



DELONG HOLDINGS LIMITED

(REG. NO. 199705215G)

UNAUDITED SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2018

Statement Pursuant to SGX Listing Rule 705(5) 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 2018 to be false or misleading in any material respect.

On behalf of the Board of Directors

Mr. Ding Ligu
Chairman

Mr. Wu Yujie
Executive Director

Singapore
8 August 2018

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					Increase (Decrease) %
		2 nd Quarter Ended		Increase (Decrease) %	Half Year Ended		
		30/06/2018 RMB'000	30/06/2017 RMB'000		30/06/2018 RMB'000	30/06/2017 RMB'000	
Sales		3,760,950	3,199,044	17.6	6,710,943	6,185,748	8.5
Cost of sales		(3,096,178)	(2,623,990)	18.0	(5,605,590)	(5,082,297)	10.3
Gross Profit		664,772	575,054	15.6	1,105,353	1,103,451	0.2
Other Income	1	32,125	26,578	20.9	63,356	52,144	21.5
Other losses-net	2	(18,598)	(19,232)	(3.3)	(24,842)	(9,023)	175.3
Expenses							
-Distribution and marketing		(5,859)	(32,666)	(82.1)	(12,734)	(60,344)	(78.9)
-Administrative		(84,737)	(69,204)	22.4	(183,848)	(138,620)	32.6
-Finance		(26,422)	(25,413)	4.0	(56,011)	(56,307)	(0.5)
Share of loss of an associate ¹		(132)	(160)	(17.5)	(260)	(279)	(6.8)
Share of loss of a joint venture ²		(1,236)	-	100.0	(1,505)	-	100.0
Profit before tax	3	559,913	454,957	23.1	889,509	891,022	(0.2)
Income tax expense	4	(75,593)	(74,110)	2.0	(124,412)	(122,386)	1.7
Net Profit		484,320	380,847	27.2	765,097	768,636	(0.5)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Net profit	484,320	380,847	27.2	765,097	768,636	(0.5)
Other comprehensive income						
Available-for-sale financial assets- Fair value gain	10,550	(536)	n.m	4,973	(13,829)	(136.0)
Currency translation differences	18,755	(2,185)	n.m	15,292	(7,403)	(306.6)
Other comprehensive income for the period, net of tax	29,305	(2,721)	n.m	20,265	(21,232)	(195.4)
Total comprehensive income	513,625	378,126	35.8	785,362	747,404	5.1

¹ This refers to Xingtai Xilan Zhongde Natural Gas Sales Co., Ltd

² This refers to PT Dexin Steel Indonesia

Notes:-

1 Other Income

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RMB'000	RMB'000	RMB'000	RMB'000
Government Grant ^(a)	250	280	250	900
Finance lease income	1,407	199	1,672	257
Interest income ^(b)	30,468	26,099	61,434	50,987
	<u>32,125</u>	<u>26,578</u>	<u>63,356</u>	<u>52,144</u>

Note:

- (a) Government grant received in recognition of the Group's technological improvement and energy-saving emission reduction projects in the PRC.
- (b) Interest earned on bank deposits, held to maturity financial assets, available-for-sale financial assets and entrusted loans to customers.

2 Other losses -net

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RMB'000	RMB'000	RMB'000	RMB'000
Currency translation gain (loss)-net ^(a)	11,474	(6,762)	(807)	(6,683)
Fair value gain on held for trading investment	363	627	60	798
Loss (gain) on disposal of property, plant and equipment ("PPE")	13	(9,748)	(836)	(8,829)
Impairment charges on PPE ^(c)	(34,616)	-	(34,616)	-
Others ^(b)	4,168	(3,349)	11,357	5,691
	<u>(18,598)</u>	<u>(19,232)</u>	<u>(24,842)</u>	<u>(9,023)</u>

Notes:

- (a) The currency translation gain was mainly due to the revaluation of bank balances and intercompany balances denominated in USD and SGD, which strengthened against RMB for the three-month financial period ended 30 June 2018 ("2Q2018").
- (b) Others comprised the sale of gas, oxygen, electricity, etc.
- (c) This refers to obsolete plant and equipment written off

3. Profit before taxation includes the following items:-

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortization ^(a)	53,772	78,822	106,806	163,280
Staff costs ^(b)	134,235	81,120	233,456	181,949
Operating lease rental	85	88	171	176

Notes:

- (a) The decrease in depreciation and amortization in 2Q2018 and for the first half of 2018 ("1H2018") was mainly due to the cessation of Aoyu Steel's operations since August 2017.

