make sure the policies of energy saving and environmental protection carried out throughout the process of production by prescribing objectives and positions and responsibilities, as a result of which agreeable results have been achieved both in improvement of energy-saving and environment protection technology and scientific management.

Contribution to Society

The Group is keen to support the local communities through various channels such as educational, cultural, sports and sanitation activities. The Group is dedicated to keeping heart-felt sincerity and passion to contribute to society. In 2012, the Group donated a total amount of about RMB8,400,000, of which, RMB3,000,000 was donated to the Flood Disaster Relief Funds, Baoding, Hebei Province, RMB2,400,000 to the Beijing Cihong Charity Organisation, RMB 2,000,000 to the Chinese Communist Youth League Education Foundation, RMB600,000 to Beijing University of Science and Technology Education Foundation and RMB400,000 to the China Foundation of Poverty Alleviation.

(L) STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2012, the Company has generally adhered to the principles and guidelines as set out in the Revised Code of Corporate Governance May 2012.



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REPORT OF THE DIRECTORS

For The Financial Year Ended 31 December 2012

The directors present their report together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2012.

1 DIRECTORS

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

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

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

	Shareholdings registered in the name of directors		Shareholdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
Ordinary shares of the Company				
Ding Liguo	-	-	320,817,502	320,817,502
Ultimate holding company				
- Honest Joy International Ltd (Ordinary shares of US\$1 each)				
Ding Liguo	700	700	300	300
Immediate holding company				
- Best Decade Holdings Limited (Ordinary shares of US\$ 1 each)				
Ding Liguo	-	-	1,000	1,000

REPORT OF THE DIRECTORS

For The Financial Year Ended 31 December 2012

By virtue of Section 7 of the Singapore Companies Act, Mr Ding Liguu is deemed to have an interest in all the related corporations of the Company.

The directors' interests in the shares of the Company as at January 21, 2013 were the same as at December 31, 2012.

4 DIRECTORS' RECEIPT OF AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, 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 for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

5 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.

6 AUDIT COMMITTEE

The Audit Committee of the Company is chaired by Mr Lai Hock Meng, an independent director, and includes Mr Hee Theng Fong and Mr Bai Baohua, who are all independent directors. The Audit Committee has met four times since the last Directors' report and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the Company:

- (a) the audit plans and results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;
- (b) the Group's financial and operating results and accounting policies;
- (c) the statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company and external auditors' report on those financial statements;
- (d) the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;
- (e) the co-operation and assistance given by the management to the Group's external auditors; and
- (f) the re-appointment of the external auditors of the Group.

REPORT OF THE DIRECTORS

For The Financial Year Ended 31 December 2012

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Group at the forthcoming Annual General Meeting of the Company.

7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

.....
Ding Liguo
Director

.....
Zuo Shuowen
Director

April 9, 2013

STATEMENT BY DIRECTORS

For The Financial Year Ended 31 December 2012

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 36 to 99 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2012, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

.....
Ding Liguo
Director

.....
Zuo Shuowen
Director

April 9, 2013

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) which comprise the statements of financial position of the Group and the Company as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 99.

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 reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

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

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

Basis for Qualified Opinion

Trade receivables

Included in the Group's trade receivables as at December 31, 2012 of RMB79,639,000 are amounts overdue and not impaired of RMB67,160,000, of which RMB28,166,000 was overdue for over 180 days. During the audit, we requested positive independent confirmations from a subsidiary, Xingtai Delong Machinery and Mill Roll Co. Ltd's ("Xingtai Mill Roll") customers for outstanding balances amounting to RMB64,553,000 as at December 31, 2012. At the date of this report, sufficient and satisfactory confirmation replies from Xingtai Mill Roll's customers amounting to RMB42,605,000 in aggregate were not received by us. This was an impairment indicator, and we were not provided other appropriate supporting evidence by management to demonstrate the recoverability of these receivables.

As there were no other practicable alternative audit procedures that we could perform, we were not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of these recorded trade receivables and determine any adjustments that may be necessary.

INDEPENDENT AUDITOR'S REPORT

To The Members Of Delong Holdings Limited

Prepayments for construction-in-progress

Included in other current assets as at December 31, 2012 are prepayments for construction-in-progress made in 2008 of RMB 14,845,000 by a subsidiary, Delong Steel Limited, for which we have not received positive independent confirmation replies and we were not able to perform practicable alternative audit procedures to establish the existence and recoverability of these amounts. Consequently, we were unable to satisfy ourselves as to the existence and recoverability of these prepayments and determine any adjustments that may be necessary.

Qualified Opinion

In our opinion, except for the effects of such adjustments and/or disclosures in the accompanying financial statements, if any, as might have been determined to be necessary for the matters set out in the Basis for Qualified Opinion paragraphs above, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity 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 December 31, 2012, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

Other Matters

The financial statements for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated April 13, 2012.

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.

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants
Singapore

April 9, 2013

STATEMENTS OF FINANCIAL POSITION

For The Financial Year Ended 31 December 2012

	Note	<u>Group</u>		<u>Company</u>	
		2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	6	642,894	1,016,569	127,984	199,772
Bank balances pledged	7	307,477	713,653	-	-
Financial assets at fair value					
through profit or loss	8	521	657	521	657
Held-to-maturity financial assets	9	100,000	-	-	-
Trade and other receivables	10	1,299,022	615,176	25	69
Inventories	12	758,662	1,226,441	-	-
Other assets	13	789,050	475,073	212	148
Total current assets		3,897,626	4,047,569	128,742	200,646
Non-current assets					
Trade and other receivables	10	88,021	97,221	531,654	631,376
Other assets	13	29,280	31,785	-	-
Available-for-sale financial assets	14	71,300	20,000	-	-
Investments in subsidiaries	15	-	-	1,984,916	1,884,916
Property, plant and equipment	16	3,097,836	2,874,902	109	57
Intangible assets	17	24,480	-	-	-
Deferred tax assets	18	14,528	33,087	-	-
Total non-current assets		3,325,445	3,056,995	2,516,679	2,516,349
Total assets		7,223,071	7,104,564	2,645,421	2,716,995
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	1,748,505	1,409,195	9,773	12,098
Borrowings and notes payables	20	2,269,277	2,626,299	157,425	34,770
Convertible bonds	21	-	151,453	-	151,453
Convertible shares	22	60,896	-	60,896	-
Purchase considerable payable	24	110,125	-	-	-
Current tax liabilities		69,878	29,666	-	-
Total current liabilities		4,258,681	4,216,613	228,094	198,321

See accompanying notes to financial statements.

STATEMENTS OF FINANCIAL POSITION

For The Financial Year Ended 31 December 2012

	Note	<u>Group</u>		<u>Company</u>	
		2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Non-current liabilities					
Borrowings	20	253,524	368,478	103,343	139,067
Convertible shares	22	60,896	104,707	60,896	104,707
Deferred tax liabilities	18	46,160	22,889	-	-
Total non-current liabilities		360,580	496,074	164,239	243,774
Total liabilities		4,619,261	4,712,687	392,333	442,095
Net Assets		2,603,810	2,391,877	2,253,088	2,274,900
EQUITY					
Capital reserves and non-controlling interests					
Share capital	23	405,147	404,361	2,110,983	2,110,197
Capital reserve	25	249,218	249,218	249,218	249,218
Statutory reserve	25	141,072	141,072	-	-
Currency translation reserve		(3,700)	9,669	-	-
Retained earnings		1,792,333	1,587,557	(107,113)	(84,515)
Equity attributable to owners of the Company		2,584,070	2,391,877	2,253,088	2,274,900
Non-controlling interests		110,125	-	-	-
Capital reserve	25	(90,385)	-	-	-
Total equity		2,603,810	2,391,877	2,253,088	2,274,900

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Financial Year Ended 31 December 2012

	Note	Group	
		2012	2011
		RMB'000	RMB'000
Revenue	26	13,279,883	10,442,578
Cost of sales	29	(12,561,920)	(10,139,802)
Gross profit		717,963	302,776
Other income	27	77,070	48,708
Other (losses) gains - net	28	(66,288)	59,692
Distribution and marketing costs	29	(9,271)	(9,557)
Administrative expenses	29	(222,968)	(166,020)
Finance costs	30	(222,031)	(215,845)
Profit before tax and exceptional item		274,475	19,754
Exceptional item			
- Negative goodwill	24	76,230	-
Profit for the year	32	350,705	19,754
Income tax expenses	31	(126,189)	(31,826)
Net profit/(loss)		224,516	(12,072)
Other comprehensive (loss) income, net of tax:			
Currency translation differences		(13,369)	17,602
Total comprehensive income for the year		211,147	5,530
Profit (Loss) attributable to:			
Owners of the Company		204,776	(12,072)
Non-controlling interests		19,740	-
		224,516	(12,072)
Total comprehensive income attributable to:			
Owners of the Company		191,407	5,530
Non-controlling interests		19,740	-
		211,147	5,530
Earnings per share			
(expressed in RMB per share)	33		
- Basic		0.37	(0.02)
- Diluted		0.37	(0.02)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

For The Financial Year Ended 31 December 2012

	Share capital	Capital reserve	Translation reserve	Statutory reserve	Retained earnings	Total	Capital reserve	Non-controlling interests	Total equity
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Group									
Balance as at January 1, 2011, as previously reported	403,511	249,218	(7,933)	141,072	1,610,629	2,396,497	-	-	2,396,497
Adjustment in respect of prior years (Note A)	-	-	-	-	(11,000)	(11,000)	-	-	(11,000)
Balance as at January 1, 2011, restated	403,511	249,218	(7,933)	141,072	1,599,629	2,385,497	-	-	2,385,497
Issue of shares pursuant to exercise of convertible shares (Note 22)	850	-	-	-	-	850	-	-	850
Total comprehensive income for the year, restated	-	-	17,602	-	(12,072)	5,530	-	-	5,530
Balance as at December 31, 2011	404,361	249,218	9,669	141,072	1,587,557	2,391,877	-	-	2,391,877
Issue of shares pursuant to exercise of convertible shares (Note 22)	786	-	-	-	-	786	-	-	786
Acquisition of a subsidiary (Note 24)	-	-	-	-	-	-	-	90,385	90,385
Purchase consideration payable (Note 24)	-	-	-	-	-	-	(90,385)	-	(90,385)
Total comprehensive income for the year	-	-	(13,369)	-	204,776	191,407	-	19,740	211,147
Balance as at December 31, 2012	405,147	249,218	(3,700)	141,072	1,792,333	2,584,070	(90,385)	110,125	2,603,810

Note A – The prior year adjustment relates to the amortisation of prepayment for rent of premises previously not recognised. Management is of the view that the adjustment does not have a material impact on the financial statements.

