

August 2009



**Delong Holdings Limited**  
**Bondholder Information Session**



**德龙控股**  
DELONG HOLDINGS

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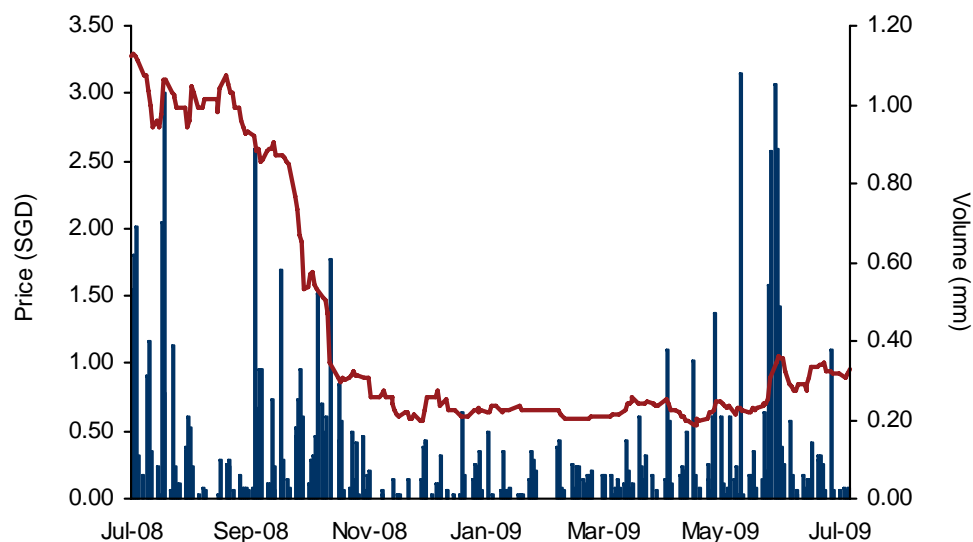
# 1. Company Overview

# Company Overview

## Company Overview

- Delong Holding's HRC capacity is **3 million** tons/year by March 2009
- Revenue of 2008 is RMB11.1 billion, with net loss of RMB358.4 million
- Revenue of 1Q09 is RMB1.6 billion, with net loss of RMB5.5 million

## Stock Price



|                   |                         |
|-------------------|-------------------------|
| Price (7/16/2009) | SGD 0.92                |
| Volume (million)  | 0.04                    |
| 09 P/E            | NA                      |
| Market Cap        | SGD490.0mm (USD337.0mm) |

Source: Factset, as of July 16, 2009.

## Production Capacity and Output

(Tons in Millions)

|            | 2007 | 2008 | 2009E |
|------------|------|------|-------|
| Capacity   | 2.5  | 3.0  | 3.0   |
| Production | 2.4  | 2.5  | 2.5   |

Source: Company filings.

## Financial Highlight

(RMB in Millions)

|   | 2007   | 2008     | 1Q2009 | 1Q09LTM  |
|---|--------|----------|--------|----------|
| Revenue   | 7,669  | 11,084   | 1,606  | 9,873    |
| Gross Profit  | 925    | 317      | 83     | 214      |
| EBITDA  | 1,023  | 337      | 145    | 277      |
| Net Profit  | 466    | (358)    | (6)    | (410)    |
| Net Profit Margin                                     | 6.1%   | (3.2)%   | (0.3)% | (4.2)%   |
| Total Assets  | 6,209  | 6,088    | 6,109  | 6,109    |
| Total Debt  | 2,492  | 2,802    | 2,950  | 2,950    |
| Equity  | 1,837  | 1,321    | 1,342  | 1,342    |
| Current Ratio   | 1.0x   | 0.8x     | 0.8x   | 0.8x     |
| Debt to EBITDA  | 2.4x   | 8.3x     | na     | 10.6x    |
| Debt/(Debt + Equity)                                  | 0.6x   | 0.7x     | 0.7    | 0.7x     |
| EBITDA/Cash Int Expense                               | 6.2x   | 1.5x     | na     | 1.3x     |
| Debt Service Ratio                                    | 0.53 x | (0.02) x | na     | (0.04) x |
| Debt Service Ratio<br>(1Q2009 loan due not roll over) | na     | na       | na     | (0.08) x |

Source: Company filings.

