



**DELONG HOLDINGS LIMITED**

**Statement Pursuant to SGX Listing Rule 705(4) of the Listing Manual**

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited interim consolidated financial results of Delong Holdings Limited for the second quarter ended 30 June 2010 to be false or misleading in any material respect.

On behalf of the Board of Directors

**Mr. Ding Liguo**  
Chairman

**Mr. Zuo Shuowen**  
Executive Director

**Singapore**  
**12 August 2010**



# DELONG HOLDINGS LIMITED

(REG. NO. 199705215G)

## UNAUDITED SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2010

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

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

	Note	The Group					
		2 <sup>nd</sup> Quarter Ended		Increase	Half Year Ended		Increase
		30/06/2010	30/06/2009	(Decrease)	30/06/2010	30/06/2009	(Decrease)
		RMB'000	RMB'000	%	RMB'000	RMB'000	%
<b>Sales</b>		2,437,506	1,888,240	29.1	4,436,904	3,487,604	27.2
Cost of sales		(2,229,250)	(1,755,674)	27.0	(4,112,568)	(3,278,999)	25.4
<b>Gross Profit</b>		<b>208,256</b>	<b>132,566</b>	<b>57.1</b>	<b>324,336</b>	<b>208,605</b>	<b>55.5</b>
Other Income	1	8,292	5,779	43.5	18,220	20,217	(9.9)
Other gains-net	2	59,839	13,320	349.2	86,549	10,187	749.6
<b>Expenses</b>							
-Distribution and marketing		(4,019)	(707)	468.5	(5,435)	(1,459)	272.5
-Administrative		(48,729)	(36,614)	33.1	(79,014)	(69,375)	13.9
-Finance		(49,944)	(70,630)	29.3	(113,976)	(127,640)	(10.7)
Share of profit of associated company		-	-	-	172	-	100.0
<b>Profit before tax</b>	3	173,695	43,714	297.3	230,852	40,535	469.5
Income tax expense	4	(49,047)	(8,820)	456.1	(64,193)	(11,186)	473.9
<b>Net Profit</b>		<b>124,648</b>	<b>34,894</b>	<b>257.2</b>	<b>166,659</b>	<b>29,349</b>	<b>467.9</b>
<b>Other comprehensive income/ (loss):</b>							
<b>Gains/(losses) recognized directly in equity</b>							
Financial assets, available-for-sale							
-Fair value (losses)/ gains		(30,490)	(808)		(30,490)	550	
-Losses previously recognized directly in equity now included in net loss		223	22,317		223	22,531	
Currency translation differences		1,895	(1,679)		634	(2,738)	
<b>Other comprehensive income for the period, net of tax</b>		<b>(28,372)</b>	<b>19,830</b>		<b>(29,633)</b>	<b>20,343</b>	
<b>Total comprehensive income attributable to equity holders of the Company</b>		<b>97,276</b>	<b>54,724</b>		<b>137,026</b>	<b>49,692</b>	

NM: not meaningful

**Notes:-**

**1 Other Income**

	<b>The Group</b>			
	2 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease income	3,739	1,238	7,421	8,021
Interest income	4,020	4,034	9,738	11,195
Rental income from investment property	533	507	1,061	1,001
	<u>8,292</u>	<u>5,779</u>	<u>18,220</u>	<u>20,217</u>

**2 Other gains-net**

	<b>The Group</b>			
	2 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of materials	35,178	-	35,178	-
Loss on disposal of financial assets, available- for- sale	(168)	(2,009)	(168)	(2,155)
Gain on disposal of financial assets at fair value through profit or loss	-	954	-	954
Fair value loss- financial assets at fair value through profit or loss	(510)	(15,142)	(454)	(14,946)
Currency translation (loss) gain-net <sup>1</sup>	(2,842)	28,413	(541)	24,729
Fair value gain on convertible bonds <sup>2</sup>	12,033	-	19,762	-
Fair value gain on convertible shares <sup>3</sup>	19,047	-	32,412	-
Gain/(loss) on disposal of property, plant and equipment	720	(174)	36	(257)
Others	(3,619)	1,278	324	1,862
	<u>59,839</u>	<u>13,320</u>	<u>86,549</u>	<u>10,187</u>

<sup>1</sup>The currency translation loss was mainly due to the revaluation of bank balances denominated in USD, SGD and AUD which were weakened against RMB in 2Q2010.