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

For The Financial Year Ended 31 December 2012

	Share capital RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Company				
Balance at January 1, 2011	2,109,347	249,218	(51,441)	2,307,124
Issue of shares pursuant to exercise of convertible shares (Note 22)	850	-	-	850
Total comprehensive loss for the year	-	-	(33,074)	(33,074)
Balance at December 31, 2011	2,110,197	249,218	(84,515)	2,274,900
Issue of shares pursuant to exercise of convertible shares (Note 22)	786	-	-	786
Total comprehensive loss for the year	-	-	(22,598)	(22,598)
Balance at December 31, 2012	2,110,983	249,218	(107,113)	2,253,088

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Financial Year Ended 31 December 2012

	Note	Group	
		2012	2011
		RMB'000	RMB'000
Operating activities			
Net profit (loss)		224,516	(12,072)
Adjustments for:			
Income tax expenses	31	126,189	31,826
Depreciation	29	439,898	351,467
Amortisation of intangible assets	17	4,320	-
Impairment charge for property, plant and equipment	16	49,220	17,420
Allowance for inventories - net	12	20,298	3,020
Gain on disposal of investment property		-	(13,704)
Loss on disposal of property, plant and equipment		8,348	3,048
Gain on disposal of financial assets, fair value through profit or loss	28	(59)	(15)
Fair value (gain) loss on financial assets, fair value through profit or loss	28	(90)	427
Negative goodwill arising from acquisition of a subsidiary	24	(76,230)	-
Fair value gain on convertible bonds	21	(1)	(12,369)
Fair value gain on convertible shares	22	(910)	(20,738)
Fair value changes on purchase consideration payable	28	19,740	-
Currency realignment difference on convertible shares	22	5,834	(6,870)
(Reversal) Allowance for doubtful debts	10	(1,000)	3,710
Dividend income	27	(2,031)	-
Interest income	27	(47,489)	(26,198)
Interest expense	30	199,448	178,390
Unrealised exchange differences		(10,971)	24,989
Operating cash flow before movements in working capital		959,030	522,331
Bank balances pledged		406,176	(206,292)
Receivables		(725,894)	(242,452)
Inventories		629,258	32,944
Payables		(203,678)	(659,821)
Cash generated from operations		1,064,892	(553,290)
Income taxes paid		(71,182)	(88,906)
Net cash from (used in) operating activities		993,710	(642,196)

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Financial Year Ended 31 December 2012

	Note	Group	
		2012	2011
		RMB'000	RMB'000
Investing activities			
Payments for property, plant and equipment		(161,586)	(162,464)
Proceeds from disposal of financial assets, fair value through profit or loss		285	135
Proceeds from disposal of property, plant and equipment		-	29,091
Purchase of held-to-maturity financial assets		(100,000)	-
Purchase of available-for-sale financial assets		(51,300)	-
Acquisition of a subsidiary, net of cash acquired	24	(272,093)	-
Disposal of a subsidiary, net of cash disposed of	24	2,700	-
Dividend received		2,031	-
Interest received		47,489	26,198
Net cash used in investing activities		(532,474)	(107,040)
Financing activities			
Proceeds from borrowings from banks and other financial institutions		4,364,769	4,221,505
Repayment of borrowings from banks and other financial institutions		(4,836,745)	(2,834,987)
Repayment of convertible bonds	21	(155,300)	-
Interest paid		(205,111)	(123,053)
Net cash (used in) from financing activities		(832,387)	1,263,465
Net (decrease) increase in cash and cash equivalents		(371,151)	514,229
Cash and cash equivalents at the beginning of the year		1,016,569	509,728
Effects of currency translation on cash and cash equivalents		(2,524)	(7,388)
Cash and cash equivalents at the end of the year		642,894	1,016,569

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

1. GENERAL

The Company (Registration Number 199705215G) is incorporated in Singapore with its principal place of business and registered office at 1 Finlayson Green #06-03, Singapore 049246. The company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Chinese Renminbi.

The principal activity of the company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 15 to the financial statements.

As at December 31, 2012, the current liabilities exceed the current assets of the Group by RMB361,055,000 (2011: RMB169,044,000) 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 December 31, 2012, the Group has available credit facilities amounting to RMB2,329 million (2011: RMB2,312 million) which are not yet utilised. These facilities will be available for draw down for the purpose of procuring raw materials or meeting working capital needs or replacing its short-term borrowings when they fall due.

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. The Group and Company have met with all covenants imposed by the financial institutions. Management is not aware of any circumstances that may cause the financial institutions not to continue with the credit facilities.

Management and the directors believe that together with the acquisition of the subsidiary, Laiyuan County Aoyu Steel Co., Ltd (and through contribution from this subsidiary to the Group's results), the Group will continue to generate sufficient cash from its operating activities.

As at December 31, 2012, the current liabilities exceed the current assets of the Company by RMB99,352,000 due to the use of the borrowings to finance the operations of the Group and the repayment of the convertible bonds. Management and the directors are of the view that funds can be remitted to the Company to meet its current obligations as and when required from its subsidiaries.

Based on the above, management and the directors are of the view that the Group and Company are able to continue to operate as going concerns.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2012 were authorised for issue by the Board of Directors on April 9, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

ADOPTION OF NEW AND REVISED STANDARDS - On January 1, 2012, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRS and INT FRS does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

At the date of authorisation of these financial statements, the following FRS and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- Amendments to FRS 1 Presentation of Financial Statements - Amendments relating to Presentation of Items of Other Comprehensive Income
- FRS 110 Consolidated Financial Statements.
- FRS 112 Disclosure of Interests in Other Entities
- FRS 113 Fair Value Measurement
- Annual improvements to FRS 2012

Consequential amendments were also made to various standards as a result of these new/revised standards.

Amendments to FRS 1 Presentation of Financial Statements - Amendments relating to Presentation of Items of Other Comprehensive Income ("OCI")

The amendment on Other Comprehensive Income ("OCI") presentation will require the Group to present in separate groupings, OCI items that might be recycled i.e., reclassified to profit or loss (e.g., those arising from cash flow hedging, foreign currency translation) and those items that would not be recycled (e.g. revaluation gains on property, plant and equipment under the revaluation model). The tax effects recognised for the OCI items would also be captured in the respective grouping, although there is a choice to present OCI items before tax or net of tax.

Changes arising from these amendments to FRS 1 will take effect from financial years beginning on or after 1 July 2012, with full retrospective application.

FRS 110 Consolidated Financial Statements

FRS 110 replaces the control assessment criteria and consolidation requirements currently in FRS 27 and INT FRS 12 *Consolidation - Special Purpose Entities*.

FRS 110 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It also provides more extensive application guidance on assessing control based on voting rights or other contractual rights. Under FRS 110, control assessment will be based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns.

FRS 110 will take effect from financial years beginning on or after January 1, 2014, with retrospective application subject to transitional provisions.

The Group is currently estimating the effects of FRS 110 in the period of initial adoption.

FRS 112 Disclosures of Interests in Other Entities

FRS 112 requires an entity to provide more extensive disclosures regarding the nature of risks associated with its interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

FRS 112 will take effect from financial years beginning on or after January 1, 2014, and the Group is currently estimating extent of additional disclosures needed.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FRS 113 Fair Value Measurement

FRS 113 is a single new Standard that applies to both financial and non-financial items. It replaces the guidance on fair value measurement and related disclosures in other Standards, with the exception of measurement dealt with under FRS 102 *Share-based Payment*, FRS 17 *Leases*, net realisable value in FRS 2 *Inventories* and value-in-use in FRS 36 *Impairment of Assets*.

FRS 113 provides a common fair value definition and hierarchy applicable to the fair value measurement of assets, liabilities, and an entity's own equity instruments within its scope, but does not change the requirements in other Standards regarding which items should be measured or disclosed at fair value.

The disclosure requirements in FRS 113 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under FRS 107 *Financial instruments: Disclosures* will be extended by FRS 113 to cover all assets and liabilities within its scope.

FRS 113 will be effective prospectively from annual periods beginning on or after January 1, 2013. Comparative information is not required for periods before initial application.

The Group is currently estimating the effects of FRS 113 in the period of initial adoption and additional disclosures may be required.

The management anticipates that the adoption of the consequential amendments made to other FRSs, INT FRSs and amendments to FRS in 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.

BASIS OF CONSOLIDATION - Pursuant to the reverse acquisition ("Reverse Acquisition") of the Company by Asia Paragon International Limited ("Asia Paragon") effected on January 1, 2005, the Group's consolidated statements of comprehensive income, consolidated statement of financial position, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 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 statement of financial position at their pre-combination carrying amounts; and
- (ii) the retained profits and equity balances recognised in those consolidated financial statements are the retained profits and equity balances of the Asia Paragon Group immediately before the business combination. However, the equity structure appearing in those consolidated financial statements (i.e. the number and type of equity instruments issued) reflects the equity structure of the Company as the legal parent.