(b) The increase in staff costs was mainly due to higher headcounts and payroll related expenses in 2Q2018 and 1H2018 as compared to previous corresponding period.

4. Income Tax Expense

	The Group			
	2 nd Quarter Ended		Half Year Ended	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RMB'000	RMB'000	RMB'000	RMB'000
Tax expense is made up of:				
Provision on the profit for the financial year				
Current income tax				
-Foreign	75,488	73,540	124,266	122,029
-Singapore	105	570	146	668
Deferred income tax	-	-	-	(360)
Adjustments in respect of the preceding financial years				
-Current income tax	-	-	-	49
	<u>75,593</u>	<u>74,110</u>	<u>124,412</u>	<u>122,386</u>

Note:-

The effective tax rate for 2Q2018 and 1H2018 was lower than the amount obtained by applying the People's Republic of China ("PRC") statutory rate of 25% on profit before tax mainly due to a subsidiary in the PRC being granted for High and New Technology Enterprise ("Hi-Tech") qualification and is taxed at a concessionary tax rate of 15% from 9 September 2014 to 9 September 2020.

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 30/06/2018	As at 31/12/2017	As at 30/06/2018	As at 31/12/2017
Current assets					
Cash and cash equivalents		1,797,607	2,135,871	2,483	2,127
Bank balances pledged		2,108,247	1,111,559	-	-
Held for Trading Investments	1	1,049,792	982,927	-	-
Held-to-maturity financial assets	2	-	30,000	-	-
Trade and other receivables	3	920,902	928,412	177,654	188,603
Inventories	4	798,087	812,037	-	-
Non-current assets held for sales	5	67,672	67,672	-	-
Other assets	6	795,850	972,150	236	225
Total current assets		7,538,157	7,040,628	180,373	190,955
Non-current assets					
Other assets	6	-	6,000	-	-
Held-to-maturity financial assets	2	6,627	6,512	-	-
Available-for-sale financial assets	7	361,116	233,448	-	-
Investments in subsidiaries		-	-	2,010,492	2,010,492
Investment in an associate	8	3,135	3,395	-	-
Investment in joint venture	9	445,778	446,400	-	-
Property, plant and equipment		2,376,566	2,181,129	19	33
Deferred tax assets		8,480	8,480	-	-
Total non-current assets		3,201,702	2,885,364	2,010,511	2,010,525
Total assets		10,739,859	9,925,992	2,190,884	2,201,480
Current liabilities					
Trade and other payables	10	2,666,043	2,563,115	3,258	7,580
Notes payables		699,826	1,159,092	-	-
Borrowings		1,176,950	955,802	10	10
Income tax liabilities		260,544	348,844	-	-
Total current liabilities		4,803,363	5,026,853	3,268	7,590
Non-current liabilities					
Borrowings		539,447	297,452	17	22
Deferred income tax liabilities		22,889	22,889	-	-
Total non-current liabilities		562,336	320,341	17	22
Total liabilities		5,365,699	5,347,194	3,285	7,612
Net Assets		5,374,160	4,578,798	2,187,599	2,193,868
Capital reserves and non-controlling interests					
Share capital		406,644	406,644	2,112,480	2,112,480
Reserves		4,957,516	4,172,154	75,119	81,388
Equity attributable to owners of the Company		5,364,160	4,578,798	2,187,599	2,193,868
Non-controlling interests		10,000	-	-	-
Total equity		5,374,160	4,578,798	2,187,599	2,193,868

Notes:

1. This mainly relates to cash placed with the financial institutions for a tenor of 7 days. The interest rate on held for trading investments is approximately 3% per annum.

2. Held-to-maturity financial assets

	The Group	
	30/06/2018	31/12/2017
	RMB'000	RMB'000
Huoao International Trust Co., Ltd	-	30,000
Mitralign, Inc	6,627	6,512
	<u>6,627</u>	<u>36,512</u>

The interest rate of the held-to-maturity financial asset ranges from 1.1% to 7.5% per annum and matures within 12 months.