<sup>2</sup>The gain was due to the quarterly revaluation of derivatives embedded to the convertible bonds.

<sup>3</sup>The gain was due to the quarterly revaluation of derivatives embedded to the convertible shares

**3. Profit before taxation includes the following items:-**

	<b>The Group</b>			
	2 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortization	92,992	90,614	187,489	181,314
Staff and wages	39,371	34,369	76,049	69,758
Operating lease rental	201	168	397	357

**4. Income Tax Expense**

	<b>The Group</b>			
	2 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RMB'000	RMB'000	RMB'000	RMB'000
Tax expense attributable to profit is made up of:				
Current income tax expense /(credit)				
-Foreign	49,791	2,171	64,047	3,498
Deferred income tax	(916)	6,624	(26)	7,570
Underprovision in preceding financial years				
-Current income tax	172	25	172	118
	<u>49,047</u>	<u>8,820</u>	<u>64,193</u>	<u>11,186</u>

**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**

	Note	The Group RMB '000		The Company RMB '000	
		As at 30/06/2010	As at 31/12/2009	As at 30/06/2010	As at 31/12/2009
<b>Current Assets</b>					
Cash and cash equivalents		701,100	290,113	299,146	125,752
Bank balances pledged		363,047	685,745	-	-
Financial assets, at fair value through profit and loss	1	940	964	940	964
Trade and other receivables	2	718,737	244,550	32	79
Inventories	3	1,248,121	1,084,595	-	-
Other current assets	4	239,731	332,672	114	97
		3,271,676	2,638,639	300,232	126,892
<b>Non-current assets</b>					
Trade and other receivables	5	195,521	218,380	1,016,957	1,161,175
Investments in subsidiaries		-	-	1,884,916	1,884,916
Investment in joint venture	6	272	20,100	-	-
Financial assets, available-for-sale	7	75,984	52,359	65,985	42,359
Investment property		14,902	15,103	-	-
Property, plant and equipment		3,192,696	3,321,347	12	22
Deferred income tax assets		37,461	37,434	-	-
		3,516,836	3,664,723	2,967,870	3,088,472
<b>Total assets</b>		<b>6,788,512</b>	<b>6,303,362</b>	<b>3,268,102</b>	<b>3,215,364</b>
<b>Current liabilities</b>					
Trade and other payables	8	1,583,809	1,456,924	8,018	9,004
Notes payables		397,978	448,000	-	-
Borrowings		1,180,548	924,237	20	26
Convertible bonds	9	120,029	117,401	120,029	117,401
Current income tax liabilities		62,727	3,147	-	-
		3,345,091	2,949,709	128,067	126,431
<b>Non-current liabilities</b>					
Borrowings		448,190	464,839	134,913	-
Convertible bonds	9	632,754	641,646	632,754	641,646
Convertible shares		116,135	167,602	116,135	167,602
Deferred income tax liabilities		22,863	22,889	-	-
		1,219,942	1,296,976	883,802	809,248
<b>CAPITAL AND RESERVE</b>					
Share capital		383,073	353,297	2,088,909	2,059,133
Reserves		1,840,406	1,703,380	167,323	220,552
Total equity		2,223,479	2,056,677	2,256,232	2,279,685
Total liabilities and equity		6,788,512	6,303,362	3,268,102	3,215,364

**Notes:**

1. *This represents investment in equity securities listed on the Stock Exchange of Hong Kong (“SEHK”).*

2. *Trade and other receivables - current*

	The Group	
	30/06/2010	31/12/2009
	RMB'000	RMB'000
Finance lease receivables	17,576	34,925
Trade receivables	71,651	31,662
Notes receivable	629,510	177,963
	<u>718,737</u>	<u>244,550</u>

The increase in trade and notes receivables was in line with the increase in revenue in 2Q2010.

As at 30 June 2010, the Board was of the view that no provision for doubtful debt was necessary as almost all of the sales were by way of notes receivables, which were bank acceptance notes.