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured (at date of original business combination) either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another FRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATIONS - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with FRS 39 Financial Instruments: Recognition and Measurement, or FRS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRS are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 Income Taxes and FRS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year from acquisition date.

The accounting policy for initial measurement of non-controlling interests is described above.

The policy described above is applied to all business combinations that take place on or after January 1, 2010.

FINANCIAL INSTRUMENT - Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets

All financial assets are recognised and de-recognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity investments", "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in 'other gains and losses-net' line in the statement of comprehensive income. Fair value is determined in the manner described in Note 4.

Held-to-maturity investments

Bonds with fixed or determinable payments and fixed maturity dates where the Group has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Certain shares and debt securities held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 4. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in revaluation reserve is reclassified to profit or loss. Dividends on equity available-for-sale instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. With the exception of equity available-for-sale instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or other financial liabilities.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

- A financial liability is classified as held for trading if:
- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities at fair value through profit or loss are initially measured at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other (losses) gains - net" line in the statement of comprehensive income. Fair value is determined in the manner described in Note 4.

Other financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Financial guarantee contract liabilities are measured initially at their fair values (if material), and, if not designated as at FVTPL, subsequently at the higher of the amount of obligation under the contract recognised as a provision in accordance with FRS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation in accordance with FRS 18 Revenue.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Convertible bonds

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Convertible shares

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

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

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

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

LEASES - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

PROPERTY, PLANT AND EQUIPMENT - Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less accumulated depreciation and any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than assets under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Prepaid Lease	- over the terms of lease which are from 21 to 49 years
Leasehold buildings	- the shorter of 20 years or the lease term
Plant and equipment	- 10%
Motor vehicles	- 20%

Prepaid lease pertains to the prepayment of land rental for the total land rental period. Prepaid lease is measured at the total land rental cost less any accumulated impairment loss and is charge to profit or loss on a straight-line basis over their rental period.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION - Intangible assets acquired in a business combination are identified and recognised separately from goodwill. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

INVESTMENT PROPERTY - Investment property, which is property held to earn rentals and/or for capital appreciation, including property under construction for such purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

GOODWILL - Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

PROVISIONS - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

GOVERNMENT GRANTS - Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods and scrap materials

Revenue from the sale of goods and scrap materials is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

The Group's policy for recognition of revenue from operating leases is described above.

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund and social security bureaus in People's Republic of China ("PRC") as described below, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

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.

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 end of the reporting period.

INCOMETAX - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the company and subsidiaries operate by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Chinese Renminbi, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Chinese Renminbi using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS - Cash and cash equivalents in the statement of cash flows comprise cash on hand and demand deposits, bank overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

Apart from those involving estimations (see below) and the critical judgement used for the Group to continue as going concern disclosed in Note 1 to the financial statements, management is of the view that there are no other critical judgements that have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of non-financial assets

Property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and where applicable, cash-generating units ("CGU") have been determined based on value-in-use calculations. These calculations require the use of estimates, assumption and judgements. A wholly-owned subsidiary of the Group, Xingtai Delong Machinery and Mill Roll Co., Ltd ("Mill Roll CGU"), had performed below expectations and incurred a net loss for the year ended December 31, 2012 and 2011. Accordingly, the management of the Company carried out an assessment for impairment for the Mill Roll CGU. An impairment loss of RMB49.2 million (2011: RMB15 million) in respect of the plant and equipment of Mill Roll CGU has been recognised in profit or loss for the year ended December 31, 2012, based on the recoverable amount determined based on value-in-use. As at December 31, 2012, the Mill Roll CGU's property, plant and equipment has a carrying amount of approximately of RMB270.1 million (2011: RMB370 million) after adjusting for the impairment loss.

The Mill Roll CGU produces and supplies high-end mill rollers to the domestic steel manufacturers. It started trial production in March 2008 and has not achieved full capacity at the date of this report. Cash flow projections used in the value-in-use calculations are based on financial budgets approved by the directors covering a twelve-year period from 2013 to 2024. The average annual growth rate estimated for the first four-year period is 16% and beyond that at an estimated growth rate of 18%. The average annual growth rate used for the four-year period is based on the fact that the CGU will continue to expand its production capability. The estimated gross loss margin for the 2013 is 12.3% and by the end of 2024, a gross profit of 25.4%.

The discount rate used in the value-in-use calculation was approximately 12% (2011: 12%) which management believes reflect the specific risks relating to the Mill Roll CGU.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

If the management's estimated annual growth used in the value-in-use calculation for the initial four-year period is reduced by 1%, there will be an additional impairment loss of RMB19.6 million.

If the management's estimated annual growth rate used in the value-in-use calculation Mill Roll from 2017 onwards is reduced by 1%, there will be an additional impairment loss of RMB20.9 million.

If the discount rate used in the value-in use calculation is increased by 1%, there will be an additional impairment loss of RMB21.4 million.

If the management's estimated gross margin in the value-in-use calculation could not be achieved by 1%, there will be an additional impairment loss of RMB51.7 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.

Allowance for inventories

The carrying amount of inventories is progressively reduced based on the age and type of stocks. These estimates of realisable values are made by management after taking into account historical and forecast selling prices. The carrying amount of inventories of the Group is set out in Note 12 to the financial statements.

Allowance for doubtful trade and other receivables

The Group and Company make allowances for bad and doubtful debts based on on-going evaluation of collectability and aging analysis of individual receivables by reference to their past default experience. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of the Group's and Company's trade and other receivables are disclosed in Note 10 to the financial statements.

Fair value of net assets acquired in a subsidiary, and negative goodwill and purchase consideration payable for acquisition of remaining equity interest in subsidiary

The fair value of the assets and liabilities assumed from the acquisition of a subsidiary and the negative goodwill arising from the acquisition are determined based on the valuation performed by an independent professional valuer. In determining the purchase consideration payable for acquisition of the remaining equity interests in a subsidiary, management had used the fair value of the share of net assets assumed by the non-controlling shareholder based on the same valuation report adjusted for its share of post-acquisition reserves. In relying on the independent professional valuation report, management had considered the method of valuation, the underlying assumptions involved and is of the view that the estimated values are reasonable.

The amounts are disclosed in Note 24 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

The following table sets out the financial instruments as at the end of the reporting period:

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Financial Assets				
Loans and receivables (including cash and cash equivalents)	2,637,672	2,731,894	659,866	831,275
Financial assets at fair value through profit or loss	521	657	521	657
Held-to-maturity financial assets	100,000	-	-	-
Available-for sale financial assets	71,300	20,000	-	-
Financial Liabilities				
At amortised cost	3,851,814	4,239,327	392,333	442,095
Financial liabilities at fair value through profit or loss	110,125	-	-	-

(i) Foreign exchange risk management

The Group is exposed to foreign exchange risk as it transacts business in various currencies, mainly the Singapore dollars and United States dollars.

	USD RMB'000	SGD RMB'000
Group		
<i>At December 31, 2012</i>		
Assets	144,813	19,252
Liabilities	1,340,418	127,993
<i>At December 31, 2011</i>		
Assets	496,462	32,559
Liabilities	1,249,744	116,868

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(i) Foreign exchange risk management (cont'd)

	USD RMB'000	SGD RMB'000
Company		
<i>At December 31, 2012</i>		
Assets	125,028	1,041
Liabilities	264,450	127,883
<i>At December 31, 2011</i>		
Assets	177,265	309,810
Liabilities	173,776	116,868

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their transactions at the period for a 3% change in the foreign currency rates.

If the value of USD and SGD had changed against the RMB by 3% (2011: 3%) 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:

	2012 Profit after tax RMB'000	2011 Profit after tax RMB'000
Group		
USD against RMB		
- strengthened	(26,901)	(16,949)
- weakened	26,901	16,949
SGD against RMB		
- strengthened	(2,447)	(1,897)
- weakened	2,447	1,897
Company		
USD against RMB		
- strengthened	(3,472)	87
- weakened	3,472	(87)
SGD against RMB		
- strengthened	(3,158)	4,804
- weakened	3,158	(4,804)

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(ii) Interest rate risk management

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% (2011: 1%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by RMB16,702,500 (2011: loss after tax would have been higher/lower by RMB19,535,775) as a result of higher/lower interest expense on these borrowings.

(iii) Equity price risk management

The Group is exposed to equity securities price risk due to its investments which are classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss. The Group continually monitors its price risk exposure arising from its investments.

If prices for the equity securities at fair value through profit or loss had increased/decreased by 5% (2011: 5%) with all other variables including tax rate being held constant, the effect on profit after tax would have increased/decreased by RMB22,000 (2011: RMB27,000).

No sensitivity analysis is prepared for available-for-sale investments as the Company does not expect any material effect on profit or loss arise from the effects of reasonable possible changes to equity prices on such investments at the end of reporting period.

(iv) Credit risk management

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 and other assets. 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 People's Republic of 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. It could not be observed that Xingtai Mill Roll's management exercised effective monitoring controls over the collection of outstanding trade receivables and management has concluded that this was an isolated event and was attributable to certain weaknesses in implementing the existing internal control procedures by Xingtai Mill Roll's management.

