



德龙控股
DELONG HOLDINGS

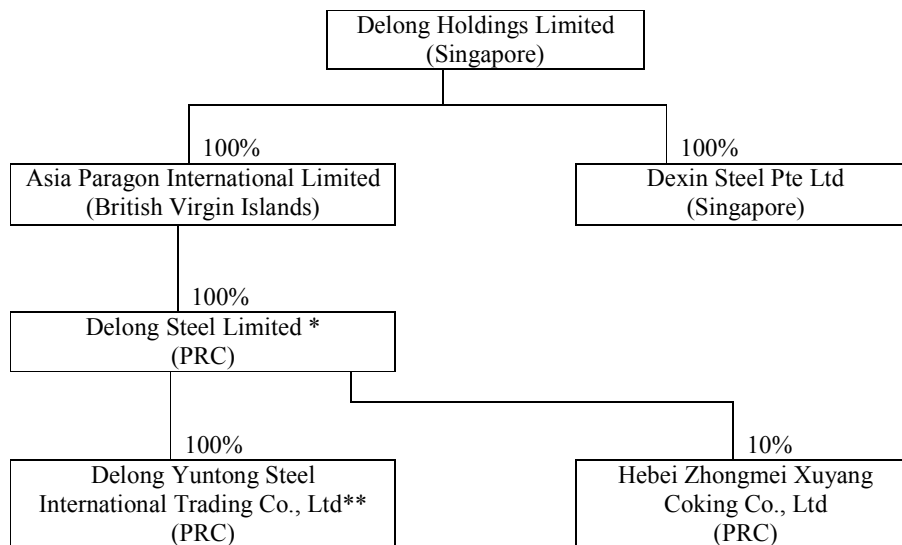
DELONG HOLDINGS LIMITED

(REG. NO. 199705215G)

UNAUDITED SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2006

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF – YEAR AND FULL RESULTS

Corporate Structure



* Effective 1 January 2005, Delong Steel Limited (“Delong Steel”), a wholly foreign-owned enterprise (“WFOE”) established under the laws of the People’s Republic of China (“PRC”), is entitled to a two-year full exemption followed by a three-year 50% tax deduction for PRC enterprise income tax commencing from the first year of taxable income.

** Delong Yuntong Steel International Trading Co., Limited (“Delong Yuntong”), a local PRC enterprise, does not qualify for tax exemption status under Income Tax Law of the PRC.

- 1(a) **An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

		The Group					
		2 nd Quarter Ended		Increase	Half Year Ended		Increase
		30/06/2006	30/06/2005	(Decrease)	30/06/2006	30/06/2005	(Decrease)
Note		S\$'000	S\$'000	%	S\$'000	S\$'000	%
	Sales	265,758	237,733	11.8	471,869	461,618	2.2
	Cost of sales	(208,922)	(180,049)	16.0	(395,226)	(351,947)	12.3
	Gross Profit	56,836	57,684	(1.5)	76,643	109,671	(30.1)
	Other gains/(losses)						
	-Miscellaneous	600	977	(38.6)	2,224	1,884	18.0
	-Exceptional items	-	(322)	n.m	-	(12,786)	n.m.
	Expenses						
	-Distribution and marketing	(1,892)	(900)	110.2	(3,335)	(2,422)	37.7
	-Administrative	(5,540)	(3,736)	48.3	(8,622)	(5,695)	51.4
	-Finance	(2,601)	(1,926)	35.0	(4,567)	(3,734)	22.3
	-Others	(1,335)	(50)	n.m	(1,318)	(311)	323.8
	Profit before tax	46,068	51,727	(10.9)	61,025	86,607	(29.5)
	Income tax credit	31	-	n.m	31	-	n.m
	Profit after tax	46,099	51,727	(10.9)	61,056	86,607	(29.5)

n.m: Not meaningful

Notes:-

1 Other miscellaneous gains:

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	S\$'000	S\$'000	S\$'000	S\$'000
Sale of scrap materials	-	263	210	596
Government grants	-	245	1,017	532
Interest income	490	327	756	478
Rental income from investment property	99	72	198	180
Others	11	70	43	98
	600	977	2,224	1,884