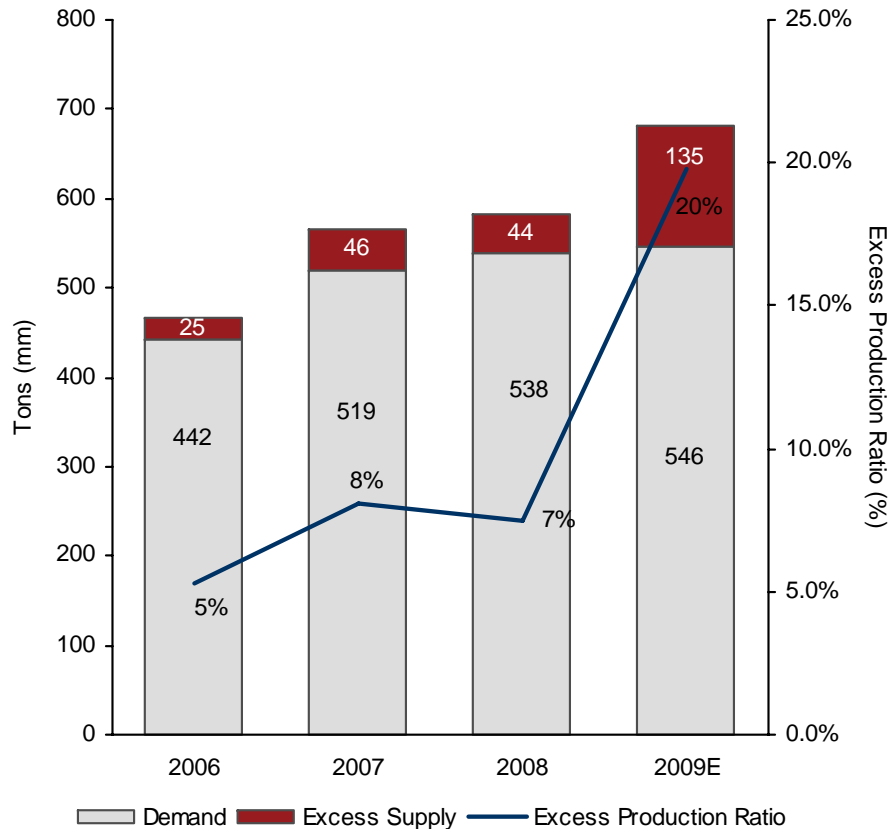
# Factors Leading to Poor Performance of the Company

1. Oversupply and crash in steel prices in 2008
2. High iron ore and freight costs
3. SG&A increased sharply
4. PRC government taking the lead in industry reorganization and may lead to eventual retirement of small to medium sized private owned steel companies

# Factors Leading to Poor Performance of the Company

With continuing oversupply and falling steel price, inventory continues to build up, resulting in severe competition within the industry.

## Oversupply in China

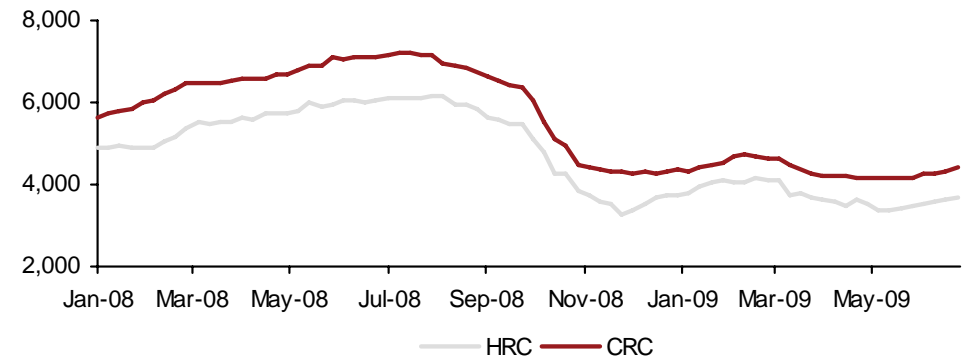


Source: Research.

## Falling Steel Prices

### China Overall Steel Prices

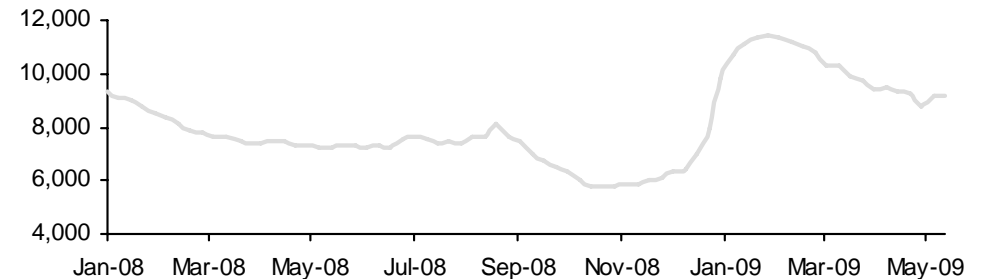
(RMB/Ton)



Source: Mysteel.

### Increasing Steel Inventory

(kt)



Source: Mysteel.

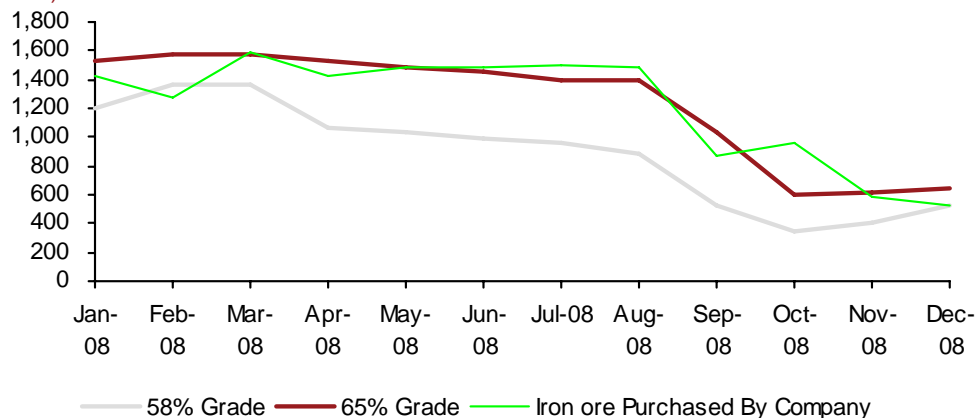
# Factors Leading to Poor Performance of the Company

The company suffered from loss due to high and volatile and untimely iron ore purchase in 2008.