Analysed as:

Current	-	30,000
Non-current	6,627	6,512
	<u>6,627</u>	<u>36,512</u>

3. Trade and other receivables - current

	The Group	
	30/06/2018	31/12/2017
	RMB'000	RMB'000
Trade receivables ⁽¹⁾	120,975	106,551
Notes receivable	799,927	821,861
	<u>920,902</u>	<u>928,412</u>

⁽¹⁾After taking into account of the allowance for doubtful debts for trade receivables which were overdue for over 360 days.

4. Inventories

	The Group	
	30/06/2018	31/12/2017
	RMB'000	RMB'000
Raw materials	533,700	630,818
Work-in-progress	172,697	128,524
Finished goods	85,160	47,457
Production supplies	6,530	5,238
	<u>798,087</u>	<u>812,037</u>

Due to higher raw material prices, the Company reduced inventory holdings as at 30 June 2018.

5. This refers to the property, plant and equipment of Aoyu Steel that are pending disposal.

6. Other assets

	The Group	
	30/06/2018 RMB'000	31/12/2017 RMB'000
Deposits for offices	565	556
Prepayments ^(a)	393,121	330,073
Entrusted loan to investee companies	29,805	52,667
VAT and tax recoverable	1,196	21,726
Commitment Sum and Bidding Deposit for the Proposed Acquisition of Anhui Shoukuang ^(b)	-	541,850
Loans to PT Dexin Steel Indonesia ^(c)	268,407	-
Others	102,756	31,278
	<u>795,850</u>	<u>978,150</u>
Analysed as:		
Current	795,850	972,150
Non-current	-	6,000
	<u>795,850</u>	<u>978,150</u>

(a) Prepayments relate to advance payments made to suppliers for the purchase of raw materials.

(b) The Commitment Sum and Bidding Deposit were fully refunded on 8 January 2018 and 16 January 2018, respectively. Please refer to the Company's announcements dated 8 and 16 January 2018 for details.

(c) These loans were made in accordance with the terms & conditions of the shareholders' agreement entered into in FY2017.

7. Available-for-sale financial assets

	The Group	
	30/06/2018 RMB'000	31/12/2017 RMB'000
10% equity interest in Hebei Zhongmei Xuyang Coking Co., Ltd	10,000	10,000
1.6% equity interest in Hengshi Mining Investments Ltd	40,913	39,972
Shan Nan De Lian Heng Tong Investment	38,500	38,500
Qingdao Kutesmart Co., Ltd	10,000	10,000
CEG Ventures I, L.P	56,332	44,284
Shunwei Technology Equity Investment L.P	30,484	15,523
Tai You Fund I, LP	3,314	3,256
LDV Partners Fund I, LP	8,026	7,203
Ocean Imagination LP	23,207	14,660
Alpha Global Investment LP	46,391	26,050
MicRx Pharmaceutical Inc	29,949	15,000
Xin Yi Tai Fund Management LP	6,000	6,000
Tibet Boren Yutai Investment Centre LP	3,000	3,000
Citic Private Equity RMB Fund III	55,000	-
	<u>361,116</u>	<u>233,448</u>

8. This refers to the Company's 49% equity stake in Xingtai Xilan Zhongde Natural Gas Sales Co., Ltd.

9. This refers to the Company's 45% shareholdings in P.T Dexin Steel Indonesia.

10. Trade and other payables

	The Group	
	30/06/2018 RMB'000	31/12/2017 RMB'000
Trade payables to third parties	736,628	581,225
Letters of credit	443,114	691,131
VAT and other taxes payable	116,917	95,153
Payable to contractors for construction-in-progress	106,552	1,779
Advances from customers ⁽¹⁾	738,378	800,368
Other accrual for operating expenses	2,021	4,243
Accrual for staff cost	88,244	46,689
Due to directors (non-trade)	1,784	2,697
Deferred government grant	66,366	68,795
Compensation from PGLC ⁽²⁾	239,470	160,000
Deposit from customers	897	-
Other payables	125,672	111,035
	<u>2,666,043</u>	<u>2,563,115</u>

Notes:

⁽¹⁾ Advances from customers represent prepayments made by customers. These advance payments are to be offset against the purchases when the goods are collected by the customers.

⁽²⁾ Please refer to the Company's announcement dated 12 December 2017, 4 April 2018 and 29 June 2018 for further details.