2 Exceptional items

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	S\$'000	S\$'000	S\$'000	S\$'000
Impairment of goodwill on the acquisition of the Company by Asia Paragon ("Acquisition")	-	-	-	11,941
Expenses relating to the Acquisition	-	322	-	845
	-	322	-	12,786

3. Profit before taxation includes the following items:-

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	S\$'000	S\$'000	S\$'000	S\$'000
Depreciation and amortization	6,284	4,646	11,665	9,057
Staff costs	4,929	3,122	8,391	5,977
Operating lease rental	187	36	285	71

4. Income Tax Credit

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	S\$'000	S\$'000	S\$'000	S\$'000
Tax expense attributable to profit is made up of:				
Current income tax				
-Foreign *	(87)	-	(87)	-
-Local**	-	-	-	-
(Underprovision)/ Overprovision in preceding financial years				
-deferred income tax	140	-	140	-
-Income tax	(22)	-	(22)	-
	31	-	31	-

*This is related to PRC income tax at a rate of 33% for Delong Yuntong.

**No provision for income tax was provided for Singapore operations during the periods under review as the amount was immaterial.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	The Group		The Company	
	S\$'000		S\$'000	
	As at 30-06-06	As at 31-12-05	As at 30-06-06	As at 31-12-05
Current Assets				
Cash and cash equivalents	31,698	15,279	1,114	9
Bank balances pledged	59,611	17,638	-	-
Trade and other receivables	35,722	48,634	18,078	27,125
Inventories	82,684	72,275	-	-
	209,715	153,826	19,192	27,134
Non-current assets				
Other receivables	-	-	14,507	14,507
Investments in subsidiaries	-	-	372,018	372,018
Available-for-sale financial assets	1,995	2,075	-	-
Investment property	3,366	3,399	-	-
Property, plant and equipment	427,065	356,048	97	93
	432,426	361,522	386,622	386,618
Total assets	642,141	515,348	405,814	413,752
Current liabilities				
Trade and other payables	153,293	143,247	1,753	1,138
Notes payables	65,596	20,793	-	-
Borrowings	142,442	100,615	2	-
Provision for current tax	7,082	21,568	-	7
Total current liabilities	368,413	286,223	1,755	1,145
Non-current liabilities				
Borrowings	8,905	9,921	11	-
Deferred tax liabilities	-	140	-	3
	8,905	10,061	11	3
CAPITAL AND RESERVE:				
Share capital	67,356	58,377	404,000	265,001
Reserves	197,467	160,687	48	147,603
Total equity	264,823	219,064	404,048	412,604
Total liabilities and equity	642,141	515,348	405,814	413,752

1(b)(ii) In relation to the aggregate amount of the Group's borrowings and debts securities, specify the following as at the end of the financial period reported on with comparative figures as at the end of the immediately preceding financial year

Amount repayable in one year or less, or on demand

As at 30-06-2006	As at 31-12-2005
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Secured	Unsecured*	Secured	Unsecured*
S\$'000	S\$'000	S\$'000	S\$'000
123,090	19,352	75,715	24,900

Amount repayable after one year

As at 30-06-2006	As at 31-12-2005
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Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
3,966	4,939	4,164	5,757

Details of any collateral

The Group's borrowings are secured by the following:

- (i) Corporate guarantee by the Company and;
- (ii) Certain property, plant and equipment and investment property of the Group.

* Borrowings amounting to S\$19,352,000 (31 December 2005:S\$24,900,000) were guaranteed by third parties.