3. *Inventories*

	The Group	
	30/06/2010	31/12/2009
	RMB'000	RMB'000
Raw materials	824,220	722,787
Work-in-progress	122,096	130,206
Finished goods	164,986	95,763
Production supplies	136,819	135,839
	<u>1,248,121</u>	<u>1,084,595</u>

The increase in inventories was due to the higher raw materials prices in 2Q2010 as well as increased purchase of raw materials in line with higher production in 1H2010.

4. *Other current assets*

	The Group	
	30/06/2010	31/12/2009
	RMB'000	RMB'000
Deposits	58	783
Prepayments	112,480	231,264
Other	127,193	100,625
	<u>239,731</u>	<u>332,672</u>

Prepayments relate to deposits and advance payments made to suppliers for the purchase of raw materials. These prepayments are to be offset against the purchases of the Company when the goods are ready for collection.

Other comprises VAT and other indirect taxes receivable.

5. *Trade and other receivables – non-current*

	The Group	
	30/06/2010	31/12/2009
	RMB'000	RMB'000
Finance lease receivables	172,049	194,908
Due from an investee company	23,472	23,472
	<u>195,521</u>	<u>218,380</u>

6. *The investment represents a 20% shareholding in Beijing Bohai Steel Alliance Co., Ltd (“Beijing Bohai Steel”).*

*The board of directors of Beijing Bohai Steel has planned to de-register Beijing Bohai Steel from the department of Industrial and Commerce in PRC (the “de-registration”) as it has been inactive since it was incorporated in April 2009. The paid up capital of RMB 20,000,000 contributed by Delong Steel Limited to Beijing Bohai Steel has been refunded to Delong Steel Limited in 2Q2010.*

*The announcement on the de-registration will be announced in due course.*

7. *The investment represents a 10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd. and quoted shares in CFE, a company listed on the Australian Securities Exchange.*

8. *Trade and other payables*

	The Group	
	30/06/2010	31/12/2009
	RMB'000	RMB'000
Trade payables to:		
- Third parties	913,851	745,677
VAT and other taxes payable	-	26,183
Payable to contractors for construction-in-progress	59,590	78,283
Advances from customers	536,194	504,125
Other accrual for operating expenses	4,854	5,811
Staff and workers’ bonus and welfare fund	3,538	32,656
Deposits from tenant	1,357	526
Deposits from staff and workers	17,132	11,873
Due to directors (non-trade)	5,118	3,793
Deferred income	10,177	13,511
Other payables	31,998	34,486
	<u>1,583,809</u>	<u>1,456,924</u>

*The increase in trade payables was in line with the increase in inventories.*

*Advance from customers represent prepayments made by customers. These advance payments are to be offset against the purchases of customers when goods are ready for collection.*

9. *Convertible bonds*

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

	<u>Group and Company</u>	
	<u>30/06/2010</u>	<u>31/12/2009</u>
	RMB'000	RMB'000
<u>Current</u>		
Convertible Bonds (Restricted)	120,029	117,401
<u>Non-current</u>		
Convertible Bonds	137,067	136,007
Convertible Bonds (Restricted)	491,160	480,806
Derivatives liability-Convertible Bonds	4,527	24,833
	<u>632,754</u>	<u>641,646</u>

*Note:-*

Subsequent to the financial period ended 30 June 2010, the Company has successfully redeemed, on a pro-rate basis, the U.S.Dollar Equivalent of RMB346,000,000 in aggregate principal amount of bonds less the Mandatory Early Redemption discount of 20%.



**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 30/06/2010	As at 31/12/2009
------------------	------------------

Secured RMB'000	Unsecured* RMB'000	Secured RMB'000	Unsecured* RMB'000
533,091	647,457	666,652	380,242

**Amount repayable after one year**

As at 30/06/2010	As at 31/12/2009
------------------	------------------

Secured RMB'000	Unsecured* RMB'000	Secured RMB'000	Unsecured* RMB'000
286,524	161,666	455,357	834,794

**Details of any collateral**

The Group's borrowings are secured by the following:

- (i) Certain property, plant and equipment and investment property of the Group.