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 30/06/2018	As at 31/12/2017
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Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
1,016,950	160,000	855,802	100,000

Amount repayable after one year

As at 30/06/2018	As at 31/12/2017
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Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
534,481	4,966	200,452	97,000

Details of any collateral

The Group's borrowings are secured by certain property, plant and equipment and pledged bank balances.

As at 30 June 2018, the Group's bank borrowings of approximately RMB2,417.6 million (2017: RMB1,747.9 million) were guaranteed by third parties. The Group has also provided guarantees to banks for borrowings of third parties amounted to approximately RMB179.8 million (2017: RMB295.1 million).

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

	Note	The Group			
		2 nd Quarter Ended		Half Year Ended	
		30/06/2018	30/06/2017	30/06/2018	30/06/2017
		RMB '000	RMB '000	RMB '000	RMB '000
Cash flows from operating activities:					
Profit after income tax		484,320	380,847	765,097	768,636
Adjustments for:					
Depreciation		53,772	78,822	106,806	161,840
Amortisation of intangible asset		-	-	-	1,440
Impairment loss for property, plant and equipment		34,616	-	34,616	-
(Gain) loss on disposal of property, plant and equipment		(13)	9,748	836	8,829
Fair value gain on held for trading investments		(363)	(627)	(60)	(798)
Share of loss of an associate company		132	160	260	279
Share of loss of a joint venture		1,236	-	1,505	-
Interest income		(30,468)	(26,099)	(61,434)	(50,987)
Interest expense		26,422	25,413	56,011	56,307
Income tax expense		75,593	74,110	124,412	122,386
Unrealised currency translation loss (gain)		17,826	(4,362)	14,390	(5,693)
		178,753	157,165	277,342	293,603
Operating cash flow before working capital changes		663,073	538,012	1,042,439	1,062,239
Bank balances pledged		(493,010)	(160,350)	(996,688)	424,165
Receivables		(1,051)	97,102	189,809	30,894
Inventories		80,083	26,816	13,950	(158,793)
Payables		(91,996)	813,372	102,929	973,875
		(505,974)	776,940	(690,000)	1,270,141
Cash provided by operating activities		157,099	1,314,952	352,439	2,332,380
Income tax paid		(85,345)	(72,875)	(212,712)	(100,032)
Net cash provided by operating activities		71,754	1,242,077	139,727	2,232,348
Cash flows from investing activities:					
Payments for property, plant and equipment		(223,417)	(153,631)	(337,676)	(145,172)
Purchase of available-for-sale financial assets		(106,147)	(26,161)	(122,695)	(26,161)
Proceeds (purchase) of held for trading investments		167,377	(351,625)	(66,805)	(277,437)
(Purchase) proceeds from disposal of held-to-maturity financial assets		(334)	41,723	29,885	131,723
Interest received		30,468	26,099	61,434	50,987
Capital contribution by non-controlling interest		10,000	-	10,000	-
Net cash used in investing activities		(122,053)	(463,595)	(425,857)	(266,060)
Cash flows from financing activities:					
Proceeds from borrowings		1,322,940	802,407	1,777,940	1,266,576
Repayment of borrowings		(993,323)	(1,710,422)	(1,774,063)	(2,805,641)
Interest paid		(26,422)	(25,413)	(56,011)	(56,307)
Net cash provided by (used in) by financing activities		303,195	(933,428)	(52,134)	(1,595,372)
Net increase (decrease) in cash and cash equivalents		252,896	(154,946)	(338,264)	370,916
Cash and cash equivalents at beginning of the period		1,544,711	1,492,794	2,135,871	966,932
Cash and cash equivalents at end of the period		1,797,607	1,337,848	1,797,607	1,337,848

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 RMB '000	Capital reserve RMB '000	Fair value reserve RMB'000	Translation reserve RMB '000	Statutory reserve RMB '000	Retained earnings RMB '000	Non-controlling interest RMB '000	Total RMB '000
Balance as at 1 January 2018	406,644	261,613	(23,536)	11,177	141,072	3,781,828	-	4,578,798
Effect of adoption Singapore Financial Reporting Standards (international) ("SFRS(1)") 9	-	-	(95,000)	-	-	95,000	-	-
Total comprehensive (loss) income for the period	-	-	(5,577)	(3,463)	-	280,777	-	271,737
Balance as at 31 March 2018	406,644	261,613	(124,113)	7,714	141,072	4,157,605	-	4,850,535
Total comprehensive income for the period	-	-	10,550	18,755	-	484,320	-	513,625
Capital contribution by non-controlling interest	-	-	-	-	-	-	10,000	10,000
Balance as at 30 June 2018	406,644	261,613	(113,563)	26,469	141,072	4,641,925	10,000	5,374,160