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006 S\$'000	30/06/2005 S\$'000	30/06/2006 S\$'000	30/06/2005 S\$'000
Cash flows from operating activities:				
Profit before taxation	46,068	51,727	61,025	86,607
Adjustments for:				
Depreciation	6,284	4,646	11,665	9,057
Impairment of goodwill	-	-	-	11,941
Loss on disposal of property, plant and equipment	-	-	-	8
Interest income	(490)	(243)	(756)	(478)
Interest expense	2,601	1,926	4,567	3,734
	8,395	6,329	15,476	24,262
Operating cash flow before working capital changes	54,463	58,056	76,501	110,869
Bank balances pledged	(31,401)	25,928	(41,973)	22,598
Receivables	54	100,533	12,911	13,757
Inventories	(15,976)	16,262	(10,409)	15,212
Payables	25,939	(111,743)	54,443	(33,079)
	(21,384)	30,980	14,972	18,488
Cash generated from operating activities	33,079	89,036	91,473	129,357
Income tax paid	(9,529)	(3,388)	(14,188)	(3,225)
Exchange differences	842	1,608	1,797	(3,140)
	(8,687)	(1,780)	(12,391)	(6,365)
Net cash generated from operating activities	24,392	87,256	79,082	122,992
Cash flows from investing activities:				
Payment for property, plant and equipment	(55,403)	(59,629)	(96,394)	(75,936)
Proceeds from disposal of property, plant and equipment	-	-	-	71
Interest received	490	243	756	478
Net cash flow on acquisition of subsidiary	-	-	-	442
Net cash used in investing activities	(54,913)	(59,386)	(95,638)	(74,945)
Cash flows from financing activities:				
Proceeds from borrowings	67,052	-	85,401	21,890
Repayment of borrowings	(24,067)	(45,261)	(40,233)	(52,354)
(Decrease)/Increase in amount due to a related party	-	-	-	(21,248)
Proceeds from warrants conversion	148	-	331	-
Proceeds from share placement	-	(12,439)	-	21,074
Expenses for share placement	-	-	-	(718)
Dividend paid	(7,957)	-	(7,957)	-
Interest paid	(2,601)	(1,926)	(4,567)	(3,734)
Net cash generated from/(used in) financing activities	32,575	(59,626)	32,975	(35,090)
Net increase in cash and cash equivalents	2,054	(31,756)	16,419	12,957
Cash and cash equivalents at beginning of the period	29,644	85,757	15,279	41,044
Cash and cash equivalents at end of the period	31,698	54,001	31,698	54,001

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

The Group

	Share capital	Share premium	Translation reserves	Statutory reserves	Retained earnings	Total
	SS'000	SS'000	SS'000	SS'000	SS'000	SS'000
Balance as at 1 January 2006	58,377	8,648	2,378	15,374	134,287	219,064
Issue of shares pursuant to exercise of warrants*	183	-	-	-	-	183
Transfer from/ (to)^	8,648	(8,648)	-	-	-	-
Currency translation differences	-	-	(6,689)	-	-	(6,689)
Net profit for the period	-	-	-	-	14,957	14,957
Balance as at 31 March 2006	67,208	-	(4,311)	15,374	149,244	227,515
Issue of shares pursuant to exercise of warrants*	148	-	-	-	-	148
Currency translation differences	-	-	(982)	-	-	(982)
Dividend paid	-	-	-	-	(7,957)	(7,957)
Net profit for the period	-	-	-	-	46,099	46,099
Balance as at 30 June 2006	67,356	-	(5,293)	15,374	187,386	264,823
Balance as at 1 January 2005						
As previously reported	34,230	-	(29)	2,860	20,446	57,507
Effect of FRS 39	-	-	-	-	4,822	4,822
Restated	34,230	-	(29)	2,860	25,268	62,329
Cost of acquisition of the Company by Asia paragon	12,439	-	-	-	-	12,439
Issue of shares pursuant to share placement	11,708	8,648	-	-	-	20,356
Issue of shares pursuant to exercise of warrants*	**	-	-	-	-	-
Currency translation differences	-	-	538	-	-	538
Net profit for the period	-	-	-	-	34,880	34,880
Balance as at 31 March 2005	58,377	8,648	509	2,860	60,148	130,542
Currency translation differences	-	-	1,663	-	-	1,663
Net profit for the period	-	-	-	-	51,727	51,727
Balance as at 30 June 2005	58,377	8,648	2,172	2,860	111,875	183,932