\* Borrowings amounting to RMB535,647,100 (2009:RMB 315,038,800) 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 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010 RMB '000	30/06/2009 RMB '000	30/06/2010 RMB '000	30/06/2009 RMB '000
<b>Cash flows from operating activities:</b>				
Profit after income tax	124,648	34,894	166,659	29,349
Adjustments for:				
Depreciation	92,992	90,614	187,489	181,314
(Gain)/ Loss on disposal of property, plant and equipment	(720)	174	(36)	257
Fair value loss on financial assets, fair value through profit or loss	510	15,142	454	14,946
Gain on disposal of financial assets, fair value through profit or loss	-	(954)	-	(954)
Loss on disposal of financial assets, available-for-sale	168	2,009	168	2,155
Fair value gain on convertible bonds	(12,033)	-	(19,762)	-
Fair value gain on convertible shares	(19,047)	-	(32,412)	-
Exchange loss on convertible shares	934	-	3,811	-
Interest income	(4,020)	(4,034)	(9,738)	(11,195)
Interest expense	49,944	70,630	113,976	127,640
Income tax expense	49,047	8,820	64,193	11,186
Share of profit of associated company	-	-	(172)	-
Unrealised currency translation (gain)/loss	1,895	-	633	-
	159,670	182,401	308,604	325,349
<b>Operating cash flow before working capital changes</b>	284,318	217,295	475,263	354,698
Bank balances pledged	429,962	(59,244)	322,698	(434)
Receivables	(130,002)	(25,409)	(297,897)	(177,096)
Inventories	129,073	(8,832)	(163,526)	(179,377)
Payables	(343,053)	28,438	16,357	(118,714)
	85,980	(65,047)	(122,368)	(475,621)
<b>Cash used in operating activities</b>	370,298	152,248	352,895	(120,923)
Income tax paid	(2,221)	(1,370)	(4,665)	(3,984)
<b>Net cash provided by/(used in) operating activities</b>	368,077	150,878	348,230	(124,907)
<b>Cash flows from investing activities:</b>				
Payments for property, plant and equipment	(29,134)	(19,660)	(58,585)	(54,252)
Proceeds from disposal of property, plant and equipment	-	250	-	629
Proceeds from disposal of financial assets, available for sale	324	12,817	324	13,104
Proceeds from disposal of financial assets, at fair value through profit and loss	-	4,864	-	4,864
Payment for conversion of CFE options	(54,815)	-	(54,815)	-
Refund of paid-up capital from joint venture	20,000	-	20,000	-
Investment in joint venture	-	-	-	(20,000)
Interest received	4,020	4,034	9,738	11,195
<b>Net cash provided by/(used in) investing activities</b>	(59,605)	2,305	(83,338)	(44,460)
<b>Cash flows from financing activities:</b>				
Proceeds from borrowings	1,005,153	777,366	1,759,837	1,555,339
Repayment of borrowings	(909,844)	(791,565)	(1,520,175)	(1,416,145)
Interest paid	(53,510)	(45,782)	(93,567)	(81,287)
<b>Net cash provided by/(used in) financing activities</b>	41,799	(59,981)	146,095	57,907
<b>Net decrease in cash and cash equivalents</b>	350,271	93,202	410,987	(111,460)
Cash and cash equivalents at beginning of the period	350,829	471,737	290,113	676,399
<b>Cash and cash equivalents at end of the period</b>	701,100	564,939	701,100	564,939

**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**

<b>The Group</b>	<b>Share capital</b> RMB '000	<b>Capital reserve</b> RMB '000	<b>Fair Value reserve</b> RMB '000	<b>Translation reserve</b> RMB '000	<b>Statutory reserve</b> RMB '000	<b>Retained earnings</b> RMB '000	<b>Total</b> RMB '000
<b>Balance as at 1 January 2010</b>	353,297	249,218	21,320	7,695	141,072	1,284,075	2,056,677
Issue of shares pursuant to exercise of convertible bonds and convertible shares	28,447	-	-	-	-	-	28,447
Total comprehensive income/(loss) for the period	-	-	-	(1,261)	-	42,011	40,750
<b>Balance as at 31 March 2010</b>	381,744	249,218	21,320	6,434	141,072	1,326,086	2,125,874
Issue of shares pursuant to exercise of convertible bonds and convertible shares	1,329	-	-	-	-	-	1,329
Total comprehensive income/(loss) for the period	-	-	(30,267)	1,895	-	124,648	96,276
<b>Balance as at 30 June 2010</b>	383,073	249,218	(8,947)	8,329	141,072	1,450,734	2,223,479