The Group	Share Capital RMB '000	Capital reserve RMB '000	Fair value reserve RMB'000	Translation reserve RMB '000	Statutory reserve RMB '000	Retained earnings RMB '000	Total RMB '000
Balance as at 1 January 2017	406,644	261,613	(304)	23,424	141,072	1,711,922	2,544,371
Total comprehensive (loss) income for the period	-	-	(13,293)	(5,218)	-	387,789	369,278
Balance as at 31 March 2017	406,644	261,613	(13,597)	18,206	141,072	2,099,711	2,913,649
Total comprehensive (loss) income for the period	-	-	(536)	(2,185)	-	380,847	378,126
Balance as at 30 June 2017	406,644	261,613	(14,133)	16,021	141,072	2,480,558	3,291,775

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

<u>The Company</u>	Share capital	Capital reserve	Retained earnings	Total
	RMB '000	RMB '000	RMB '000	RMB '000
Balance as at 1 January 2018	2,112,480	249,218	(167,830)	2,193,868
Total comprehensive loss for the period	-	-	(5,004)	(5,004)
Balance as at 31 March 2018	2,112,480	249,218	(172,834)	2,188,864
Total comprehensive loss for the period	-	-	(1,265)	(1,265)
Balance as at 30 June 2018	2,112,480	249,218	(174,099)	2,187,599

<u>The Company</u>	Share capital	Capital reserve	Retained earnings	Total
	RMB '000	RMB '000	RMB '000	RMB '000
Balance as at 1 January 2017	2,112,480	249,218	(154,098)	2,207,600
Total comprehensive loss for the period	-	-	(440)	(440)
Balance as at 31 March 2017	2,112,480	249,218	(154,538)	2,207,160
Total comprehensive loss for the period	-	-	(4,029)	(4,029)
Balance as at 30 June 2017	2,112,480	249,218	(158,567)	2,203,131

- 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

Changes in the Share Capital of the Company for 2nd Quarter Ended	30/06/2018	30/06/2017
Number of ordinary shares as at 1 April	110,182,709	110,182,709
Shares arising from conversion of convertible shares	-	-
Number of ordinary shares as at 30 June	110,182,709	110,182,709

There were no outstanding convertibles as at 30 June 2018.

- 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 2017, except that the Group has adopted Singapore Financial Reporting Standards (International) (“SFRS(I)”) and all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2018.

For SFRS(I) 9, the Group elected the option at initial recognition, to measure equity investments that is not held-for-trading at fair value through other comprehensive income (“FVTOCI”), which only dividend income recognized in profit or loss. The effect on adoption of SFRS(I) 9 has resulted in a decrease of RMB95 million in fair value reserve and a corresponding increase in retained earnings of the Group as at 1 January 2018.

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 except as those stated in paragraph 4

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	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
	RMB'000	RMB'000	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	484,320	380,847	765,097	768,636
Basic earnings per share (in RMB)	4.40	3.46	6.94	6.98
Diluted earnings per share (in RMB)	4.40	3.46	6.94	6.98

Explanatory Notes:

Basic earnings per share is calculated based on the weighted average number of shares in issue of 110,182,709 (post consolidation) for both periods.

There is no difference between the basis and diluted earnings per share.

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	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Net Asset Value per share (RMB)	48.68	41.56	19.85	19.91

Net asset value per share for the Group and Company is calculated based on 110,182,709 ordinary shares (post share consolidation) for both periods.

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) **Financial Review for the second quarter and six months ended 30 June 2018**

2Q2018 vs 2Q2017

Revenue

Group revenue increased by RMB562.0 million or 17.6% from RMB3,199.0 million in 2Q2017 to RMB3,761.0 million in 2Q2018. The increase in revenue was principally attributed to a significant increase in average selling prices of hot rolled coil (“HRC”) amid tighter supplies following ongoing production curbs and growing demand from the construction and infrastructure sectors, despite a decrease in sales volume due to the cessation of operations at the Group’s subsidiary, Aoyu Steel Co., Ltd since August 2017.