The Company

	Share capital	Share premium	Retained earnings	Total
	SS'000	SS'000	SS'000	SS'000
Balance as at 1 January 2006	265,001	138,668	8,935	412,604
Issue of shares pursuant to exercise of warrants*	183	-	-	183
Transfer from/ (to)^	138,668	(138,668)	-	-
Net loss for the period	-	-	(529)	(529)
Balance as at 31 March 2006	403,852	-	8,406	412,258
Issue of shares pursuant to exercise of warrants*	148	-	-	148
Dividend paid	-	-	(7,957)	(7,957)
Net loss for the period	-	-	(401)	(401)
Balance as at 30 June 2006	404,000	-	48	404,048
Balance as at 1 January 2005				
Issue of shares pursuant to the Acquisition	8,293	7,520	(15,722)	91
Issue of shares pursuant to share placement	245,000	122,500	-	367,500
Issue of shares pursuant to exercise of warrants*	11,708	8,648	-	20,356
Issue of shares pursuant to exercise of warrants*	**	-	-	-
Net loss for the period	-	-	(884)	(884)
Balance as at 31 March 2005	265,001	138,668	(16,606)	387,063
Net loss for the period	-	-	(675)	(675)
Balance as at 30 June 2005	265,001	138,668	(17,281)	386,388

Notes:-

- * The Company issued 2,964,500 ordinary shares at S\$0.05 per share pursuant to the exercise of warrants for the period ended 30 June 2006("2Q2006").
- ** less than S\$1,000.
- ^ Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital are abolished and the amount in the share premium account as of 30 January 2006 is required to become part of the company's share capital.

1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

Changes in the Share Capital of the Company for 2nd Quarter Ended	30-06-06	30-06-05
Number of ordinary shares at 1 April	5,303,655,500	5,300,002,500
Shares arising from exercise of warrants	2,964,500	500
Number of ordinary shares at 30 June	5,306,620,000	5,300,003,000

Outstanding Warrants as at	30-06-06	30-06-05
Outstanding warrants that are convertible into ordinary shares	49,129,985	55,746,985

The Company issued 2,964,500 ordinary shares at S\$0.05 per share pursuant to the exercise of warrants in 2Q2006.

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)

The figures have not been audited nor reviewed by our auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

The figures have not been audited nor reviewed by our auditors.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

The Group has followed the same accounting policies and methods of computation in the financial statements for the current period with those adopted in the most recent audited financial statements for the year ended 31 December 2005, except where revised accounting standards became effective from this financial year.

The adoption of the following revised Financial Reporting Standards ("FRS") does not have any significant impact on the Group's financial results.

- FRS 39- Financial Instruments: Recognition and Measurement
- FRS 21- The Effects of Changes in Foreign Exchange Rates

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Not Applicable.

6. **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividend**

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	S\$'000	S\$'000	S\$'000	S\$'000
Net profit for the period	46,099	51,727	61,056	86,607
Basic earnings per share (in cents)	0.87	0.98	1.15	1.66
Diluted earnings per share (in cents)	0.86	0.97	1.14	1.65
Weighted average no. of shares outstanding for basic earnings per share	5,305,709,306	5,300,002,739	5,303,152,608	5,214,146,853
Weighted average no. of shares outstanding for diluted earnings per share	5,334,783,616	5,332,541,154	5,332,370,951	5,244,759,940

Explanatory Notes:

Basic earnings per share is calculated based on the weighted average number of shares in issue during the period under review.

Diluted earnings per share is calculated based on the same basis as earnings per share by applying the weighted average number of shares in issue during the period under review, after adjusting to include the dilutive effect of the outstanding warrants as at 30 June.

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	The Group		The Company	
	30/06/2006	30/12/2005	30/06/2006	31/12/2005
Net Asset Value per share (cents)	4.99	4.13	7.61	7.78

Net asset value per share for the Group and Company is calculated based on 5,306,620,000 ordinary shares in issue at the end of the financial period under review and 5,300,005,500 ordinary shares in issue at the end of the immediate preceding financial year ended 31 December 2005.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

The Group's core business, conducted through Delong Steel, is in the manufacture and sale of mid-width hot-rolled steel coils, with the PRC as its principal market. During 1Q2006, the Group had commenced its activities in the trading of iron ores, conducted through Dexin Steel Pte Ltd and Delong Yuntong.