To strengthen Xingtai Mill Roll's monitoring control over the collection of outstanding receivables, the Group will be imposing the following additional internal control procedures:

- a. Xingtai Mill Roll will set up a credit review committee who will meet once every fortnight to review the recoverability of its outstanding trade receivables and formulate any action plans, if necessary, to recover outstanding trade receivables that are overdue from their respective credit terms.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(iv) Credit risk management (cont'd)

- b. Xingtai Mill Roll has to report to the Company's management on a quarterly basis the age profiles of the outstanding trade receivables, and provide supporting documents to explain and justify why the credit review committee believes that overdue trade receivables remain recoverable.
- c. On a quarterly basis, management will present the aging of the Group's trade receivables at the end of each reporting period to the Audit Committee for review.

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 statement of financial position, grossed up for any allowance for losses, except as follows:

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Corporate guarantees provided to banks on:				
- third parties' loans	841,503	229,300	-	-

The corporate guarantees are callable on demand by the banks.

As at December 31, 2012, the finance lease receivables were mainly due from one debtor (2011: one debtor), Tangshan Delong Steel Co., Ltd. a company that is not related to the Group. The Group's credit exposure to Tangshan Delong Steel Co., Ltd at the end of the reporting period was as follows:

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Entrusted loan to third parties (Note 13)	45,000	65,000
Finance lease receivables (Note 11)	131,668	177,908
Corporate guarantees provided to banks on third parties' loans (Note 34)	282,500	129,300
	459,168	372,208

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(iv) Credit risk management (cont'd)

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

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
		(Restated)		
<i>By geographical areas</i>				
People's Republic of China	1,603,624	999,385	323,258	323,244
Singapore	277	127	208,624	308,259
	1,603,901	999,512	531,882	631,503
<i>By types of customers</i>				
Non-related parties	1,603,901	999,512	228	127
Subsidiaries	-	-	531,654	631,376
	1,603,901	999,512	531,882	631,503

Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks in the People's Republic of 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.

(v) Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits.

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

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(v) Liquidity risk management (cont'd)

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

	Weighted average effective interest rate % per annum	Less than 1 year RMB'000	Later than 1 year and not later than 5 years RMB'000
Group			
<i>At December 31, 2012</i>			
Notes payables	-	295,800	-
Trade and other payables	-	1,748,505	-
Borrowings	6%	1,994,025	314,580
Convertible shares	5%	68,313	68,313
Financial guarantee contracts	-	841,503	-
<i>At December 31, 2011</i>			
Notes payables	-	390,000	-
Trade and other payables	-	1,409,195	-
Borrowings	6%	2,292,966	435,214
Convertible bonds	5%	158,704	-
Convertible shares	5%	-	139,535
Financial guarantee contracts	-	229,300	-
Company			
<i>At December 31, 2012</i>			
Trade and other payables	-	9,773	-
Borrowings	4%	163,809	112,154
Convertible shares	5%	68,313	68,313
<i>At December 31, 2011</i>			
Trade and other payables	-	12,098	-
Borrowings	4%	36,831	156,763
Convertible bonds	5%	158,704	-
Convertible shares	5%	-	139,535

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is used, based on the applicable yield curve of the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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 convertible bonds and convertible shares and borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Net debt	2,001,699	2,234,368	254,576	230,226
Total equity	2,584,070	2,391,877	2,253,088	2,274,900
Total capital	4,585,769	4,626,245	2,507,664	2,505,126
Gearing ratio	43.7%	48.3%	10.2%	9.2%

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

The Group is required by the banks to maintain a Total liability/Total asset ratio of not exceeding 75% (2011: 75%).

The Group's strategy is to maintain Total liability/Total asset ratio of not exceeding 75%.

	Group	
	2012 RMB'000	2011 RMB'000 (Restated)
Total liability	4,619,261	4,712,687
Total asset	7,223,071	7,104,564
Gearing ratio	64.0%	66.3%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended December 31, 2011 and 2012.

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				
<i>At December 31, 2012</i>				
Assets				
Financial assets at fair value through profit or loss – equity held for trading	521	-	-	521
Available-for-sale financial assets	1,300	-	-	1,300
	1,821	-	-	1,821
Liabilities				
Convertible shares				
Derivative liability component	-	-	837	837
Purchase consideration payable	-	-	110,125	110,125
	-	-	110,962	110,962

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

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

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

The basic of determining the fair value of the purchase consideration payable has been disclosed in Note 3 to the financial statements.

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 the end of each reporting period. 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 end of the reporting period of S\$0.31 (2011: S\$0.26) per share and the volatility of the share price of 50% (2011: 56%). If the share price used in the valuation had been S\$0.34 (2011: S\$0.29) or S\$0.28 (2011: S\$0.23) instead of S\$0.31 (2011: S\$0.26), the fair value of the derivative components of the convertible bonds and convertible shares would have changed to approximately RMB1.2 million (2011: RMB2.1 million) and RMB0.6 million (2011: RMB1.2 million) respectively. If the volatility of the share price used in the valuation had been 60% (2011: 66%) or 40% (2011: 46%), instead of 50% (2011: 56%), the fair value of the derivative components of the convertible bonds and convertible shares would have changed to approximately RMB1.6 million (2011: RMB2.6 million) and RMB0.3 million (2011: RMB0.8 million) respectively.

In addition, while the Group's convertible bonds and convertible shares (accounted for as a financial liability) were measured at amortised cost using the effective interest method, the derivative component were recognised at fair value at the end of the reporting period 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% (2011: 11.4%) per annum used to discount the future contracted cash flows. The effective interest rate of 11.4% (2011: 11.4%) represented the market interest rate that would be available to the Group if it were to issue a single debt instrument, instead of issuing compound financial instruments, and was determined by benchmarking with comparable debt instruments in the market at the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(vi) Fair value of financial assets and financial liabilities (cont'd)

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

	Purchase consideration payable RMB'000	Convertible bonds - derivative component RMB'000	Convertible shares - derivative component RMB'000
2012			
Opening balance	-	(1)	(1,758)
Additions for the year	(90,385)	-	-
Conversion into new ordinary shares	-	-	11
(Losses) Gains on change in fair value recognised in profit or loss	(19,740)	1	910
Closing balance	<u>(110,125)</u>	<u>-</u>	<u>(837)</u>
2011			
Opening balance		(12,370)	(22,608)
Conversion into new ordinary shares		-	112
Gains on change in fair value recognised in profit or loss		12,369	20,738
Closing balance		<u>(1)</u>	<u>(1,758)</u>

The carrying amounts of cash and cash equivalents, trade and other receivables and payables, and notes payables approximate 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 end of the reporting period 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 approximate their carrying amounts.

Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to owners of the parent, comprising issued capital, reserves and retained earnings.

The Group's overall strategy remains unchanged from prior year.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

5a. HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The Company is a subsidiary of Best Decade Holdings Limited, incorporated in the British Virgin Islands. The Company's ultimate holding company is Honest Joy International Ltd, incorporated in the British Virgin Islands. The controlling shareholder of Honest Joy International Ltd is Mr Ding Ligu. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the Company's transactions and arrangements are between members of the group and the effect of these on the basis determined between parties is reflected in these financial statements. The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

5b. OTHER RELATED PARTY TRANSACTIONS

Some of the Company's transactions and arrangements are with related parties or related companies and the effect of these on the basis determined between the parties is reflected in these financial statements. The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

Trading transactions

During the year, Group entities entered into the following trading transactions with related parties:

	2012 RMB'000	2011 RMB'000
Sales of goods to Hebei Delong Modern Special Tube Manufacturing Co., Ltd (owned by Mr Ding Ligu, a director of the Company and his spouse)	652	5,775
Interest expense to non-controlling shareholders	6,943	-

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Salaries and other short term employee benefits	9,312	7,801
Post-employment benefits – defined contributions plans	1,890	1,953
	<u>11,202</u>	<u>9,754</u>

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

6. CASH AND CASH EQUIVALENTS

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash at bank and on hand	640,995	1,006,277	126,085	199,772
Fixed deposits	1,899	10,292	1,899	-
Cash and cash equivalents in the statement of cash flows	642,894	1,016,569	127,984	199,772

Fixed deposits bear average effective interest rate of 2.3% (2011: 2.7%) per annum and for a tenure of approximately 14 days (2011: 30 days).

The remittance of funds denominated in Renminbi ("RMB") out of the People's Republic of China ("PRC") is subject to the restrictions imposed by the State Administration of Foreign Exchange of China in PRC.

7. BANK BALANCES PLEDGED

These bank balances were pledged as security for notes payables (Note 20) and letter of credit facilities amounting to RMB295,800,000 as at December 31, 2012 (2011: RMB390,000,000).

Bank balances pledged bear average effective interest rate of 3.5% (2011: 3.3%) per annum.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>Group and Company</u>	
	2012 RMB'000	2011 RMB'000
Quoted equity shares, at fair value	521	657

The above investment represents investments in listed equity securities that offer the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on quoted market prices on the last market day of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

9. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Unquoted debt securities, at amortised cost	100,000	-

The coupon rate of the unquoted debt securities is 8.1% per annum and matures on September 12, 2013.

There were no disposals or allowance for impairment for held-to-maturity financial assets.

10. TRADE AND OTHER RECEIVABLES

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
<i>Current</i>				
Finance lease receivables (Note 11)	81,192	104,157	-	-
Trade receivables	79,639	48,192	25	69
Notes receivables	1,113,191	462,827	-	-
Other receivables from third parties ^(b)	25,000	-	-	-
	1,299,022	615,176	25	69
<i>Non-current</i>				
Finance lease receivables (Note 11)	53,682	73,751	-	-
Due from an investee company ^(a)	23,470	23,470	-	-
Loans to subsidiaries	-	-	531,654	631,376
Other receivables from third parties ^(b)	10,869	-	-	-
	88,021	97,221	531,654	631,376

(a) The amount is due from an investee company which is unsecured, bears an interest of 7.47% (2011: 7.47%) per annum and repayable in June 2014.