## High Iron Ore and Freight Charges

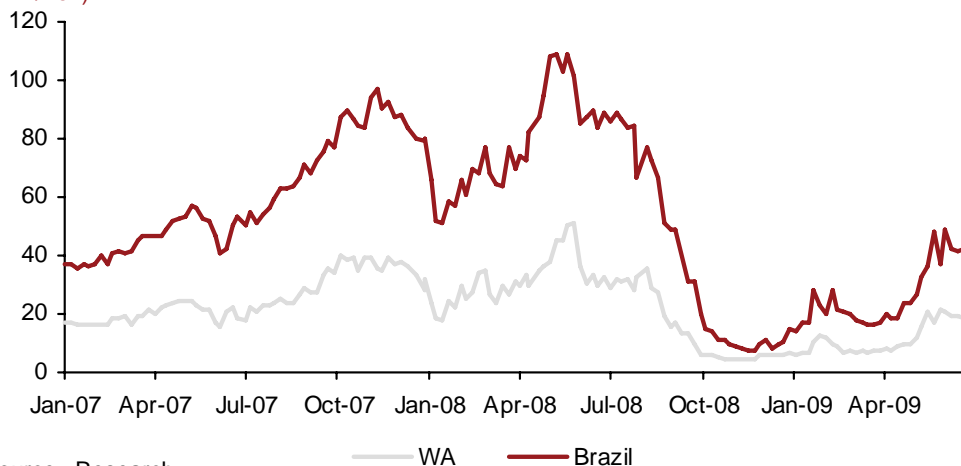
### Iron Ore

(RMB/Ton)



### Freight Charges

(RMB/Ton)



Source: Research.

— WA — Brazil

## High Inventory Level and Raw Materials Prices

- To mitigate the fluctuation in raw materials prices, Company has entered into long term supply agreements with CVRD, FMG etc in 2H2008. Total iron ore purchased from CVRD, FMG, etc. was 820,000 tons in 2H2008. As at 30 Oct 2008, inventory level stood at 710,000 tons (not including 360,000 tons that had been paid subscription)
- Due to weaker demand and prices in steel industry, the domestic iron ore spot market price fell significantly to RMB448/ton. Delong's average cost of iron ore was RMB 1,179/ton, which was RMB731/ton higher than spot market price. Loss from iron ore purchased reached RMB **414** million in 4Q2008
- At the same time, average costs of other raw materials, such as heating coal, coking coal, were higher than the spot market prices, which in turn increased the total amount of our losses in 4Q2008



# Factors Leading to Poor Performance of the Company

## Gross Margin Reduced and SG&A (inclu. Finance costs) Increased Sharply

### COGS and SG&A

(RMB in Millions)



Source: Company filings.

- Gross profit decreased significantly due to declined in products price and higher raw materials cost. The gross profit margin decreased from 12.1% in 2007 to 2.9% in 2008. The highest gross loss per ton of 850 and 1,250 were RMB 642 and RMB1,066, respectively
- SG&A of the Company in 2008 as a percentage of revenue increased by 3.0–4.7% compared to that in 2005
- The major reasons for SG&A increase is the increasing financing cost, resulted from the indebtedness of the company

# Industry Prospect

Chinese government is implementing policies to encourage industry integration. Financing environment for privately-owned steel makers continues to be difficult.

## Unfavorable Government Policy for Steel Industry

- **In Jan'09, the State Council approved the Plan on the Overhaul of Steel Industry (the "Plan")**
  - **Industry consolidation to eliminate phase-out steel plants**
  - **Promotion of environmental friendly and technology increases capex pressure for small-mid cap steel producers**
  - **Speed up the phasing out of obsolete capacity in China's iron and steel industry**
    - Phase out by 2010, blast furnaces  $\leq$  300 M3 and converters  $\leq$  20mt in capacity
    - Phase out by 2011, blast furnaces  $\leq$  400M3, converters and electric furnaces  $\leq$  30mt
    - Pig iron production is expected to decline by 72m tons, while steel production capacity is expected to decline by 25m tons
- **Encourage the consolidation to enhance the competitiveness of the PRC steel sector internationally**
  - Targeted capacity of 50 million MT tons each for the 3 conglomerates
  - Targeted capacity of 10 – 30 million MT for large size steelmakers