(a) Review of income statement of the Group

2Q2006 vs 2Q2005

Revenue

The following tables sets out a breakdown, by business activities, of the Group's revenue and cost of sales for the financial periods under review.

Revenue	2Q2006	2Q2005
	S\$'000	S\$'000
Manufacture and Sale	228,294	237,733
Trading	37,464	-
Total	265,758	237,733

Cost of Sales	2Q2006	2Q2005
	S\$'000	S\$'000
Manufacture and Sale	172,031	180,049
Trading	36,891	-
Total	208,922	180,049

Gross Profit	2Q2006	2Q2005
	S\$'000	S\$'000
Manufacture and Sale	56,263	57,684
Trading	573	-
Total	56,836	57,684

Gross Profit margin	2Q2006	2Q2005
	%	%
Manufacture and Sale	24.6	24.3
Trading	1.5	-

Manufacture and Sale

The Group's revenue from its Manufacture and Sale business segment decreased by S\$9.4 million or 4.0% from S\$237.7 million in 2Q2005 to S\$228.3 million in 2Q2006. The decrease in revenue was principally attributed to the decrease in the average selling prices of the products despite the increase in quantity of products sold.

In 2Q2006 the Group sold 367,300 tonnes of mid-width steel coils and 22,600 tonnes of steel billets as compared to 332,000 tonnes of mid-width steel coils and 13,000 tonnes of steel billets in 2Q2005. Overall sales quantity increased by 44,900 tonnes or 13.0%. The Group also sold 65,900 tonnes of pig iron in 2Q2006.

Trading

The Group's Trading business segment contributed S\$37.5 million or 14.1% of the Group's total revenue in 2Q2006. The Group commenced its trading business in January 2006.

Cost of sales

Manufacture and Sale

Cost of sales decreased by S\$8.0 million or 4.5% from S\$180.0 million in 2Q2005 to S\$172.0 million in 2Q2006.

Trading

Cost of sales for the Trading business accounted for S\$36.9 million or 17.7% of the Group's total cost of sales in 2Q2006.

Gross profit

Manufacture and Sale

Gross profit decreased by S\$ 1.4 million or 2.4% from S\$57.7 million in 2Q2005 to S\$56.3 million in 2Q2006.

Gross profit margin increased by 0.3% from 24.3% in 2Q2005 to 24.6% in 2Q2006.

Trading

Gross profit margin from the Trading business was comparatively lower at approximately 1.5% as such trading businesses involved minimal value-add to the products. This resulted in lower gross profit margin for the Group in 2Q2006.

Distribution and marketing expenses

Distribution and marketing expenses increased by S\$1.0 million or 110.2% from S\$0.9 million in 2Q2005 to S\$1.9 million in 2Q2006 due to increase in distribution related expenses as a result of higher sales quantity.

Administrative expenses

Administrative expenses increased by S\$1.8 million or 48.3% from S\$3.7 million in 2Q2005 to S\$5.5 million in 2Q2006 due to increase in employee-related costs and general administrative expenses after the completion of the phase one technical enhancement program as well as commencement of new activities in trading.

Finance costs

Finance costs increased by S\$0.7 million or 35.0% from S\$1.9 million in 2Q2005 to S\$2.6 million in 2Q2006. The increase was due to additional bank loans drawn down in 2Q2006 to support the phase two technical enhancement program.

Other operating expenses

Other operating expenses of S\$1.3 million in 2Q2006 were mainly due to the disposal of waste and scrap of S\$0.5 million and donations of S\$0.3 million. There was also foreign exchange loss of S\$0.5million arising from the inter-company transactions by the subsidiaries within the Group. The losses arose as a result of the weakening of the RMB relative to the Singapore Dollar.

Net profit

Net profit after tax decreased by S\$5.6 million or 10.9% from S\$51.7 million in 2Q2005 to S\$46.1 million in 2Q2006, representing a net profit margin of 21.8% in 2Q2005 and 17.3% in 2Q2006, respectively. The lower net profit margin was primarily attributable to the significant lower operating profit margin of Trading business.