(b) Other receivables from two third parties form part of the assets acquired during the acquisition of a subsidiary, Laiyuan County Aoyu Steel Co., Ltd ("Aoyu Steel") (Note 24). The balances are unsecured, interest free and non-trade in nature. Based on the repayment agreement with one of the parties, the amount will be repaid in three instalments with the final instalment in 2014.

In accordance with the Sales and Purchase agreement for the acquisition of Aoyu Steel, any receivables that have not been recovered by the time the Group is acquiring the remaining 20% equity interest in Aoyu Steel, such amount will be offset against any amount owing by Aoyu Steel to the non-controlling shareholder or will be deducted from the purchase consideration for the remaining 20% equity interest payable to the non-controlling shareholder (Note 24).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

10. TRADE AND OTHER RECEIVABLES (cont'd)

The table below is an analysis of trade receivables as at December 31, 2012

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Not past due and not impaired	12,479	20,690	25	69
Past due but not impaired ^(a)	67,160	27,502	-	-
Impaired receivables - individually assessed ^(b)	3,869	4,869	-	-
Less: Allowance for doubtful debts	(3,869)	(4,869)	-	-
Total trade receivables, net	79,639	48,192	25	69

^(a) Included in the Group's trade receivable balance are debtors which are past due at the end of the reporting period for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

^(b) These receivables are stated before any reduction for impairment losses and are not secured by any collateral or credit enhancements.

Aging of trade receivables that are past due but not impaired as at December 31, 2012

	<u>Group</u> 2012 RMB'000
1 to 90 days	18,323
91 to 180 days	20,671
180 days to 540 days	18,445
Over 540 days	9,721
Total	67,160

Movement in the allowance for doubtful debts

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	4,869	1,159
(Decrease) Increase in allowance recognised in profit or loss	(1,000)	3,710
Balance at end of the year	3,869	4,869

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

11. FINANCE LEASE RECEIVABLES

	<u>Group</u>			
	Minimum lease payments		Present value of minimum lease payments	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Amounts receivable under finance leases:				
Within one year	88,232	107,302	81,192	104,157
In the second to fifth year inclusive	56,539	85,842	53,682	73,751
	144,771	193,144	134,874	177,908
Less: unearned finance income	(9,897)	(15,236)	-	-
Present value of minimum lease payments receivable	134,874	177,908	134,874	177,908

The finance lease arrangements entered into by the Group are mainly for the leasing of plant and equipment to third parties. The leases are denominated in the Chinese Renminbi and the term of the finance leases entered into is for a period 2 to 5 years. The range of effective interest rates contracted is from 6.04% to 10.02% (2011: 7.4% to 10.02%) per annum.

Finance lease receivable balances are secured over the plant and equipment leased to these third parties. The fair value of the Group's finance lease receivables approximately their carrying amounts.

12. INVENTORIES

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Raw materials	585,633	947,583
Work-in-progress	87,288	166,468
Finished goods	85,741	112,390
	758,662	1,226,441

The cost of inventories recognised as an expense includes RMB20,298,000 (2011: RMB3,020,000) in respect of write-downs of inventory to net realisable value. The finished goods amounting to RMB85,741,000 (2011: RMB112,390,000) is carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

13. OTHER ASSETS

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Deposits	233	785	203	58
Prepayments	463,190	145,946	9	90
Entrusted loans to third parties (a)	145,000	65,000	-	-
Amount refundable from supplier (b)	-	192,093	-	-
VAT and tax recoverable	106,492	40,022	-	-
Prepaid rent (c)	31,790	33,775	-	-
Others	71,625	29,237	-	-
	818,330	506,858	212	148
Analysed as:				
Current	789,050	475,073	212	148
Non-current	29,280	31,785	-	-
	818,330	506,858	212	148

- (a) The Group advances RMB145 million (2011: RMB65 million) through banks to third parties. The loans are unsecured, bear interest at rates ranging from 6.6% to 8.7% (2011: 7.0%) per annum and due within the next twelve months.
- (b) In September 2011, Delong Steel Limited ("Delong Steel"), a wholly-owned subsidiary of the Company, had entered into a contract with one of its suppliers, Hong Kong Qinlong Group Limited (the "Supplier"), in September 2011, for the purchase of 198,000 tonnes of Mongolia iron ore, and prepaid the full purchase consideration of USD30 million, which is equivalent to RMB192 million ("Prepayment Amount") so as to secure the supply of iron ore which was in short supply. Subsequently in October 2011, the parties agreed to terminate the contract due to changes in iron ore prices as well as the quality of the iron ore which did not meet contractual specifications. Pursuant to the termination of the contract, the Supplier was to refund the Prepayment Amount to Delong Steel Limited. The Prepayment Amount was collected subsequent to the financial year ended December 31, 2011.
- (c) The amount pertains to prepayment for land rental for a tenure of 22.5 years from July 2006. Management did not amortise or classify the prepayment into current and long term portion in prior years in view that the impact on the financial statements is not material. In the current year, management had made a prior year adjustment of RMB11 million to the opening retained earnings that represented land rental for years before 2012 and presented the remaining prepaid rental into current and non-current portions accordingly based on amounts prepaid for the next twelve months and prepayments for the period thereafter.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012	2011
	RMB'000	RMB'000
Beginning of financial year	20,000	20,000
Additions	51,300	-
End of financial year	71,300	20,000
Unquoted equity shares, at cost	70,000	20,000
Quoted debt securities, at fair value	1,300	-
	71,300	20,000

The unquoted equity shares are carried at cost as the management and directors are of the view that the fair value cannot be reliably measured. There are no active markets for these unlisted equity investments and their fair values cannot currently be estimated within a reasonable range. There is currently no intention to dispose of these investments in the foreseeable future.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unquoted equity shares, at cost	1,984,916	1,884,916

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Details of the Company's subsidiaries at December 31, 2012 are as follows:

Name of subsidiary	Country of incorporation	Proportion of ownership interest		Proportion of voting power held		Principal activity
		2012 %	2011 %	2012 %	2011 %	
<u>Held by the Company</u>						
Asia Paragon International Limited ^(a)	British Virgin Islands	100	100	100	100	Investment holding
Dexin Steel Pte Ltd ^(b)	Singapore	100	100	100	100	Procurement and sale of iron ore
<u>Held by Asia Paragon International Limited</u>						
Delong Steel Limited ^(c)	PRC	100	100	100	100	Production and sales of hot-rolled steel coils
Dezhong International Financing Leasing Co., Ltd ^(c)	PRC	100	100	100	100	Financial leasing activities
<u>Held by Dexin Steel Pte Ltd</u>						
Xingtai Xinlong Coal-Gas Limited ^(c)	PRC	100	100	100	100	Coal gas recycling
Xingtai Delong Machinery and Mill Roll Co., Ltd ^(c)	PRC	100	100	100	100	Design, development, manufacturing and sale of large diameter steel mill rollers and large cast steel articles
Dexin Holdings Pte Ltd ^(d)	Singapore	100	-	100	-	Investment holding
<u>Held by Dexin Holdings Pte Ltd</u>						
Dexin Holdings Cambodia Pte Ltd ^{(a)(d)}	Cambodia	100	-	100	-	Investment in steel-related project
<u>Held by Delong Steel Limited</u>						
Tianjin Qiruicheng International Trading Co., Ltd ^(c)	PRC	100	100	100	100	Investment in resource-related projects and trading in steel and steel-related products
<u>Held by Tianjin Qirucheng International Trading Co., Ltd</u>						
Laiyuan County Aoyu Steel Co., Ltd ^{(e)(c)}	PRC	80	-	80	-	Production and sales of steel billets

(a) Not required to be audited under the laws of the country of incorporation.

(b) Audited by Deloitte & Touche LLP, Singapore.

(c) Audited by overseas practices of Deloitte Touche Tohmatsu Limited for consolidation purpose.

(d) Incorporated during the year.

(e) During the financial year, Laiyuan County Aoyu Steel Co., Ltd was acquired pursuant to a conditional cash offer (Note 24).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Prepaid leases RMB'000	Leasehold buildings RMB'000	Plant and equipment RMB'000	Motor vehicles and others RMB'000	Construction -in-progress RMB'000	Total RMB'000
Group						
<i>Cost</i>						
At January 1, 2011	72,953	945,306	3,223,103	88,996	362,163	4,692,521
Additions	-	108	5,893	19,270	183,063	208,334
Disposals	-	(1,430)	(6,989)	(9,552)	-	(17,971)
Transfers in (out)	-	105,682	329,451	10	(435,143)	-
At December 31, 2011	72,953	1,049,666	3,551,458	98,724	110,083	4,882,884
Additions	2,670	5,903	32,494	47,848	112,172	201,087
Adjustment (a)	-	-	(46,993)	-	-	(46,993)
Acquired on acquisition of a subsidiary	68,627	69,341	800,821	10,087	3,312	952,188
Disposals	-	(1,338)	(7,252)	(10,217)	-	(18,807)
Transfers in (out)	-	77,960	43,950	-	(121,910)	-
At December 31, 2012	144,250	1,201,532	4,374,478	146,442	103,657	5,970,359
<i>Accumulated depreciation</i>						
At January 1, 2011	12,452	236,121	1,313,107	51,577	-	1,613,257
Charge for the year	1,691	44,231	292,870	12,451	-	351,243
Disposals	-	(1,397)	(6,261)	(7,265)	-	(14,923)
At December 31, 2011	14,143	278,955	1,599,716	56,763	-	1,949,577
Charge for the year	3,801	14,783	407,793	13,521	-	439,898
Acquired on acquisition of a subsidiary	6,718	16,247	358,480	4,437	-	385,882
Disposals	-	(567)	(2,826)	(7,066)	-	(10,459)
At December 31, 2012	24,662	309,418	2,363,163	67,655	-	2,764,898
<i>Accumulated impairment</i>						
At January 1, 2011	-	-	40,985	-	-	40,985
Charge for the year	-	4,613	12,504	-	303	17,420
At December 31, 2011	-	4,613	53,489	-	303	58,405
Charge for the year	-	-	49,220	-	-	49,220
At December 31, 2012	-	4,613	102,709	-	303	107,625
<i>Carrying amounts</i>						
At December 31, 2011	58,810	766,098	1,898,253	41,961	109,780	2,874,902
At December 31, 2012	119,588	887,501	1,908,606	78,787	103,354	3,097,836