In 2Q2018, the Group sold 1,029,544 tonnes of HRC and 6,456 tonnes of steel billets as compared to 1,130,200 tonnes of HRC and 33 tonnes of steel billets in 2Q2017. Overall sales quantity decreased by 94,233 tonnes or 8.3%.

Cost of sales

Total cost of sales increased by RMB472.2 million or 18.0%, from RMB2,624.0 million in 2Q2017 to RMB3,096.2 million in 2Q2018. The increase was primarily due to higher raw material prices in particular coke for steel production as well as higher staff costs incurred in 2Q2018.

Coke prices rose to the highest level since mid November 2017 due to tightening supply as well as mining production cuts as part of the new measures implemented to curb pollution.

Gross profit

Gross profit increased by RMB89.7 million or 15.6%, from RMB575.1 million in 2Q2017 to RMB664.8 million in 2Q2018.

Gross profit margin decreased marginally by 0.3 percentage points from 18.0% in 2Q2017 to 17.7% in 2Q2018. The decrease was primarily due to the increase in production cost per tonne as mentioned above, which outpaced the increase in average selling prices of HRC sold in 2Q2018.

Distribution and marketing expenses

Distribution and marketing expenses decreased by RMB26.8 million, from RMB32.7 million in 2Q2017, to RMB5.9 million in 2Q2018. This was mainly due to a decrease in transportation costs associated with the delivery of Aoyu Steel’s HRC products to customers in the PRC following the cessation of operations at Aoyu Steel in August 2017.

Administrative expenses

Administrative expenses increased by RMB15.5 million, from RMB69.2 million in 2Q2017 to RMB84.7 million in 2Q2018, primarily due to an increase in research and development expenses incurred on products development as well as higher staff costs including staff welfare contribution during the period under review.

The increase was partially offset by the cessation of operations at Aoyu Steel.

Finance expenses

Finance expenses increased by RMB1.0 million from RMB25.4 million in 2Q2017 to RMB26.4 million in 2Q2018. The increase was mainly due to increase in bank borrowings drawdown for working capital purposes in 2Q2018 as compared to the previous corresponding period.

Net profit

As a result of higher operating profit, the Group reported a net profit of RMB484.3 million in 2Q2018, compared to RMB380.8 million in 2Q2017. The net profit margin was 12.9% and 11.9% in 2Q2018 and 2Q2017, respectively.

1H2018 vs 1H2017**Revenue**

Group revenue increased by RMB525.2 million or 8.5%, from RMB6,185.7 million in 1H2017, to RMB6,710.9 million in 1H2018. The increase in revenue was principally attributed to a significant increase in average selling prices of hot rolled coil (“HRC”) amid tighter supplies following production cuts and driven by infrastructure and construction activities in the PRC as compared to the previous corresponding period, despite a decrease in sales volume.

The Group recorded lower production volume in 1H2018 mainly due to the cessation of operations at the Group’s subsidiary, Laiyuan County Aoyu Steel Co., Ltd since August 2017 coupled with the shut down of two out of Delong Steel’s three blast furnaces due to PRC’s Government’s environmental policies. Please refer to the Company’s announcement dated 5 December 2017 for further details.

In 1H2018, the Group sold 1,847,208 tonnes of HRC and 6,456 tonnes of steel billets as compared to 2,039,873 tonnes of HRC and 66 tonnes of steel billets in 1H2017. Overall sales quantity decreased by 186,275 tonnes or 9.1%.

Cost of sales

Total cost of sales increased by RMB523.3 million or 10.3%, from RMB5,082.3 million in 1H2017 to RMB5,605.6 million in 1H2018. was primarily due to higher raw material prices (i.e., coke, coal and steel scrap) for production as compared to the corresponding period. The increase was also due to repair and maintenance expenses incurred on the Group’s production facilities as well as higher wages in 1H2018.

Gross profit

Gross profit increased by RMB1.9 million or 0.2%, from RMB1,103.5 million in 1H2017, to RMB1,105.4 million in 1H2018.