<b>The Group</b>	<b>Share capital</b> RMB '000	<b>Capital reserve</b> RMB '000	<b>Fair value reserve</b> RMB '000	<b>Currency translation reserve</b> RMB '000	<b>Statutory reserve</b> RMB '000	<b>Retained earnings</b> RMB '000	<b>Total</b> RMB '000
<b>Balance as at 1 January 2009</b>	353,297	249,218	(23,081)	11,413	141,072	615,252	1,347,171
Total comprehensive income/(loss) for the period	-	-	1,572	(1,058)	-	(5,545)	(5,031)
<b>Balance as at 31 March 2009</b>	353,297	249,218	(21,509)	10,355	141,072	609,707	1,342,140
Total comprehensive income/(loss) for the period	-	-	21,509	(1,679)	-	34,894	54,724
<b>Balance as at 30 June 2009</b>	353,297	249,218	-	8,676	141,072	644,601	1,396,864

**The Company**

	<b>Share capital</b> RMB '000	<b>Capital reserve</b> RMB '000	<b>Fair value reserve</b> RMB '000	<b>Retained earnings</b> RMB '000	<b>Total</b> RMB '000
<b>Balance as at 1 January 2010</b>	2,059,133	249,218	21,320	(49,986)	2,279,685
Issue of shares pursuant to exercise of convertible bonds and convertible shares	28,447	-	-	-	28,447
Total comprehensive loss for the period	-	-	-	(5,549)	(5,549)
<b>Balance as at 31 March 2010</b>	2,087,580	249,218	21,320	(55,535)	2,302,583
Issue of shares pursuant to exercise of convertible bonds and convertible shares	1,329	-	-	-	1,329
Total comprehensive loss for the period	-	-	(30,267)	(17,413)	(47,680)
<b>Balance as at 30 June 2010</b>	2,088,909	249,218	(8,947)	(72,948)	2,256,232

**The Company**

	<b>Share capital</b> RMB '000	<b>Capital reserve</b> RMB '000	<b>Fair value reserve</b> RMB '000	<b>Retained earnings</b> RMB '000	<b>Total</b> RMB '000
<b>Balance as at 1 January 2009</b>	2,059,133	249,218	(23,081)	(316,461)	1,968,809
Total comprehensive income/(loss) for the period	-	-	1,572	(26,700)	(25,128)
<b>Balance as at 31 March 2009</b>	2,059,133	249,218	(21,509)	(343,161)	1,943,681
Total comprehensive income/(loss) for the period	-	-	21,509	(19,589)	1,920
<b>Balance as at 30 June 2009</b>	2,059,133	249,218	-	(362,750)	1,945,601

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 well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, 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

<b>Changes in the Share Capital of the Company for 2<sup>nd</sup> Quarter Ended</b>	30/06/2010	30/06/2009
Number of ordinary shares as at 1 April	542,544,121	535,478,498
Shares arising from conversion of convertible shares	410,906	-
Number of ordinary shares as at 30 June	542,955,027	535,478,498

<b>Convertible Bonds as at</b>	30/06/2010	30/06/2009
Number of shares that maybe issued on conversion of all outstanding convertible bonds	34,247,973	-
<b>Convertible Shares as at</b>	30/06/2010	30/06/2009
Number of shares that maybe issued on conversion of all outstanding convertible shares	36,851,826	-

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The Company has no treasury shares.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not Applicable

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 reviewed or audited by our auditors.

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

Not Applicable

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 2009.

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 <sup>nd</sup> Quarter Ended		Half Year Ended	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net profit for the period	124,648	34,894	166,659	29,349
Basic earnings per share (in RMB cents)	23.0	6.52	30.8	5.48
Diluted earnings per share (in RMB cents)	20.3	6.52	27.2	5.48
Weighted average no. of shares outstanding for basic earnings per share	542,634,430	535,478,498	541,800,404	535,478,498
Weighted average no. of shares outstanding for diluted earnings per share	613,734,226	535,478,498	612,900,200	535,478,498

**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 weighted average number of shares in issue during the period under review after adjusting to include the dilutive effect of all dilutive potential ordinary shares, e.g., convertible shares and convertible bonds.