## Limited Financing Availability for Small/Mid-Cap Steel Producers

- The MIIT pointed out in "Restricting Excess Development in the Steel Industry" dated May 2009 that **steel production is in great excess and local banks should reduce or stop making loans to the steel makers**
- Policy of phasing out inefficient/outdated capacity will directly impact Delong production capability.
  - Hebei Government has requested Delong Steel to phase out 3 sintering machines (24 sq.m.) , 4 blast furnaces (205 cubic meters) and 3 converting furnaces ~ reduces Delong's production capacity
  - **Company has made provision of impairment charges of PPE of RMB102 million in FY2008**
- **Delong's ability to borrow greatly impacted as fewer assets will be available to be pledged**



## 2. Financial Position Snapshot

# Financial Overview

## Income Statement

| (RMB mm)          | 2007  | 2008   | 1Q2009 | LTM 1Q2009 |
|-------------------|-------|--------|--------|------------|
| Revenue           | 7,669 | 11,084 | 1,606  | 9,873      |
| Gross Profit      | 925   | 317    | 83     | 214        |
| Gross Margin      | 12.1% | 2.9%   | 5.2%   | 2.2%       |
| EBITDA            | 1,023 | 337    | 145    | 277        |
| EBITDA Margin     | 13.3% | 3.0%   | 9.0%   | 2.8%       |
| EBIT              | 763   | 16     | 54     | (68)       |
| EBIT Margin       | 9.9%  | 0.1%   | 3.4%   | (0.7)%     |
| Finance Expenses  | 165   | 226    | 57     | 207        |
| Net Profit        | 466   | (358)  | (6)    | (410)      |
| Net Profit Margin | 6.1%  | (3.2)% | (0.4)% | (4.2)%     |

## Balance Sheet

| (RMB mm)                  | 2007  | 2008  | 1Q09  |
|---------------------------|-------|-------|-------|
| Cash and Cash Equivalents | 901   | 676   | 472   |
| Inventory                 | 1,200 | 672   | 843   |
| Total Debt                | 2,492 | 2,802 | 2,950 |
| Total Liability           | 4,373 | 4,767 | 4,767 |
| Total Equity              | 1,836 | 1,321 | 1,342 |
| Total Assets              | 6,209 | 6,088 | 6,109 |
| Pledged Assets            | 1,359 | 2,322 | 3,586 |
| Unpledged Assets          | 4,850 | 3,766 | 2,523 |

## Statement of Cash Flow

| (RMB mm)                     | 2007    | 2008  | 1Q09  | LMT 1Q2009 |
|------------------------------|---------|-------|-------|------------|
| Net Cash Flow from Operatir  | 663     | 399   | (276) | 144        |
| Net Cash Flow from Investing | (1,088) | (546) | (47)  | (461)      |
| Net Cash Flow from Financir  | 1,284   | (78)  | 118   | 156        |
| Total Net Cash Flow          | 858     | (224) | (205) | (161)      |

## Liquidity Ratios

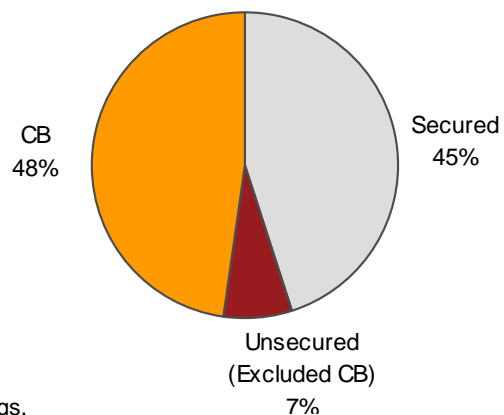
|                                | 2007  | 2008  | 1Q09  | LTM 1Q09 |
|--------------------------------|-------|-------|-------|----------|
| Current Ratio                  | 0.99x | 0.79x | 0.76x | 0.76x    |
| EBITDA/Interest Coverage Ratio | 6.19x | 1.49x | na    | 1.34x    |

## Leverage

|  | 2007  | 2008     | LTM 1Q09 |
|--|-------|----------|----------|
| Total Debt/EBITDA  | 2.4x  | 8.3x     | 10.6x    |
| Net Debt/EBITDA  | 1.6x  | 6.3x     | 8.9x     |
| Net Debt/Equity  | 0.9x  | 1.6x     | 1.9x     |
| Total Debt/Total Assets                                      | 0.4x  | 0.5x     | 0.5x     |
| Debt Service Ratio   | 0.53x | (0.02) x | (0.04) x |
| Debt Service Ratio (if loans due 1Q2009 was not rolled over) | na    | na       | (0.08) x |

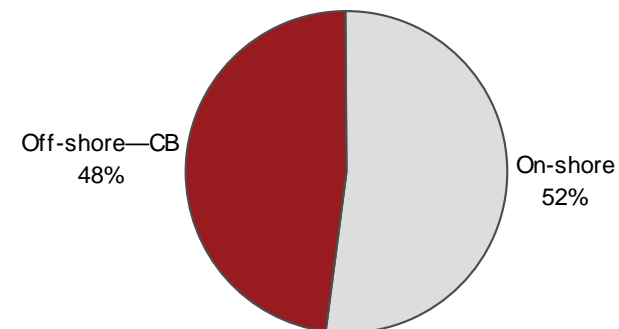
# Overview of Debt Profile

## Secured vs. Unsecured Debt (1Q09)



Source: Company filings.