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Office renovation RMB'000	Office equipment RMB'000	Total RMB'000
Company			
<i>Cost</i>			
At January 1, 2011	428	172	600
Additions	-	-	-
At December 31, 2011	428	172	600
Additions	-	70	70
At December 31, 2012	428	242	670
<i>Accumulated depreciation</i>			
At January 1, 2011	428	98	526
Charge for the year	-	17	17
At December 31, 2011	428	115	543
Charge for the year	-	18	18
At December 31, 2012	428	133	561
<i>Carrying amounts</i>			
At December 31, 2011	-	57	57
At December 31, 2012	-	109	109

(a) This relates to over-accrual of purchase price of plant and equipment in prior years. The purchase price was finalised during the current financial year.

At December 31, 2012, certain property, plant and equipment of the Group with a total carrying amount of approximately RMB1,607.3 million (2011: RMB1,436.8 million), are pledged as security for certain bank borrowings (Note 20(a)).

17. INTANGIBLE ASSETS

	Customer Relationship RMB'000
Group	
<i>Cost</i>	
Arising from acquisition of a subsidiary and as at December 31, 2012	28,800
<i>Accumulated amortisation</i>	
Amortisation for the period and as at December 31, 2012	4,320
<i>Carrying amount</i>	
At December 31, 2012	24,480

The intangible asset acquired during the acquisition of a subsidiary (Note 24) is amortised over five years.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

18. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior reporting periods:

	Tax losses RMB'000	Inventory write-down RMB'000	Impairment RMB'000	Unutilised capital allowances RMB'000	Unremitted profits RMB'000	Revaluation of assets RMB'000	Total RMB'000
At January 1, 2011	7,016	3,383	10,246	18,082	(22,889)	-	15,838
Credited (Charged) to profit or loss	(7,016)	(3,383)	3,750	1,009	-	-	(5,640)
At December 31, 2011	-	-	13,996	19,091	(22,889)	-	10,198
Arising from acquisition of a subsidiary (Note 24)	-	-	-	-	-	(31,762)	(31,762)
Credited (Charged) to profit or loss	-	-	(13,996)	(4,563)	-	8,491	(10,068)
At December 31, 2012	-	-	-	14,528	(22,889)	(23,271)	(31,632)

There is no deferred tax recognised by the Company.

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 statements of financial position as follows:

Certain deferred tax assets and liabilities have been offset in accordance with the Group accounting policy. The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	Group	
	2012	2011
	RMB'000	RMB'000
Deferred tax liabilities	46,160	22,889
Deferred tax assets	(14,528)	(33,087)
	31,632	(10,198)

Subject to the agreement by the tax authorities, at the end of the reporting period, one of the Group's subsidiaries has unutilised tax losses of RMB141.4 million (2011: RMB95.6 million) available for offset against future profits. No deferred tax asset has been recognised in respect of this due to unpredictability of future profit streams. The tax losses expire five years from December 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

19. TRADE AND OTHER PAYABLES

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables to third parties	746,705	690,229	-	-
VAT and other taxes payable	96,905	65,811	-	-
Payable to contractors for construction				
- in-progress	39,501	105,460	-	-
Advances from customers	532,772	410,628	-	-
Other accrual for operating expenses	4,996	44,965	3,060	4,412
Accrual for interest expense	7,027	33,559	-	-
Accrual for staff cost	37,820	18,503	-	-
Deposits from staff and workers	75	1,276	-	-
Due to non-controlling shareholder ^(a)	147,235	-	-	-
Due to directors (non-trade) ^(b)	2,468	659	2,468	659
Deferred income	8,512	10,177	-	-
Rental from customers	13,196	9,905	-	-
Other payables	111,293	18,023	4,245	7,027
	1,748,505	1,409,195	9,773	12,098

^(a) The amount due to a non-controlling shareholder is unsecured, bears an average interest rate of 6.28% per annum and repayable in 2013.

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

The average credit period on purchases of goods is 60 days (2011: 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

20. BORROWINGS AND NOTES PAYABLES

	<u>Group</u>		<u>Company</u>	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
<i>Current</i>				
Notes payables	295,800	390,000	-	-
Finance lease liabilities ^(c)	11	15	11	15
Bank borrowings				
- Unsecured	-	-	-	-
- Secured ^(a)	800,189	1,078,353	34,434	34,755
- Guaranteed ^(b)	1,173,277	1,157,931	122,980	-
	2,269,277	2,626,299	157,425	34,770
<i>Non-current</i>				
Finance lease liabilities ^(c)	40	46	40	46
Bank borrowings				
- Unsecured	23,682	19,410	-	-
- Secured ^(a)	229,802	249,022	103,303	139,021
- Guaranteed ^(b)	-	100,000	-	-
	253,524	368,478	103,343	139,067
Total borrowings	2,522,801	2,994,777	260,768	173,837

(a) Security granted

As at December 31, 2012 and 2011, the Group's bank loans were secured by certain property, plant and equipment (Note 16). One of the Company's bank loans was secured by the Company's shares held by the holding company.

(b) Credit risk

The bank loans were guaranteed by third parties, and Mr Ding Liguu, a director of the Company. In return, the Group has provided guarantees to banks for borrowings of these third parties as at December 31, 2012 and 2011 (see Note 34).

(c) Minimum lease payments

	<u>Group & Company</u>			
	Minimum lease payments		Present value of minimum lease payments	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within one year	15	15	11	15
In the second to fifth years inclusive	39	54	40	46
	54	69	51	61
Less: future finance charges	(3)	(8)	-	-
Present value of lease obligations	51	61	51	61
Less: Amount due for settlement within 12 months (shown under current liabilities)			(11)	(15)
Amount due for settlement after 12 months			40	46

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

21. CONVERTIBLE BONDS

On June 8, 2007, the Company issued zero coupon convertible bonds denominated in RMB with a nominal value of RMB1,532,000,000, which were due for repayment on June 8, 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 22) at fair value of RMB218,471,000.
- (c) Issue of Convertible Bonds with a nominal value of RMB158,900,000.

The Convertible Bonds were denominated in RMB with a nominal value of RMB158.9 million and bore coupon interest at 5% per annum. Interest was computed and payable semi-annually on June 30 and December 31, commencing June 30, 2010. The Convertible Bonds were due for repayment on June 8, 2012 and convertible at the option of the holders, at any time from December 10, 2009 to June 1, 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 June 8, 2012.

The Convertible Bonds were fully redeemed at the nominal value of the principal outstanding on June 8, 2012.

- (d) Issue of Convertible Bonds (Restricted) with a nominal value of RMB734,400,000 which were fully redeemed in December 2010.

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

	Convertible Bond	
	2012	2011
	RMB'000	RMB'000
Group and Company		
Beginning of financial year	151,453	141,617
Amortisation of interest expense	7,255	17,580
Repayment of principal	(155,300)	-
Payment of interest	(3,408)	(7,744)
End of financial year	-	151,453

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

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Beginning of financial year	1	12,370
Gain on change in fair value	(1)	(12,369)
End of financial year	-	1

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

21. CONVERTIBLE BONDS (cont'd)

The fair value of the liability component of the convertible bonds, which was not actively traded, was approximately RMB150,634,331 as at December 31, 2011, based on cash flows discounted at an effective interest rate of 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 end of the reporting period.

22. CONVERTIBLE SHARES

On restructuring of the Old Convertible Bonds (Note 21), the Company issued 43,534,458 Convertible Shares at S\$0.9211 per share which rank pari passu in all respects with the ordinary shares except as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

22. CONVERTIBLE SHARES (cont'd)

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

	Group and Company	
	2012	2011
	RMB'000	RMB'000
<i>Non-derivative liability component</i>		
At beginning of year	102,949	98,616
Amortisation of interest expense	12,947	11,941
Conversion into new ordinary shares	(775)	(738)
Currency realignment adjustment	5,834	(6,870)
At end of year	120,955	102,949
<i>Derivative liability component</i>		
At beginning of year	1,758	22,608
Gain on change in fair value during the financial year	(910)	(20,738)
Conversion into new ordinary shares	(11)	(112)
At end of year	837	1,758
Total carrying amount of Convertible Shares at end of year	121,792	104,707
Analysed as:		
Current	60,896	-
Non-current	60,896	104,707
	121,792	104,707

The fair value of the non-derivative liability component of the Convertible Shares, which are not actively traded, was approximately RMB116,368,380 (2011: RMB100,149,867) as at December 31, 2012, based on cash flows discounted at an effective interest rate of 11.4% (2011: 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 end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

23. SHARE CAPITAL

	Group and Company		Group		Company	
	2012	2011	2012	2011	2012	2011
	Number of ordinary shares		RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the financial year	550,157	549,853	404,361	403,511	2,110,197	2,109,347
Issue of shares pursuant to conversion of convertible bonds and convertible shares	281	304	786	850	786	850
At end of the financial year	550,438	550,157	405,147	404,361	2,110,983	2,110,197

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the Company. The newly issued shares rank pari passu in all respect with the previously issued shares.