Gross profit margin decreased marginally by 1.3 percentage points, from 17.8% in 1H2017 to 16.5% in 1H2018. The decrease was primarily due to the increase in production cost per tonne as mentioned above, which outpaced the increase in average selling prices of HRC sold in 1H2018.

Distribution and marketing expenses

Distribution and marketing expenses decreased by RMB47.6 million, from RMB60.3 million in 1H2017, to RMB12.7 million in 1H2018. This was mainly due to a decrease in transportation costs associated with the delivery of Aoyu Steel’s HRC products to customers in the PRC following the cessation of operations at Aoyu Steel since August 2017.

Administrative expenses

Administrative expenses increased by RMB45.2 million, from RMB138.6 million in 1H2017, to RMB183.8 million in 1H2018, primarily due to the increase in research and development expenses incurred on product development, higher staff welfare contribution as well as higher sewage and environmental impact assessment fee incurred in 1H2018 to comply with the increasingly stringent environmental regulations. The increase was partially offset by the cessation of operations at Aoyu Steel.

Finance expenses

Finance expenses decreased by RMB0.3 million, from RMB56.3 million in 1H2017, to RMB56.0 million in 1H2018, mainly due to a reduction in bill discounting charges following the cessation of operations at Aoyu Steel compared to previous corresponding period.

Net profit

As a result of the foregoing, the Group reported a net profit of RMB765.1 million in 1H2018, compared to a net profit of RMB768.6 million in 1H2017. The net profit margin was 11.4% and 12.4% in 1H2018 and 1H2017, respectively.

(b) Review of balance sheet of the Group as at 30 June 2018

Current assets

Current assets increased by RMB497.6 million, from RMB7,040.6 million as at 31 December 2017 to RMB7,538.2 million as at 30 June 2018, primarily due to the increase in bank balances pledged as security as a result of higher utilization of the credit facilities within the Group.

Current liabilities

Current liabilities decreased by RMB223.5 million, from RMB5,026.9 million as at 31 December 2017 to RMB4,803.4 million as at 30 June 2018, primarily due to a decrease in notes payables issued to suppliers during the period under review.

The decrease was partially offset by the increase in the drawdown of bank borrowings for working capital purposes during the period under review.

Working capital

The working capital position improved by RMB721.0 million, from RMB2,013.8 million as at 31 December 2017, to RMB2,734.8 million as at 30 June 2018.

The Group has satisfactorily maintained its credit facilities with financial institutions in PRC during the period under review and the credit facilities have constantly been renewed and/or rolled-over by these financial institutions.

Non-current assets – Property, plant and equipment

Property, plant and equipment increased by RMB195.5 million, from RMB2,181.1 million as at 31 December 2017 to RMB2,376.6 million as at 30 June 2018. primarily due to the capital expenditure incurred for ongoing technological and environmental enhancement programmes to the production facilities in the PRC.

The increase was partially offset by depreciation charges for the period under review.

Non-Current liabilities

Non-current liabilities increased by RMB242.0 million, from RMB320.3 million as at 31 December 2017 to RMB562.3 million as at 30 June 2018, primarily due to the drawdown of long term bank borrowings for working capital purposes during the period under review.

(c) Review of cash flow statement of the Group

2Q2018 vs 2Q2017

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes increased by RMB125.1 million, from RMB538.0 million in 2Q2017 to RMB663.1 million in 2Q2018, primarily due to the increase in operating profit. Net cash from operating activities decreased by RMB1,170.3 million from RMB1,242.1 million in 2Q2017 to RMB71.8 million in 2Q2018, attributable mainly to the increase in bank balances pledged as a result of higher utilization of the credit facilities within the Group as well as the decrease in the utilization of letters of credit during the period under review.

Net Cash Used in Investing Activities

Net cash used in investing activities was RMB122.1 million in 2Q2018. This comprised principally the progress payments for on-going technical enhancements to the upgrade production facilities in the PRC and payments for the purchase of available-for-sale financial assets.

The decrease was partially offset by the proceeds from the disposal of held for trading investments, interest received from banks and capital contribution from non-controlling interest of Xingtai Degui Nano Material Technology Limited, the Group's 80% owned subsidiary.

Net Cash Generated From Financing Activities

Net cash generated from financing activities was RMB303.2 million in 2Q2018. This was mainly attributable to the drawdown of bank borrowing of RMB1,322.9 million for working capital purposes, loan principal and interest repayments of RMB1,019.7 million.