## On-shore vs. Off-shore Debt (1Q09) <sup>(1)</sup>



Total Bank Loan Debt: RMB 1.54 billion

Source: Company Research.

(1): Exclude notes payable amount. If add in the notes payable balance, on-shore debt portion will rise to 62% while off-shore debt portion will drop to 38%

## As of March 31, 2009

(RMB in Millions)

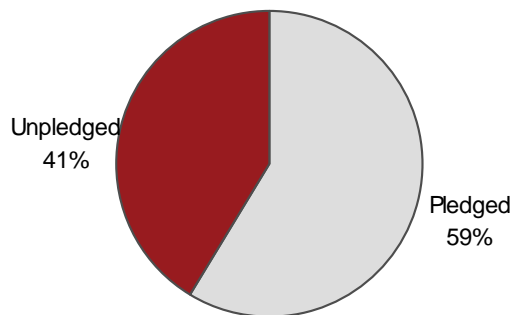
|                       |       |
|-----------------------|-------|
| Total Debt            | 2,950 |
| Debt Back by Security | 1324  |
| Clean Debt            | 216   |
| CB                    | 1,410 |
| Total Assets          | 6,109 |
| -Pledged              | 3,583 |
| -Unpledged            | 2,526 |

# Overview of Assets Breakdown

The Company has pledged a majority of its assets, and the remaining portions are not easy to pledge or dispose of.

## Asset Breakdown (1Q09) <sup>(1)</sup>

(RMB in Millions)



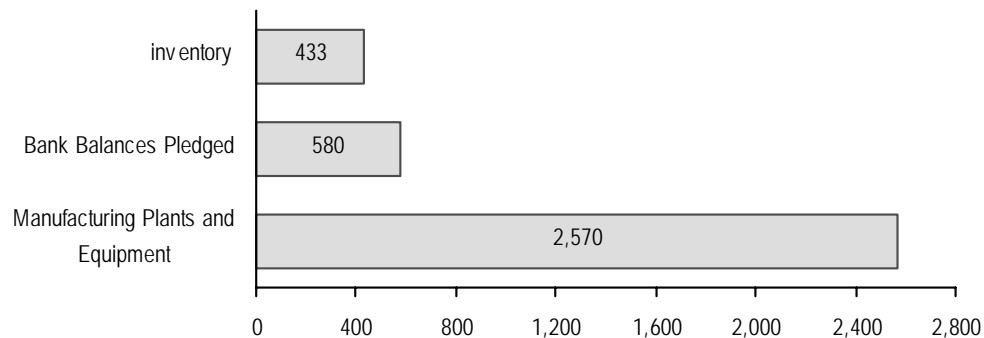
The total of unpledged assets is 2,526mm, and the assets that cannot be pledged is 1,604 mm

Source: Company filings.

(1) Assets can be used as pledge, inventory excluded.

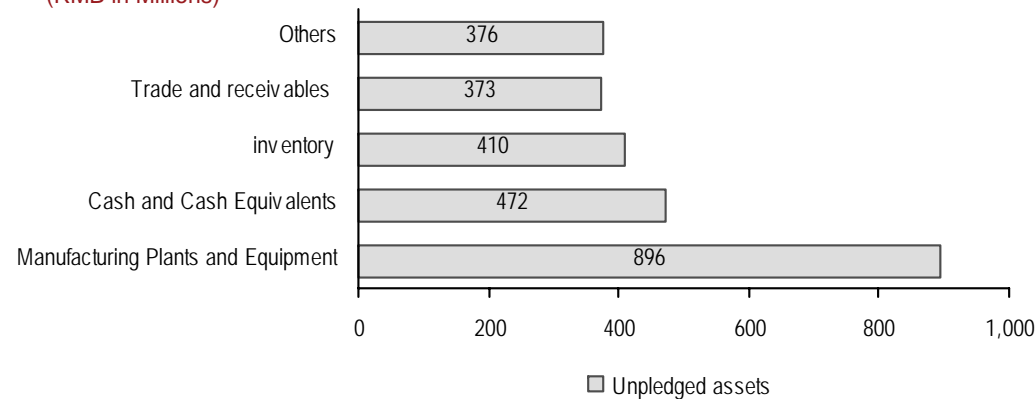
## Pledged Asset Breakdown (1Q09)

(RMB in Millions)



## Unpledged Asset Breakdown (1Q09)

(RMB in Millions)



Source: Company filings.

