德龙控股

DELONG HOLDINGS

ANNUAL REPORT 2016

CONTENTS

OUR VISION

Headquartered in Beijing, China, Delong Holdings Limited is a steel manufacturing group committed to playing its part in growing the Chinese steel industry through progressive thinking and sustainable practices.

We envision Delong as one of the leading steel companies in China, contributing strategically to the country's economic landscape and creating long-term value for our stakeholders.

CHAIRMAN'S LETTER TO SHAREHOLDERS

FY2016 WAS A WATERSHED YEAR FOR DELONG, AS WE CLOSED THE YEAR WITH A PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY OF RMB213.0 MILLION, TURNING AROUND FROM A LOSS OF RMB392.8 MILLION A YEAR AGO.

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of Delong Holdings Limited ("Delong" or the "Company", together with its subsidiaries, the "Group"), we are pleased to present to you the Annual Report of the Group for the financial year ended 31 December 2016 ("FY2016").

FY2016 was a watershed year for Delong, as we closed the year with a profit attributable to equity holders of the Company ("net profit") of RMB213.0 million, turning around from a loss of RMB392.8 million a year ago ("FY2015"). The Group's business and financial performance in FY2016 is commendable, reflective of Delong's ability to stay competitive even as economic growth in the People's Republic of China (the "PRC") remained unexciting with a full-year GDP of 6.7%, the slowest in 26 years, and conditions in the steel industry continues to be challenging and competitive.

FINANCIAL REVIEW

For FY2016, Group revenue increased by approximately 42.0% from approximately RMB7.0 billion for FY2015 to approximately RMB9.9 billion in FY2016, backed mainly by an increase in the sales and average selling prices of our core HRC products.

Despite stiff competition, overall sales volume of the Group's steel products grew 15.5% to 3.9 million tonnes for FY2016, from 3.4 million tonnes a year ago, due in part to tighter supplies following production cuts by the government and restocking demand by customers for our quality hot-rolled coil ("HRC") steel products. On a breakdown basis, the Group sold 3.9 million tonnes of HRC and 456 tonnes of steel billets in FY2016 compared to 3.4 million tonnes of HRC and 1,096 tonnes of steel billets in FY2015.

Cost of sales increased by 21.3% from approximately RMB6.9 billion for FY2015 to approximately RMB8.4 billion for FY2016, which is in tandem with higher sales achieved. Resultantly, the Group turned in a gross profit of approximately RMB1.5 billion in FY2016, a significant improvement from RMB21.0 million in the preceding year. Gross profit margin was 14.5 percentage points higher at 14.8% in FY2016, from 0.3% in FY2015, which was due mainly to higher product average selling prices coupled with lower raw materials prices.

Distribution and marketing expenses rose 11.0%, from RMB69.0 million in FY2015, to RMB76.6 million in FY2016, which was due mainly to higher transportation costs associated with the delivery of HRC products to customers in the PRC. The Group registered a 2.2% decrease in administrative expenses, from RMB266.3 million in FY2015, to RMB260.4 million in FY2016, mainly as a result of the Group's continued cost reduction efforts.

Finance expenses for the review year was 29.1% higher at RMB230.4 million compared to RMB178.5 million in FY2015, due mainly to an increase in bank borrowings drawdown for working capital purposes in FY2016.

For FY2016, the Group recognised an impairment charge of RMB600.0 million, based on an independent valuation carried out on its wholly-owned subsidiary, Laiyuan County Aoyu Steel Co., Ltd. ("Aoyu Steel"). This was in relation to plans by the PRC Government to reduce steelmaking capacity in Hebei Province, which may require Aoyu Steel to cease its steelmaking operations. In view of this ongoing development, the Group had engaged an independent external valuer to perform a valuation of Aoyu Steel's property, plant and equipment based on the replacement cost method.

As a result of the above, the Group achieved a net profit attributable to shareholders of RMB213.0 million in FY2016 and a net profit margin of 2.2%, reversing from a net loss of RMB392.8 million in FY2015. If not for the impairment charge of RMB600.0 million, the Group's net profit in FY2016 would have been higher at RMB813.0 million, with a net profit margin of 8.2%.

BUSINESS REVIEW

FY2016 was marked by several corporate and operational developments. These include the completion of our five-for-one share consolidation exercise in February and the diversification of our business mandate to include the investment business, both of which were approved by shareholders at Extraordinary General Meetings ("EGMs") held in 2016. I must express appreciation to Delong's valued shareholders for casting their vote of support, enabling us to proceed with the developments outlined above.

With a widened business scope that now includes investing in quoted and/or unquoted securities, as well as providing seed and mezzanine capital to private companies with growth potential and undertaking business incubation and angel investments, we will selectively pursue investment opportunities with growth potential and undertaking business incubation and angel investments with a view towards long-term value generation.

Operationally, the Group also carried out a major maintenance exercise at one of our blast furnaces, which was completed in January 2017. Subsequent to the year end in February 2017, the Group also undertook and completed the disposal of its entire equity interest in the Thailand production facility.

THE ROAD AHEAD

Moving into 2017, while demand in the PRC for steel and steel-related products will still see support from the construction, infrastructure, automobile and railway industries, the Board remains of the view that the outlook for PRC steel manufacturers remains highly uncertain.