24. ACQUISITION OF A SUBSIDIARY

On March 31, 2012, the Group acquired 80% of the issued capital of Laiyuan County Aoyu Steel Co., Ltd ("Aoyu Steel") for cash consideration of RMB285.3 million (the "Acquisition"). The transaction has been accounted for by the acquisition method of accounting.

Details of the purchase consideration, the assets acquired and liabilities assumed, the non-controlling interests recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:-

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	13,220	-	13,220
Property, plant and equipment	467,608	98,698	566,306
Investment in a subsidiary (Note A)	900	1,800	2,700
Inventories	180,660	1,117	181,777
Trade and other receivables	280,125	(6,131)	273,994
Intangible assets	-	28,800	28,800
Trade and other payables	(245,928)	-	(245,928)
Borrowings and notes payable	(329,900)	2,765	(327,135)
Deferred tax liabilities	-	(31,762)	(31,762)
Current tax liabilities	(10,044)	-	(10,044)
Non-controlling interests	(90,385)	-	(90,385)
Net assets acquired	266,256	95,287	361,543
Negative goodwill			(76,230)
Total purchase consideration			285,313
Cash and cash equivalents acquired			(13,220)
Cash outflow on acquisition, net of cash acquired			272,093

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

24. ACQUISITION OF A SUBSIDIARY (cont'd)

The vendor, Hebei Aowei Group Co., Ltd. ("Hebei Aowei") was keen to divest its non-core business. The management and directors believe that the acquisition of Aoyu Steel is a bargain purchase given that the median historical price to earnings ratio of comparable peer companies approximates to 8 times the earnings while the Group's overall purchase consideration in gross 100% basis approximates to 3 times Aoyu Steel's net profit for year 2011. The acquisition thus resulted in a negative goodwill of RMB76,230,000.

In accordance with the sales and purchase agreement, within three years from March 31, 2012 and subject to Aoyu Steel keeping its business registration and continuous production, the Group shall acquire the remaining 20% equity interest ("Balance Equity") from Hebei Aowei on the terms and conditions as agreed upon. The purchase consideration payable for the remaining 20% will be calculated based on the unaudited net assets of Aoyu Steel at the time of acquisition of the Balance Equity but not lower than the proportionate share of the first purchase consideration of RMB285.3 million. As at December 31, 2012, the purchase consideration payable and capital reserve recorded are RMB110,125,000 and RMB90,385,000 respectively.

Included in the profit for the year is RMB122.9 million attributable to the additional business generated by Aoyu Steel. Revenue for the period from April 1, 2012 to December 31, 2012 Aoyu Steel amounted to RMB2,677.4 million. Had Aoyu Steel been consolidated from January 1, 2012, consolidated revenue and consolidated profit for the year ended December 31, 2012 would have been RMB14,227.2 million and RMB403.6 million respectively.

Note A - At March 31, 2012, Aoyu Steel had a wholly-owned subsidiary, Laiyuan County Butai Mining Co, Ltd ("Butai"). Management had not attributed any value to Butai in acquiring Aoyu Steel as Butai's business is not synergistic to that of the Group. In June 2012, management disposed Butai for RMB2.7 million to an independent third party.

25. RESERVES

Capital reserve

Capital reserve amounting to RMB249,218,000 comprises the equity component of the Old Convertible Bonds (Note 21) issued in June 2007. The Old Convertible Bonds were extinguished in November 2009.

Capital reserve (presented alongside with non-controlling interests) amounting to RMB90,385,000 at December 31, 2012 pertains to forward purchase consideration for the remaining non-controlling interests of a subsidiary (Note 24) at the date of acquisition.

Statutory reserve

The subsidiaries in the People's Republic of China ("PRC") are required to provide for certain statutory reserve fund, which are appropriated from net profit after tax (based on the financial statements prepared in accordance with the generally accepted accounting principles of the PRC) but before dividend distribution. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital.

Retained earnings

As at December 31, 2012, approximately RMB126,974,000 (2011: RMB126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Reverse Acquisition (Note 2).

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

26. REVENUE

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Sale of goods	13,279,883	10,442,578

27. OTHER INCOME

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Government grants	18,978	5,274
Finance lease income	8,572	15,657
Dividend income	2,031	-
Interest income		
- bank deposits	30,601	22,405
- amount due from an investee company	1,778	1,778
- entrusted loans to third parties (Note 13)	12,635	2,015
- held-to-maturity financial assets (Note 9)	2,475	-
Rental income from investment property	-	1,579
	77,070	48,708

During the financial year ended December 31, 2011, an investment property amounting to RMB15.4 million was disposed for a sales consideration of RMB29.1 million.

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

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

The following amount was recognised in profit or loss:

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Rental income	-	1,579
Direct operating expenses arising from investment property that generated rental income	-	797

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

28. OTHER (LOSSES) GAINS - NET

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Gain on disposal of financial assets at fair value through profit or loss – net	59	15
Fair value loss on financial assets at fair value through profit or loss	90	(427)
Gain on disposal of investment property	-	13,704
Loss on disposal of property, plant and equipment	(8,348)	(3,048)
Impairment charges on property, plant and equipment (Note 16)	(49,220)	(17,420)
Net foreign exchange gain	3,038	22,458
Fair value gain on convertible bonds (Note 21)	1	12,369
Fair value gain on convertible shares (Note 22)	910	20,738
Fair value changes on purchase consideration payable (Note 24)	(19,740)	-
Others	6,922	11,303
	(66,288)	59,692

29. EXPENSES BY NATURE

Cost of sales, distribution and marketing and administrative expenses has been arrived at after charging:-

	<u>Group</u>	
	2012 RMB'000	2011 RMB'000
Raw materials, finished goods and consumables	10,831,909	8,977,752
Changes in inventories of raw materials, work-in-progress and finished goods	467,779	35,964
Depreciation of property, plant and equipment (Note 16)	439,898	351,243
Depreciation of investment property	-	224
Total depreciation	439,898	351,467
Amortisation of intangible assets	4,320	-
Allowance for inventories	20,298	3,020
Staff costs	344,069	189,787
Rental on operating leases	2,682	694
Repairs and maintenance	192,220	10,171

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

30. FINANCE COSTS

	<u>Group</u>	
	2012	2011
	RMB'000	RMB'000
Interest expense		
- bank borrowings	146,176	83,696
- finance lease liabilities	3	4
- convertible bonds	7,256	17,580
- convertible shares	12,947	11,941
- loan to non-controlling shareholder (Note 5b)	6,943	-
Bills discounting charges – net	26,123	65,169
Bank charges	22,583	37,455
	<u>222,031</u>	<u>215,845</u>

31. INCOME TAX EXPENSES

	<u>Group</u>	
	2012	2011
	RMB'000	RMB'000
Tax expense is made up of:		
Current tax:		
- Singapore	3,123	-
- Foreign	112,791	26,096
Deferred tax	(6,618)	(4,757)
	<u>109,296</u>	<u>21,339</u>
Adjustment in respect of the preceding financial years		
Current income tax	207	90
Deferred income tax	16,686	10,397
	<u>126,189</u>	<u>31,826</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

31. INCOME TAX EXPENSES (cont'd)

The Group's operations are mainly in the People's Republic of China ("PRC"). The tax expense on the profit differs from the amount that would arise using the PRC income tax rate of 25% (2011: 25%) due to the following:

	Group	
	2012	2011
	RMB'000	RMB'000
Profit before tax	350,705	19,754
Tax calculated at tax rate of 25% (2011: 25%)	87,676	4,938
Effects of:		
Different tax rates in other countries	443	2,065
Expenses not deducted for tax	9,085	9,082
Income not subject to tax	-	(2,327)
Effect of deferred tax assets not recognised	11,459	7,650
Statutory stepped income exemption in Singapore	(130)	(69)
Others	763	-
Tax charge	109,296	21,339

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

32. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	Group	
	2012	2011
	RMB'000	RMB'000
<u>Depreciation and amortisation:</u>		
Depreciation of property, plant and equipment	439,898	351,467
Amortisation of intangible assets	4,320	-
Directors' remuneration:		
- of the Company	1,119	1,144
- of the subsidiaries	2,934	2,835
Total directors' remuneration	4,053	3,979
Audit fees:		
- paid to auditors of the Company	2,498	1,855
Non-audit fees:		
- paid to other auditors	712	307

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

33. EARNINGS (LOSSES) PER SHARE

The following data are used in computing basic and fully diluted (losses) earnings per share disclosed in the consolidated statement of comprehensive income.

(a) Basic earnings (losses) per share

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

	2012	2011
Net profit (loss) attributable to equity holders of the Company (RMB'000)	<u>204,776</u>	<u>(12,072)</u>
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	<u>550,207</u>	<u>550,080</u>
Basic earnings (losses) per share (RMB)	<u>0.37</u>	<u>(0.02)</u>

(b) Diluted earnings (losses) per share

For the purpose of calculating diluted earnings (losses) per share, net profit (loss) 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 (loss) is adjusted to eliminate the interest expense and the fair value gain on the derivative liability component.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

33. EARNINGS (LOSSES) PER SHARE (cont'd)

	Group	
	2012	2011
	RMB'000	RMB'000
Net profit (loss) attributable to equity holders of the Company	204,776	(12,072)
Interest expense on convertible bonds and convertible shares	12,947	11,850
Currency translation gain on convertible shares	5,834	(6,819)
Fair value gain on derivative liability component of convertible bonds and convertible shares	(910)	(20,581)
Net profit (loss) used to determine diluted earnings per share	222,647	(27,622)
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	550,207	550,080
Adjustments for assumed conversion of convertible bonds and convertible shares ('000)	29,369	29,650
Weighted average number of ordinary shares for diluted earnings per share ('000)	579,576	579,730
Diluted earnings (losses) per share (RMB)	0.38*	(0.05)*

* The computation of diluted earnings (losses) per share does not assume the conversion of the Company's outstanding convertible shares as their assumed conversion would increase the earnings (losses) per share for 2012 and 2011 respectively.