# Details Breakdown of Pledged and Unpledged Assets

Currency: RMB 000

| Item                        | Total Assets     | Pledged Assets   | Unpledged Assets | Unable-to-be-Pledged Assets | Able-to-be-Pledged Assets |
|-----------------------------|------------------|------------------|------------------|-----------------------------|---------------------------|
| Cash and Cash Equivalents   | 1,051,716        | 579,979          | 471,737          | 0                           | 471,737                   |
| Trade and Other Receivables | 372,669          | 0                | 372,669          | 372,669 <sup>(1)</sup>      | 0                         |
| Inventories                 | 842,901          | 433,000          | 409,901          | 248,120 <sup>(2)</sup>      | 161,781                   |
| PP&E                        | 3,465,839        | 2,570,263        | 895,576          | 674,621 <sup>(3)</sup>      | 220,955                   |
| Other Current Assets        | 252,833          | 0                | 252,833          | 252,833 <sup>(4)</sup>      |                           |
| Investment                  | 67,576           | 0                | 67,576           | 0                           | 67,576                    |
| Deferred Income Tax Assets  | 55,636           | 0                | 55,636           | 55,636 <sup>(5)</sup>       | 0                         |
| <b>Total</b>                | <b>6,109,170</b> | <b>3,583,242</b> | <b>2,525,928</b> | <b>1,603,879</b>            | <b>922,049</b>            |

1. Trade and other receivables cannot be pledged due to the reason that most of the domestic banks have only started to provide very limited business of this kind.
2. Inventories cannot be pledged due to the fact that they are mostly ancillary materials of many kinds and difficult to be measured by banks
3. PP&E cannot be pledged due to the fact that some of the PP&E are out-dated and required disposal by the government, and the land right certificates or property ownership certificates of certain other assets are under application for regulatory approvals
4. Other current assets cannot be pledged due to the fact that most of them are prepayments
5. Deferred income tax assets cannot be pledged due to the fact that they are only the result of timing difference between tax report system and accounting system

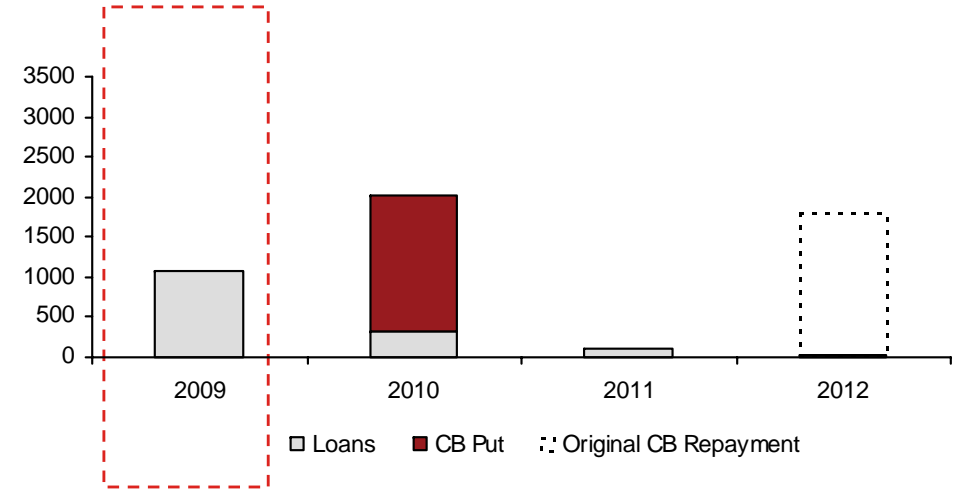
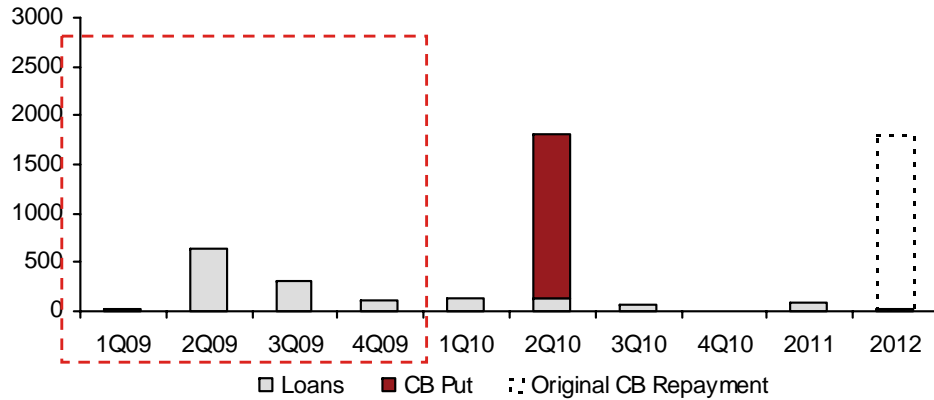
Source: Company, as of Mar 31, 2009.

# Uncertainty in Ability to Rollover of Bank Loans

The company generated very low level of cash during the past several years, and expects to make huge payment in the coming years and current bank loan and CB arrangement.