1H2018 vs 1H2017

Net Cash Generated From Operating Activities

Operating cashflow before working capital changes decreased by RMB19.8 million, from RMB1,062.2 million in 1H2017 to RMB1,042.4 million in 1H2018, primarily due to the decrease in operating profit. Net cash from operating activities decreased by RMB2,092.6 million from RMB2,232.3 million in 1H2017, to RMB139.7 million in 1H2018, attributable mainly to the increase in bank balances pledged as security to banks for the issuance of notes payable within the Group.

Net Cash Used in Investing Activities

Net cash used in investing activities was RMB425.9 million in 1H2018. This comprised principally the progress payments for the technical enhancements to the upgrade production facilities in the PRC and payments for the purchases of available-for-sale financial assets and held for trading investments.

The increase was partially offset by the proceeds from the disposal of held-to-maturity financial assets, interest received from the banks and capital contribution from non-controlling interest of Xingtai Degui Nano Material Technology Limited, the Group's 80% owned subsidiary.

Net Cash Used In Financing Activities

Net cash used in financing activities was RMB52.1 million in 1H2018. This was mainly attributable to the drawdown of bank borrowings of RMB1,777.9 million, loan principal and interest repayments of RMB1,830.1 million.

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

The Company is of the view that its financial results for 2Q2018 are in line with the commentary in the results announcement for the financial period ended 31 March 2018.

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

China's national economy remained healthy in the first half of 2018, with a gross domestic product of RMB41.9 trillion, up 6.8% year-on-year³. On the industry front, crude steel output also saw increase in 1H2018, rising by 6% to 451.2 million tonnes. While overall output increased, domestic steel market sentiments remained soft, sentiments towards the PRC steel industry remains generally weak, amidst efforts by the PRC authorities and industrial bodies to reduce capacity. The China Iron and Steel Association has said in May 2018 that China will continue to ease overcapacity, with a view towards reducing domestic steel capacity to less than 1 billion tonnes by 2025.

Within Hebei Province, a three-year industry capacity reduction work plan for the period from 2018 to 2020 was also put in place. Aimed at keeping total annual provincial capacity within 200 million tonnes, the work plan targets a reduction of steelmaking capacity by 12 million tonnes in 2018, and by 14 million tonnes per year in 2019 and 2020 respectively.

In addition to capacity reductions, the following targets have also been put in place, to be achieved by 2020: (i) phase out blast furnaces with capacities lower than 1,000 cubic meters, (ii) phase out converters with capacities below 1 million tonnes, (iii) relocation of steel mills from the cities, (iii) compliance with a tougher set of emission targets, (iv) as well as further consolidation within the industry, reducing from 14 steel producers to just 5-6 producers.

To be in line with the industry's rising environmental standards, the Group, continually invests in technological upgrades and enhancements to reduce emission, improve energy efficiency and recycling of waste material. Such technological enhancements, undertaken from time to time, also strengthens the production efficiency of the Group's facility, thereby reducing operating costs. Notwithstanding the Group's efforts in meeting all the ongoing tightening environmental standards, Delong remains subject to the risk of production capacity cuts by the government which will have a material adverse impact on the profitability of the Group.

The development of the Group's 45%-owned joint-venture (JV) steel project in Indonesia remains on track for completion.

It remains Delong's strategy to explore and evaluate earnings-accretive acquisitions and/or investments for the long-term benefit of shareholders. Accordingly, to further diversify incomes streams, the Group may opportunistically invest in quoted and/or unquoted securities, as well as the provision of seed and mezzanine capital to private companies with growth potential and undertaking business incubation.

The Group has obtained the type 9 Licence issued by the Securities and Futures Commission of Hong Kong on 4 June 2018 and will diversify into asset management business in due course.

³ National Bureau of Statistics, 16 July 2018

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 2018.

13. Interested person transactions

There was no interested party transaction for the financial period ended 30 June 2018.

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

14. 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

15. 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

16. A breakdown of Sales

N.A

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

N.A

18. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the form set out in Appendix 7.7) under Rule 720(1).

Undertakings under Rule 720(1) Appendix 7.7 have been obtained from all directors and executive officers.

BY ORDER OF THE BOARD

Ding Liguo
Executive Chairman