34. CONTINGENT LIABILITIES

As at December 31, 2012, guarantees given to banks by the Group in respect of bank loans granted to third parties amounted to approximately RMB841.5 million (2011: RMB229.3 million). In return, guarantees are obtained from these third parties for the Group's borrowings (Note 20).

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 December 31, 2012 and 2011, there was no guarantee given to banks by the Company in respect of bank loans granted to subsidiaries.

35. DIVIDENDS

The company does not recommend that a dividend be paid for the year ended December 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

36. CAPITAL COMMITMENTS

Capital expenditures contracted for at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment	308,455	141,070

37. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	Group	
	2012	2011
	RMB'000	RMB'000
Payment recognised as an expense during the year	2,682	694

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	901	-
In the second to fifth years inclusive	536	-
After five years	-	-

38. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a new wholly-owned subsidiary was incorporated in the People's Republic of China with a registered capital of RMB20 million and is principally engaged in the technology development, service, advisory and investments.

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

39. SEGMENT INFORMATION

The Group is primarily operating in one single operating segment i.e. the manufacture and sale of hot-rolled steel coils and billet. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the executive directors of the Group who are the chief operating decision makers. Substantially all the Group's operations were carried out in the People's Republic of China. No other individual country contributed 10% or more of the consolidated sales and assets, and no single customer contributed 10% or more of the consolidated revenue.

Other operations of the Group, including investment holding and finance leasing, do not constitute a separate reportable segment and are included in the "Other" column.

The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in Note 2 to the financial statements.

The segment information for the reportable segments for the year ended December 31, 2012 is as follows:

	Manufacturing RMB'000	Other RMB'000	Total RMB'000
2012			
REVENUE			
External Sales	16,469,450	-	16,469,450
Inter-segment sales	(3,189,567)	-	(3,189,567)
Sales to external parties	13,279,883	-	13,279,883
Adjusted EBITDA*	964,136	30,731	994,867
Depreciation and amortisation	(444,165)	(53)	(444,218)
Impairment charge for property, plant and equipment	(49,220)	-	(49,220)
Unallocated:			
Finance costs			(222,031)
Negative goodwill			76,230
Gain on change in fair value of convertible bonds			1
Gain on change in fair value of convertible shares			910
Currency exchange gain on convertible shares			(5,834)
Profit before income tax			350,705
Total assets	6,867,012	356,059	7,223,071
Total assets includes:			
Additions to property, plant and equipment	200,754	333	201,087
Total liabilities	4,195,415	423,846	4,619,261

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

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

39. SEGMENT INFORMATION (cont'd)

	Manufacturing RMB'000	Other RMB'000	Total RMB'000
2011			
REVENUE			
External Sales	10,462,153	-	10,462,153
Inter-segment sales	(19,575)	-	(19,575)
Sales to external parties	10,442,578	-	10,442,578
Adjusted EBITDA*	567,750	(3,241)	564,509
Depreciation	(351,226)	(241)	(351,467)
Impairment charge for property, plant and equipment	(17,420)	-	(17,420)
Unallocated:			
Finance costs			(215,845)
Gain on change in fair value of convertible bonds			12,369
Gain on change in fair value of convertible shares			20,738
Currency exchange loss on convertible shares			6,870
Profit before income tax			<u>19,754</u>
Total assets	<u>6,606,010</u>	<u>498,554</u>	<u>7,104,564</u>
Total assets includes:			
Additions to property, plant and equipment	208,334	-	208,334
Total liabilities	<u>4,247,200</u>	<u>465,487</u>	<u>4,712,687</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 December 2012

40. RECLASSIFICATIONS AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

As a result, certain line items have been amended in the statement of financial position and consolidated statement of comprehensive income and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

The items reclassified were as follows:

	<u>Group</u>	
	Previously reported RMB'000	After reclassification RMB'000
<hr/>		
<u>Statement of financial position</u>		
Other assets – current	506,858*	475,073
Other assets – non current	-	31,785

* Amount is after adjustment of prior year adjustment of RMB11 million as detailed in Note A to the statement of changes in equity of the Group.

	<u>Group</u>	
	Previously reported RMB'000	After reclassification RMB'000
<hr/>		
<u>Consolidated statement of comprehensive income</u>		
Cost of sales	10,157,222	10,139,802
Other (losses) gains - net	77,112	59,692

Included in the cost of sales in prior year is an impairment charge for property, plant and equipment of RMB17,420,000 which was reclassified to "Other (losses) gains - net" to conform to the current year's presentation.

STATISTICS OF SHAREHOLDINGS

As At 18 March 2013

Authorised and fully paid-up capital	:	2,110,983,016
No. of Shares issued	:	550,437,849
Voting Rights	:	1 Vote per share
Class of shares	:	Ordinary shares
Treasury shares	:	NIL

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	656	28.68	252,377	0.05
1,000 - 10,000	1,178	51.51	4,961,211	0.90
10,001 - 1,000,000	441	19.28	25,107,159	4.56
1,000,001 and above	12	0.53	520,117,102	94.49
TOTAL	2,287	100.00	550,437,849	100.00

Top Twenty Shareholders	No. of Shares	%
CIMB Securities (Singapore) Pte Ltd	261,205,502	47.45
Best Decade Holdings Limited	60,000,000	10.90
Merrill Lynch (Singapore) Pte Ltd	53,562,392	9.73
HSBC (Singapore) Nominees Pte Ltd	45,175,990	8.21
Raffles Nominees (Pte) Ltd	37,044,000	6.73
DBS Nominees Pte Ltd	33,993,352	6.17
Phillip Securities Pte Ltd	11,326,300	2.06
Citibank Nominees Singapore Pte Ltd	6,141,346	1.12
Inaya Limited	5,000,000	0.91
AGC Asia 2 Ltd	3,000,000	0.54
Morgan Stanley Asia (Singapore) Securities Pte Ltd	2,330,470	0.42
UOB Kay Hian Pte Ltd	1,337,750	0.24
Teo Chee Kok	915,000	0.17
United Overseas Bank Nominees Pte Ltd	754,653	0.14
OCBC Securities Private Ltd	619,425	0.11
Maybank Kim Eng Securities Pte Ltd	542,300	0.10
Yong Foong Yee	527,000	0.10
Singapore Nominees Pte Ltd	500,000	0.09
Bank of Singapore Nominees Pte Ltd	487,000	0.09
Shane Tang	397,000	0.07
	524,859,480	95.35

STATISTICS OF SHAREHOLDINGS

As At 18 March 2013

Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Best Decade Holding Limited	320,817,502 ⁽¹⁾	58.28	-	-
Golden Top Group Limited	-	-	320,817,502 ⁽²⁾	58.28
Ding Ligu	-	-	320,817,502 ⁽³⁾	58.28
Zhao Jing	-	-	320,817,502 ⁽³⁾	58.28
Evrax S.A Group	53,557,498 ⁽⁵⁾	9.73	29,296,500 ⁽⁴⁾	5.32
Mastercraft Limited	29,296,500 ⁽⁵⁾	5.32	-	-

Notes:

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

Public Shareholding

Based on the register of shareholdings and to the best of the Company, as at 18 March 2013, 26.67% 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 Capital Tower, 168 Robinson Road, Level 9, Singapore 068912 on Tuesday, 30 April 2013, 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 2012 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 Liguao (Retiring under Article 89) **(Resolution 2)**
Mr. Hee Theng Fong (Retiring under Article 89) **(Resolution 3)**

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

Mr. Bai Baohua will, upon re-appointment as Director of the Company, remain as member of the Audit Committee and Chairman of the Nominating Committee and Remuneration Committee, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
4. To approve the payment of Directors' fees of RMB 1,398,740 for the financial year ended 31 December 2012. (2011: RMB1,583,840) **(Resolution 5)**
5. To re-appoint Messrs Deloitte & Touche LLP as the Independent Auditor of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**
6. To transact any other business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

BY ORDER OF THE BOARD

Yeo Lee Luang

Company Secretary
Singapore, 15 April 2013

EXPLANATORY NOTE:-

The Ordinary Resolution proposed in item 7 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting, to issue shares and convertible securities in the Company up to an amount not exceeding in total fifty per cent (50%) of the total number of issued shares excluding treasury shares in the capital of the Company of which the aggregate number of shares to be issued other than on a pro rata basis to all existing shareholders of the Company shall not exceed 20% of the total number of issued shares excluding treasury shares in the capital of the Company.

NOTES:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.
2. A proxy need not be a member of the Company.
3. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
4. The instrument appointing a proxy must be deposited at the registered office of the Company at One Finlayson Green, #06-03, Singapore 049246 not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

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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 Capital Tower, 168 Robinson Road, Level 9, Singapore 068912 on Tuesday, 30 April 2013, 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 2012		
2	Re-election of Mr Ding Liguo as a Director		
3	Re-election of Mr Hee Theng Fong as a Director		
4	Re-appointment of Mr Bai Baohua as a Director		
5	Approval of Directors' fees amounting to RMB1,398,740		
6	Re-appointment of Messrs Deloitte & Touche LLP as Auditors		
7	Authority to allot and issue new shares		

* Delete accordingly

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

Dated this _____ day of _____ 2013.

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

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

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 One Finlayson Green, #06-03, Singapore 049246 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.