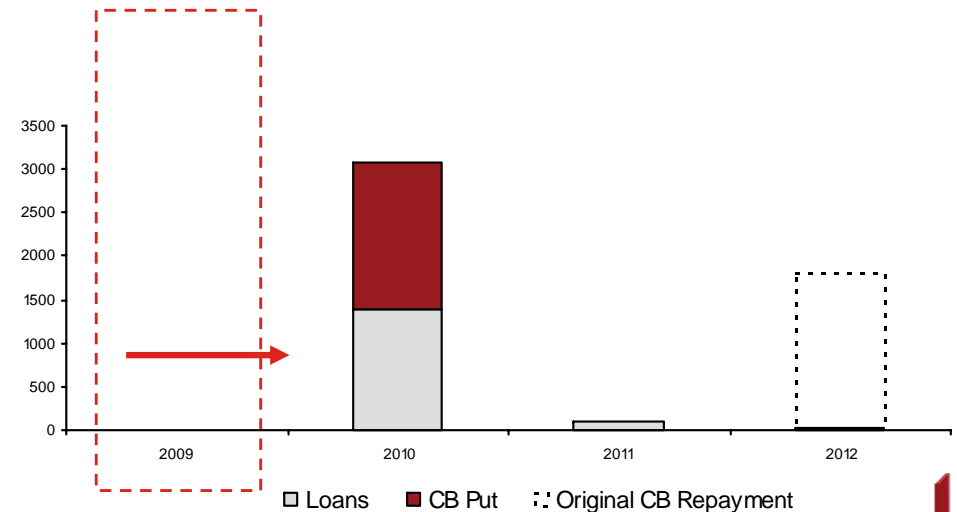
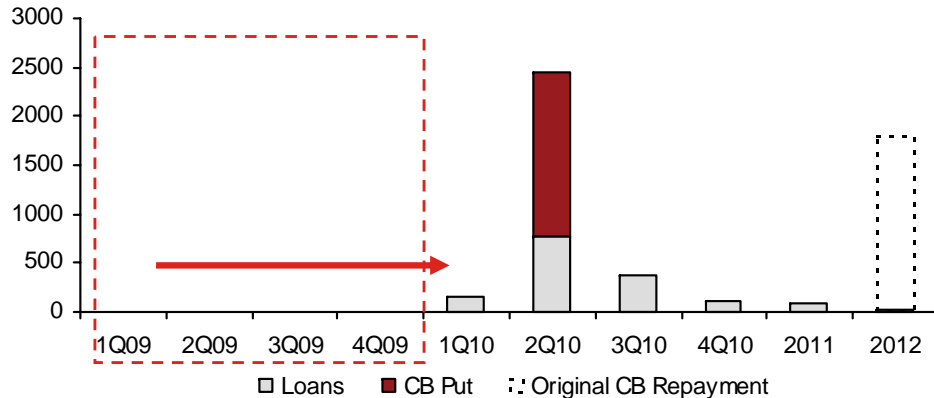
## Original Repayment Schedule

(RMB in Millions)



## Extended Repayment Schedule (1) (2)

(1yr-rollover, Units in RMB\$ mm)





# Bank Loans and Notes Payable

As of March 31, 2009

(RMB in Millions)

|                     | Secured<br>by PPE | Bank<br>Balances<br>(Credit Letter)<br>Pledged | Guaranteed<br>by Third-<br>party | Unsecured<br>Debt | Total        | Maturity<br>in 2009 | Maturity<br>before<br>Jun,2010<br>(inclu.<br>2009) | Maturity<br>in 2010  | Maturity<br>in 2011 | Maturity<br>in 2012 |
|---------------------|-------------------|--|----------------------------------|-------------------|--------------|---------------------|--|----------------------|---------------------|---------------------|
| Short-term<br>Loan  | 500               | 132  | 374                              | 190               | 1,196        | 1,065               | 1,196  | 131                  | -                   | -                   |
| Long-term<br>Loan   | 318               | -  | -                                | 26                | 344          |                     | 169  | 224                  | 95                  | 25                  |
| Convertible<br>Bond | -                 | -  | -                                | 1,410             | 1,410        | -                   | 1,675  | 1,675 <sup>(1)</sup> | -                   | -                   |
| <b>Sub-total</b>    | <b>818</b>        | <b>132</b>                                     | <b>374</b>                       | <b>1,626</b>      | <b>2,950</b> | <b>1,065</b>        | <b>3,040</b>                                       | <b>2,030</b>         | <b>95</b>           | <b>25</b>           |
| Notes payable       |                   | 415  | 10                               | -                 | 425          | 425                 | 425  | -                    | -                   | -                   |
| <b>Total</b>        | <b>818</b>        | <b>547</b>                                     | <b>384</b>                       | <b>1,626</b>      | <b>3,375</b> | <b>1,490</b>        | <b>3,465</b>                                       | <b>2,030</b>         | <b>95</b>           | <b>25</b>           |

Source: Company filings.

Note: On top of that, borrowings amounting to RMB564 million were guaranteed by third parties.

(1) Bondholder has the right to require the company to redeem all or part of the bonds at 109.34% of the principal amount on or after June 8, 2010.