1H2006 vs 1H2005

Revenue

The following tables set out the breakdown, by business activities, of the Group's revenue and cost of sales for the financial periods under review.

Revenue	1H2006	1H2005
	S\$'000	S\$'000
Manufacture and Sale	414,980	461,618
Trading	56,889	-
Total	471,869	461,618

Cost of Sales	1H2006	1H2005
	S\$'000	S\$'000
Manufacture and Sale	340,025	351,947
Trading	55,201	-
Total	395,226	351,947

Gross profit	1H2006	1H2005
	S\$'000	S\$'000
Manufacture and Sale	74,955	109,671
Trading	1,688	-
Total	76,643	109,671

Gross profit margin	1H2006	1H2005
	%	%
Manufacture and Sale	18.1	23.8
Trading	3.0	-

Manufacture and Sale

The Group's revenue from its Manufacture and Sale business segment decreased by S\$46.6 million or 10.1% from S\$461.6 million in 1H2005 to S\$415.0 million in 1H2006. The decrease in revenue was principally attributed to the significant decrease in the average selling prices of the products despite the increase in quantity of products sold.

In 1H2006 the Group sold 729,300 tonnes of mid-width steel coils and 51,600 tonnes of steel billets as compared to 619,000 tonnes of mid-width steel coils and 76,000 tonnes of steel billets in 1H2005. Overall sales volume increased by 85,900 tonnes or 12.4%. The Group also sold 65,900 tonnes of pig iron in 1H2006.

Trading

The Group's Trading business segment contributed S\$56.9 million or 12.1% of the Group's total revenue in 1H2006. The Group commenced its trading business in January 2006.

Cost of sales

Manufacture and Sale

Cost of sales decreased by S\$11.9 million or 3.4% from S\$351.9 million in 1H2005 to S\$340.0 million in 1H2006 despite the increase in quantity of products sold of 12.4% due to the lower prices of raw materials.

Trading

Cost of sales for the Trading business accounted for S\$55.2 million or 14.0% of the Group's total cost of sales in 1H2006.

Gross profit

The Group's gross profit decreased by S\$33.1 million or 30.1% from S\$109.7 million in 1H2005 to S\$76.6 million in 1H2006. Gross profit margin decreased from 23.8% in 1H2005 to 16.2% in 1H2006.

Gross profit margin of the Manufacture and Sale business segment was 18.1% in 1H2006 compared with 23.8% in 1H2005. The relatively low gross profit margin in 1H2006 was primarily due to the significant decrease in average selling prices of the products especially during 1Q2006.

Gross profit margin from the Trading business was comparatively lower at approximately 3.0% as such trading businesses involved minimal value-add to the products. This resulted in lower gross profit margin for the Group.

Distribution and marketing expenses

Distribution and marketing expenses increased by S\$0.9 million or 37.7% from S\$2.4 million in 1H2005 to S\$3.3 million in 1H2006 due to increase in distribution-related expenses as a result of higher sales quantity.

Administrative expenses

Administrative expenses increased by S\$2.9 million or 51.4% from S\$5.7 million in 1H2005 to S\$8.6 million in 1H2006 due to increase in employee-related costs and general administrative expenses after the completion of the phase one technical enhancement program as well as commencement of new trading activities.

Finance costs

Finance costs increased by S\$0.9 million or 22.3% from S\$3.7 million in 1H2005 to S\$4.6 million in 1H2006. The increase was due to additional bank loans drawn down in 1H2006 to support the phase two technical enhancement program.

Other operating expenses

Other operating expenses increased by S\$1.0 million or 323.8% from S\$0.3 million in 1H2005 to S\$1.3 million in 1H2006. This was mainly due to the disposal of waste and scrap of S\$0.5 million and foreign exchange loss of S\$0.5 million arising from the inter-company transactions by the subsidiaries within the Group. The losses arose as a result of the weakening of the RMB relative to Singapore Dollar.