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

	The Group		The Company	
	30/06/2010	31/12/2009	30/06/2010	31/12/2009
Net Asset Value per share (RMB)	4.10	3.84	4.16	4.25

Net asset value per share for the Group and Company is calculated based on 542,955,027 ordinary shares in issue at the end of the financial period under review and 535,478,498 ordinary shares in issue at the end of the immediate preceding financial year ended 31 December 2009.

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**

**(a) Review of income statement of the Group**

**2Q2010 vs 2Q2009**

**Revenue**

Revenue increased by RMB550.0 million or 29.1% from RMB1.89 billion in 2Q2009 to RMB2.44 billion in 2Q2010. The increase in revenue was principally attributed to the increase in the average selling prices and sales volume of Hot Rolled Coils ("HRC") in 2Q2010 as compared to previous corresponding period.

In 2Q2010 the Group sold 656,890 tonnes of HRC and 3,622 tonnes of steel billets as compared to 645,812 tonnes of HRC and 11,372 tonnes of steel billets in 2Q2009. Overall HRC sales quantity increased by 3,328 tonnes or 0.5%.

The increase in revenue was also due to the increase in volume of mill rolls sold by 1,267 tonnes from 883 tonnes in 2Q2009 to 2,150 tonnes in 2Q2010. Revenue from mill rolls accounted for approximately 0.81% of the Group's revenue in 2Q2010.

**Cost of sales**

Cost of sales increased by RMB480.0 million or 27.0% from RMB 1.75 billion in 2Q2009 to RMB2.23 billion in 2Q2010. The increase was in line with the increase in sales volume and higher raw material prices for steel production in 2Q2010 compared to the previous corresponding period.

## **Gross profit**

Gross profit increased by RMB75.7 million from RMB 132.6 million in 2Q2009 to RMB208.3 million in 2Q2010.

Gross profit margin increased from 7.0% in 2Q2009 to 8.5% in 2Q2010 primarily due to the increase in the average selling prices of HRC sold which outpaced the increase in raw materials prices.

## **Distribution and marketing expenses**

Distribution and marketing expenses increased by RMB 3.3 million from RMB0.7 million in 2Q2009 to RMB4.0 million in 2Q2010. The increase in distribution related expenses was in line with the increase in sales volume.

## **Administrative expenses**

Administrative expenses increased by RMB12.1 million from RMB 36.6 million in 2Q2009 to RMB48.7 million in 2Q2010. The increase was due to the increase in employee related costs and general administrative expenses e.g., traveling expenses, entertainment, legal and professional fees etc, which were in line with the increase in revenue resulting from the higher sales quantity in 2Q2010 as compared to previous corresponding period.

## **Finance expenses**

Finance expenses decreased by RMB20.7 million from RMB 70.6 million in 2Q2009 to RMB 49.9 million in 2Q2010. The decrease was due to the lower interest rates on bank borrowings, although there was an increase in bank borrowings drawdown for working capital purposes in 2Q2010.

## **Net profit**

Net profit after tax increased by RMB89.7 million or 257.2% from RMB34.9 million in 2Q2009 to RMB 124.6 million in 2Q2010. The net profit margins in 2Q2009 and 2Q2010 were 1.8% and 5.1% respectively.

Excluding the exceptional gain of RMB 31.1 million arising from the revaluation of bonds and convertible shares, the net profit after tax would have been RMB 93.6 million, representing a net profit margin of 3.8% in 2Q2010. The increase in net profit margin was primarily due to higher operating profit margin in 2Q2010.

## **1H2010 vs 1H2009**

### **Revenue**

Revenue increased from RMB3.49 billion in 1H2009 to RMB4.44 billion in 1H2010, representing an increase of RMB 950.0 million or 27.2%. The increase in revenue was principally attributed to the increase in the sales volume and higher average selling price of HRC in 1H2010

In 1H2010 the Group sold 1,246,890 tonnes of HRC and 12,972 tonnes of steel billets as compared to 1,182,452 tonnes of HRC and 22,862 tonnes of steel billets in 1H2009. Overall sales volume increased by 54,548 tonnes or 4.5%. The Group also sold 2,879 tonnes of mill rolls in 1H2010 as compared to 1,267 tonnes of mill rolls in 1H2009.