# Bank Loans Details

## Undrawn Credit Lines

Currency: RMB 000

| Item         | Working Capital | Notes Payable | Letter of Credit | Others  | Total     |
|--------------|-----------------|---------------|------------------|---------|-----------|
| Credit Lines | 839,000         | 317,000       | 1,280,000        | 100,000 | 2,536,000 |
| Drawn        | 839,000         | 99,070        | 725,263          | 100,000 | 1,763,333 |
| Undrawn      | 0               | 217,930       | 554,737          | 0       | 772,667   |

- Reason of why the undrawn credit cannot be used to repay bonds or to form as part of the consideration is that local banks do not allow onshore loan to be used to pay off offshore debt. All onshore loans / credit lines have specific use of proceeds

Source: Company, as of Mar 31, 2009.

# Loans Personal Guaranteed by Chairman Ding

## Loans Personal Guaranteed by Chairman Ding Rollover Arrangement

RMB Million

| Types of Loan Personal Guaranteed by Chairman Ding | Loan Balances, as of Mar 31, 2009 | Amount Due in the Following Quarters |            |            |           |            |           |          |          |          |            |
|--|-----------------------------------|--------------------------------------|------------|------------|-----------|------------|-----------|----------|----------|----------|------------|
|  |                                   | 2H 2009                              | 3H 2009    | 4H 2009    | 1H 2010   | 2H 2010    | 3H 2010   | 4H 2010  | 1H 2011  | 2H 2011  | 3H 2011    |
| Borrowings   | 835.91                            | 260.91                               | 150        | 105        | 60        | 130        | 30        | —        | —        | —        | 100        |
| Notes Payable                                      | 50                                | 50                                   | —          | —          | —         | —          | —         | —        | —        | —        | —          |
| <b>Total</b>                                       | <b>885.91</b>                     | <b>310.91</b>                        | <b>150</b> | <b>105</b> | <b>60</b> | <b>130</b> | <b>30</b> | <b>—</b> | <b>—</b> | <b>—</b> | <b>100</b> |

- Chairman Ding's total credit line of personal guaranteed loan is RMB 1.15 billion with RMB 1.009 billion currently utilized, of which ST—borrowings, LOCs and Notes Payable amount to RMB 0.886 billion. The rest RMB 0.123 billion is utilized but not yet considered as loans since LOC margin is paid but the materials aren't arrived yet
- Chairman Ding's personal guaranteed loans mean loans that include terms which request Chairman Ding's holding of Delong shares no less than 51%
- The Company has tried to seek waiver from banks but was unsuccessful

# Cash Flow Commitment

## Required Cash with Continuing Operations

|  |   |  |
|--|---|--|
| Minimum Operating Cash Required            | <ul style="list-style-type: none"><li>• RMB 330 million</li></ul>   | <ul style="list-style-type: none"><li>• Repayment for ST-loan and LC</li><li>• Salaries, Utilities and Maintenance</li><li>• SG&amp;A (excl. salaries) and Finance Costs</li></ul>   |
| Payment for Committed Capital Expenditures | <ul style="list-style-type: none"><li>• Originally RMB 511 million committed</li><li>• Now adjusted to RMB 315 million for year 2009 and 2010</li></ul> | <ul style="list-style-type: none"><li>• Project and equipment in use-105 million</li><li>• Delong Mill Roll-168 million</li><li>• Environmental requirement constructon-42 million</li><li>• Construction and equipment in process-196 million (suspended)</li></ul> |

# Usage of Proceeds

## Sources

|                 |               |
|-----------------|---------------|
| Net CB Proceeds | \$200 million |
|-----------------|---------------|

## Use of Proceeds

|   | Uses<br>(US\$mm) |
|---|------------------|
| Supply the shortfall of Capex and Working Capital of DL Steel | 57.2             |
| Investment of Mill Roll                                       | 56.6             |
| Investment of Coal Gas  | 29.8             |
| Dezhong Int'l Finance Leasing Co., Ltd                        | 26.0             |
| Retaining of Delong Holdings as Working Capital               | 17.3             |
| Financing Cost of CB  | 5.3              |
| Buy Option of CFE   | 3.9              |
| Exercise Option of CFE  | 3.9              |
| <b>Total</b>  | <b>200.0</b>     |

## Key Project Introduction

- Mill-Roll Project
  - Invested USD 56.6 million in 2008
- Coal-gas Project
  - Project completed in 2008 and total investment was USD 29.8 million
- Delong Steel Limited
  - Invested USD 42.6 million in Capex in 2008
  - Invested USD 14.6 million in general corporate and working capital in 2008

# No Progress on Evraz Acquisition

## History of Development

- On 18 February 2008, Evraz agreed to acquire from company's existing majority shareholder — Best Decade Holdings Limited – an initial 10.01% stake in Delong which will be further raised to 51% upon approvals
- On 18 August 2008, the review of the anti-trust approvals from the PRC regulatory authorities had entered into its second stage; Evraz and Best Decade therefore agreed to extend the option exercise period until Feb 18, 2009
- On 18 February 2009, both parties agreed to extend the option exercise period until 18 August 2009 as there were no new developments in securing anti-trust approvals from the PRC regulatory authorities
- To-date, the anti-trust approval review is still pending
- The operation of Evraz was significantly affected by the world financial crisis
- Stock price of both companies dropped dramatically from the level at the time of SPA entered



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