Net profit

Net profit after tax decreased by S\$19.9 million or 29.5 % from S\$86.6 million in 1H2005 to S\$61.1 million in 1H2006, representing a net profit margin of 18.8% in 1H2005 and 12.9% in 1H2006, respectively. The lower net profit margin in 1H2006 was primarily attributable to the significantly lower operating profit margin of Trading business.

(b) Review of balance sheet of the Group as at 30 June 2006

Current assets

Current assets increased by S\$55.9 million or 36.3% from S\$153.8 million as at 31 December 2005 to S\$209.7 million as at 30 June 2006. The increase was primarily attributable to the increase in cash and cash equivalents from operating activities and bank balances pledged with banks as securities for note payables as well as inventories. The increase was partially offset by the decrease in trade and other receivables.

As at 30 June 2006, of the S\$35.7 million of the Group's "trade and other receivables", approximately S\$27.4 million or 77.0% comprised notes receivables from customers and pre-payments to vendors and approximately S\$2.5 million was trade receivables.

Current liabilities

Current liabilities increased by S\$82.2 million or 28.7% from S\$286.2 million as at 31 December 2005 to S\$368.4 million as at 30 June 2006. The increase was primarily attributable to the increase in short-term borrowings, note payables and advance payment from customers (other payables) which were in line with the increase in activities during the periods under review. The increase was partially offset by the decrease in tax.

Working capital

The Group had negative working capital position of S\$132.4 million and S\$158.7 million as at 31 December 2005 and 30 June 2006, respectively. The Group's negative working capital position was mainly due to the use of short-term bank loans and cash generated from operating activities to finance the technological enhancements at Delong Steel in Xingtai City in FY2005 and HY2006. In addition, prepayments from customers amounting to S\$69.8 million were recorded as current liabilities in the balance sheet.

The Group had satisfactorily maintained its credit standing and facilities with financial institutions during the periods under review and the credit facilities had constantly been renewed and/or rolled-over annually by the financial institutions.

Non-current assets

Property, plant and equipment increased by S\$71.1 million from S\$356.0 million as at 31 December 2005 to S\$427.1 million as at 30 June 2006. The increase was primarily due to the construction in progress in relation to the improvement and upgrading of facilities at Delong Steel in Xingtai City. The technical enhancement program commenced in May 2005 and are scheduled to fully complete in 4Q2006.

(c) Review of cash flow statement of the Group

2Q2006 vs 2Q2005

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes decreased by S\$3.6 million or 6.2% from S\$58.1 million in 2Q2005 to S\$54.5 million in 2Q2006. The decrease was primarily due to decrease in operating profit. Net cash used for working capital was S\$21.3 million in 2Q2006, attributable mainly to the increase in bank balances pledged of S\$31.4 million for the issuance of notes payable and inventories of S\$16.0 million as well as the decrease in payables of S\$26.0 million.

The increase in bank balances pledged was attributable to the increase in notes payable in 2Q2006 while the increase in inventories was in line with the increase in production. The increase in payables was primarily due to the increase in advance payments received from customers in 2Q2006 which was in line with the higher revenue in 2Q2006.

After taking into account of the net cash used for working capital and income tax paid of S\$9.5 million, the net cash inflow from operating activities was S\$24.4 million in 2Q2006.

Net Cash Used In Investing Activities

Net cash used in investing activities was S\$54.9 million in 2Q2006. This was principally payment for construction in progress in relation to the technical enhancement programs.

Net Cash Generated From Financing Activities

Net cash inflow from financing activities was S\$32.6 million in 2Q2006. This was mainly attributable to the drawdown of short-term bank loans of S\$67.1 million. This was partially offset by the principal and interest repayments of bank borrowings of S\$24.1 million and dividend payment of S\$7.9 million in May 2006.

1H2006 vs 1H2005

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes decreased by S\$34.4 million or 31.0% from S\$110.9 million in 1H2005 to S\$76.5 million in 1H2006. The decrease was primarily due to decrease in operating profit. Cash generated from operating activities decreased by S\$37.9 million or 29.3% from S\$129.4 million in 1H2005 to S\$91.5 million 1H2006, attributable mainly to the increase in bank balances pledged for the issuance of notes payable and inventories and the decrease in receivables and payables.