Revenue from mill rolls accounted for approximately 0.6% of the Group's revenue in 1H2010.

**Cost of sales**

Cost of sales increased by RMB 830.0 million or 25.4% from RMB 3.28 billion in 1H2009 to RMB4.11 billion in 1H2010 principally attributable to the increase in volume of HRC sold. The increase was also due to the increase in the prices of raw materials in 1H2010 compared with previous corresponding period.

**Gross profit**

Gross profit increased by RMB 115.7 million or 55.5% from RMB208.6 million in 1H2009 to RMB 324.3 million in 1H2010.

Gross profit margin increased by 1.3 percentage point from 6.0% in 1H2009 to 7.3% in 1H2010. The increase was primarily due to the increase in product selling prices which outpaced the increase in raw material prices.

**Distribution and marketing expenses**

Distribution and marketing expenses increased by RMB3.9 million from RMB1.5 million in 1H2009 to RMB5.4 million in 1H2010. This was due to increase in distribution related expenses as a result of higher sales quantity.

**Administrative expenses**

Administrative expenses increased by RMB 9.6 million from RMB 69.4 million in 1H2009 to RMB 79.0 million in 1H2010 due to increase in general administrative expenses and higher personnel expenses incurred as a result of higher sales quantity in 1H2010.

**Finance expenses**

Finance expenses decreased by RMB13.6 million from RMB127.6 million in 1H2009 to RMB114.0 million in 1H2010. The decrease was due to the lower interest rates on bank borrowings, although there was an increase in bank borrowings drawdown for working capital purposes.

**Net profit**

Net profit after tax increased by RMB137.4 million or 467.9% from RMB29.3 million in 1H2009 to RMB 166.7 million in 1H2010. The net profit margins in 1H2009 and 1H2010 were 0.8% and 3.8% respectively.

Excluding the exceptional gain of RMB 52.2 million arising from the revaluation of bonds and convertible shares, the net profit after tax would have been RMB 114.5 million, representing a net profit margin of 2.5% in 1H2010. The increase in net profit margin was primarily due to higher operating profit margin in 1H2010.



## **(b) Review of balance sheet of the Group as at 30 June 2010**

### **Current assets**

Current assets increased by RMB 630.0 million from RMB 2.64 billion as at 31 December 2009 to RMB 3.27 billion as at 30 June 2010. The increase was primarily attributable to the increase in cash and cash equivalent as well as the increase in inventories and notes receivable which were in line with the increase in revenue. The increase was partially offset by the decrease in bank balances pledged with banks for bank borrowings and notes payable.

The decrease in bank balances pledged with banks was due to the utilization of letters of credit in payment to creditors and suppliers. Letters of credit have lower security requirements and lower financing cost as compared to notes payable. Such instruments are classified under current borrowings.

The increase in inventories was mainly due to higher raw materials prices in 2Q2010 as well as increased purchase of raw materials in line with of higher production in 1H2010.

### **Current liabilities**

Current liabilities increased by RMB 390.0 million from RMB 2.95 billion as at 31 December 2009 to RMB 3.34 billion as at 30 June 2010. The increase was primarily attributable to the increase in bank borrowings drawn down for working capital purposes. The increase in trade payables was due to higher raw material prices in 2Q2010 as well as increased purchase of raw materials in line with of higher production in 1H2010. The increase was also due to increase in advance payment received from customers.

### **Working capital**

The Group had improved its negative working capital position by RMB237.7 million from RMB311.1 million as at 31 December 2009 to RMB73.4 million as at 30 June 2010. The Group's negative working capital position was mainly due to the use of short-term bank loans to finance its capital expenditure and working capital purposes.

Although the Group is in negative working capital position, it is able to service all of its debts obligations primarily through cash inflow from operations.

As at 30 June 2010, 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**

Non current assets decreased by RMB140.0 million from RMB3.66 billion as at 31 December 2009 to RMB3.52 billion as at 30 June 2010. The decrease was mainly due to decrease in Property, plant and equipment from RMB3.32 billion as at 31 December 2009 to RMB3.19 billion as at 30 June 2010 primarily due to the depreciation on property, plant and equipment for the period under review.

The decrease was partially offset by the increase in capital expenditure incurred on the construction of the mill roll plant under the Company's indirect wholly-owned subsidiary Xingtai Delong Machinery and Mill Roll Co., Ltd (“Xingtai Delong Mill Roll Plant”) and technical enhancements at Delong Steel Limited.

Non-current trade receivables decreased from RMB 218.4 million as at 31 December 2009 to RMB 195.5 million as at 30 June 2010, mainly due to the cancellation of a finance lease under Dezhong International Financing Leasing Co., Ltd.

### **(c) Review of cash flow statement of the Group**

#### **2Q2010 vs 2Q2009**

##### **Net Cash Generated From Operating Activities**

Operating cashflow before working capital changes increased by RMB67.0 million from RMB217.3 million in 2Q2009 to RMB284.3 million in 2Q2010. The increase was primarily due to the increase in operating profit. Net cash generated from operating activities improved by RMB217.2 million from RMB150.9 million in 2Q2009 to RMB368.1 in 2Q2010, attributable mainly to the decrease in bank balances pledged as securities for notes payable and bank borrowings. The increase was partially offset by the increase in receivables and payment made to suppliers

The increase in receivables was in line with the increase in revenue. The decrease in bank balances pledged was due to the utilization of letters of credit in payment to creditors and suppliers. Letters of credit have lower security requirements as compared to notes payable.

##### **Net Cash Used In Investing Activities**

Net cash used in investing activities was RMB59.6 million in 2Q2010. This was mainly attributable to the payment for conversion of options in CFE as well as payment for construction in relation to the mill roll at Xingtai Delong. The cash used in investing activities was partially offset by the refund of paid-up capital of RMB 20.0 million from Beijing Bohai Steel.

##### **Net Cash Used in Financing Activities**

Net cash generated by financing activities was RMB41.7 million in 2Q2010. This was mainly attributable to the drawdown of short-term loans of RMB1.005 billion for working capital less principal and interest repayments of RMB963.3 million.

#### **1H2010 vs 1H2009**

##### **Net Cash Generated From Operating Activities**

Operating cashflow before working capital changes increased by RMB120.6 million from RMB354.7 million in 1H2009 to RMB475.3 million in 1H2010. The increase was primarily due to the increase in operating profit. Net cash generated from operating activities increased by RMB473.1 million, attributable mainly to decrease in bank balances pledged as securities for bank borrowings and notes payable. The increase was partially offset by the increase in notes receivables which was in line with the increase in revenue as well as increase in the purchase of raw material during the period under review.

##### **Net Cash Used In Investing Activities**

Net cash used in investing activities increased by RMB38.8 million from RMB44.5 million in 1H2009 to RMB83.3 million in 1H2010, attributable mainly to the payments for conversion of options in CFE as well as payment for construction in relation to the mill roll at Xingtai Delong. The cash used in investing activities was partially offset by the refund of paid up capital of RMB20.0 million from Beijing Bohai Steel.

### **Net Cash Generated From Financing Activities**

Net cash inflow from financing activities was RMB146.1 million in 1H2010. This was mainly attributable to the drawdown of short-term loans. The increase was partially offset by the repayments of principal and interest for bank borrowings.

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

The Company had not previously made any prospect statements to its shareholders.

**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**

#### **Industry and Business Outlook**

The global steel market has witnessed fluctuations in recent months. While the Group had benefited from the increase in prices of HRC in the first half of FY2010, particularly in 2Q2010, steel prices are expected to continue to fluctuate in the second half of FY2010 (2H2010).

The uncertain outlook of global economic recovery and a series of policies implemented by the PRC government to prevent the real estate sector from overheating further since April 2010 will continue to impact the steel industry in the PRC.

The volatility in raw material prices coupled with excess capacity, weaker external demand and rising production costs will also continue to place pressure on the performances of steel manufacturers in the PRC.

While the near-term operating conditions may be challenging, the Group's management remains cautiously optimistic of the prospects of the PRC steel industry as underlying domestic demand for HRC is expected to remain strong within China.

#### **11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on? No.

**(b) Corresponding Period of the Immediately Preceding Financial Year**

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

**(c) Date payable and Book Closure Date**

N.A.

**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 30 June 2010.

**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.**

**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