The increase in bank balances pledged was attributable to the increase in notes payable in 1H2006 while the increase in inventories was in line with the increase in production. The increase in payables was primarily due to the increase in advance payments received from customers in 1H2006.

After taking into consideration net cash used for working capital and income tax paid of S\$14.2 million, the net cash inflow from operating activities was S\$79.1 million in 1H2006.

Net Cash Used In Investing Activities

Net cash used in investing activities was S\$95.6 million in 1H2006. The increase was in line with the increase in non-current assets as a result of technical enhancement programs.

Net Cash Generated From Financing Activities

Net cash inflow from financing activities was S\$33.0 million in 1H2006. This was mainly attributable to the drawdown short-term loans of S\$85.4 million. This was partially offset by the repayments of principal and interest for bank borrowings of S\$40.2 million and dividend payment of S\$7.9 million in May 2006.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

The Group's 2Q2006 results are in line with the commentary made under paragraph 10 of the Company's 1Q2006 Results Announcement released on 25 April 2006 which stated that "the 2Q2006 performance would be significantly better than that achieved in 1Q2006", as well as profit guidance announced on 5 June 2006.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period for the next 12 months

Since June 2006, the PRC government has introduced a series of policies designed to prevent the economy from overheating further. These include efforts to reduce investments in fixed assets and in the real estate sector. Partly as a result of these measures, domestic prices of steel products began softening in July 2006 and the trend is expected to extend throughout 3Q2006.

The prices of raw materials, in particular iron ore and coke, have increased in recent months. However, this has had relatively little impact on the production costs of Delong Steel. The Group has taken measures to mitigate the cost increases in order to maintain its cost leadership within the steel industry in the PRC.

Delong Steel continues to operate at 100% of its capacity. Further, the second phase of technological enhancements to the Group's existing mid-width hot-rolled coil ("HRC") plant in Xingtai, Hebei, is on track for completion in November 2006. This will increase the capacity of Delong Steel to 2.4 million tonnes from 1.6 million tonnes per annum currently. The increase in capacity of 800,000 tonnes a year will have a positive impact on the financial performance of the Group in FY2007.

Proposed New Cold-Rolled Steel Plant

The PRC has been importing high-value steel products such as cold-rolled coils ("CRC") but exporting lower-value steel products. The PRC government is encouraging existing steel mills to move up its technological ladder to produce higher value-added products. CRC is a high-quality, high value-added steel product converted from HRC. It is commonly used in the automotive and electronics industries, amongst others

The Company wishes to announce that it has received in-principle approval from the Hebei Province National Reform and Development Commission to set up a new CRC plant with a designed capacity of 500,000 tonnes per annum. The Group is actively looking into the feasibility of setting up a new CRC plant at Delong Steel in Xingtai. The proposed CRC plant would be a logical downstream product extension of the Group's HRC production.

In view of its high capacity utilization, continuing efforts to improve efficiency, proposed capacity increases as well as technological enhancement programmes, the Group remains optimistic about its outlook.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? No

However, the first and final 1-tier tax-exempt dividend of S\$0.0045 per ordinary share for the financial year ended 31 December 2005 was approved at Annual General Meeting on 12 April 2006, totaling S\$23.9 million, which is to be paid in three equal tranches. The books closure date and date payable are as follows:-

	Dividend per share	Book Closure Date	Date payable
First payment	S\$0.0015	17 April 2006	15 May 2006
Second payment	S\$0.0015	28 July 2006	15 August 2006
Third payment	S\$0.0015	1 November 2006	15 November 2006

12. If no dividend has been declared/recommended, a statement to that effect

The Board of Directors of the Company does not recommend that a dividend be paid for the second quarter ended 30 June 2006.

**PART II-ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2,Q3 or Half Year Results)**

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparative information for the immediately preceding year.

N.A

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments

N.A

15. A breakdown of Sales

N.A

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

N.A.

BY ORDER OF THE BOARD

Ding Ligu
Executive Chairman