On the macroeconomic front, the International Monetary Fund (IMF) has forecast a lower 6.5% growth rate for the PRC economy for 2017, and industrial pollution as well as steel oversupply also remain major factors that will impede steel sector growth. The PRC government had also in January 2017 unveiled plans to reduce steelmaking capacity in Hebei Province by 31.86 million tonnes in 2017, and steel producers in other provinces may also be required to reduce their steelmaking output, which may impact the Group and its two production facilities.

The Group is taking a prudent position on the future of its steel manufacturing operations and will concurrently explore new business opportunities locally and abroad while undertaking initiatives to manage its costs and risks.

APPRECIATIONS

In closing, on behalf of the Board of Directors, I would like to take this opportunity to extend my appreciation to the Board of Directors for their invaluable guidance and support, and Delong's management and staff for their unwavering loyalty, commitment and support in overcoming challenges. Their collective efforts were instrumental in achieving the turnaround in FY2016.

Mr. Hee Theng Fong, who has served on Delong's Board for over 9 years as an independent director, will not be seeking re-election at the forthcoming Annual General Meeting. Over the years, Delong has benefited significantly from his wisdom and counsel, and on behalf of the Board, I would like to record our sincere appreciations to Mr. Hee for his important contributions. We wish him all the very best in his future endeavours.

To our customers, suppliers and business associates, I must express our sincere appreciation for their continuing support. Finally, I would like to specially thank our shareholders for your commitment, continued support and loyalty to the Group.

While the Group may continue to face challenges given the prevailing sectoral weaknesses, I believe that Delong has a strong foundation and the right strategies to drive long-term sustainable growth for our shareholders, and I look forward to your renewed support in 2017 and beyond.

DING LIGUO
Executive Chairman

BOARD OF DIRECTORS

Mr Ding Liguo, age 47

Mr Ding is the Executive Chairman of the Company and is in charge of the overall management and direction of the Delong Group. From 1998 to 2003, Mr Ding was the Chairman of Tangshan Liguo Enterprise Group Co., Ltd and from 1992 to 1998, he was the Chairman of Tangshan Changcheng Rolled Steel Factory. Prior to that, Mr Ding was an employee with Shenzhen Futian District Materials Bureau from 1991 to 1992. Mr Ding received a diploma in Machinery Manufacturing from the Hebei Technological Institute in the People Republic of China ("PRC").

Mr Zuo Shuowen, age 48

Mr Zuo is the Executive Director of the Company and is responsible for overseeing the operations of the Group. He joined the Group in 2003, and was promoted to General Manager of the Group's principal subsidiary, Delong Steel, in 2007. From 2000 to August 2003, he was an accounts manager of Tangshan Hengan Enterprise Co., Limited, overseeing all financial matters in that company. Mr Zuo received a diploma in Accountancy from the Hebei Hongrun Commercial School in 1988.

Mr Hee Theng Fong, age 62

Mr Hee is an Independent Director of the Company and Chairman of Nominating Committee. He is a member of the Audit and Remuneration Committees. He is a practising lawyer with more than 20 years' experience in legal practice. He is also an arbitrator on the panel of arbitrators of the Singapore International Arbitration Centre (SIAC), China International Economic and Trade Arbitration Commission(CIETAC), and Hong Kong International Arbitration Centre(HKIAC). Mr Hee is also an independent director of several listed companies. He is regularly invited to speak on Directors' Duties and Corporate Governance in seminars organized by the Singapore Institute of Directors and the Singapore Exchange. Mr Hee holds a LLB (Honours) from the University of Singapore and also a Diploma in PRC Law.

Mr Lai Hock Meng, age 61

Mr Lai is the lead Independent Director of the Company and Chairman of the Audit Committee. He is also a member of the Remuneration and Nominating Committees. Mr Lai is currently the CEO and executive director of EC World Asset Management Pte Ltd that is the manager of EC World REIT listed on the SGX. In addition, he is an independent director of PureCircle Ltd and a non-executive director of Champ Buyout III Pte Ltd, a private equity firm. Mr Lai has more than 35 years of experience in both public and private financial sectors, including central banking, investment banking, private banking, stockbroking and venture capital. Mr Lai has a Bachelor of Arts (Honours) and a Masters of Arts from the University of Cambridge in England, majoring in Economics. He is also a Chartered Financial Analyst with the CFA Institute in the USA.

Mr Yuan Weimin, age 58

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

Mr. Wang Tianyi, age 70

Mr Wang is an Independent Director of the Company and Chairman of Remuneration Committee. He is also a member of the Audit and Nominating Committees. He is currently the Executive Vice President of The Chinese Society For Metals. Mr. Wang has more than 40 years' experience in the steel industry. From 1995 to 2008, he was Chairman and Managing Director of Tangshan Iron and Steel Group Co., Ltd, placed in charge of the overall operations of the company. Between 2005 and 2011, Mr Wang was Vice-Chairman with Shougang Jingtang Iron and Steel Co., Ltd. Mr Wang was Vice-Chairman of Hebei Iron and Steel Group Co., Ltd from 2008 to 2011. Mr Wang received a Bachelor of Metallurgical Machinery from the University of Science and Technology of Beijing (formerly known as Beijing Institute of Iron and Steel Engineering).

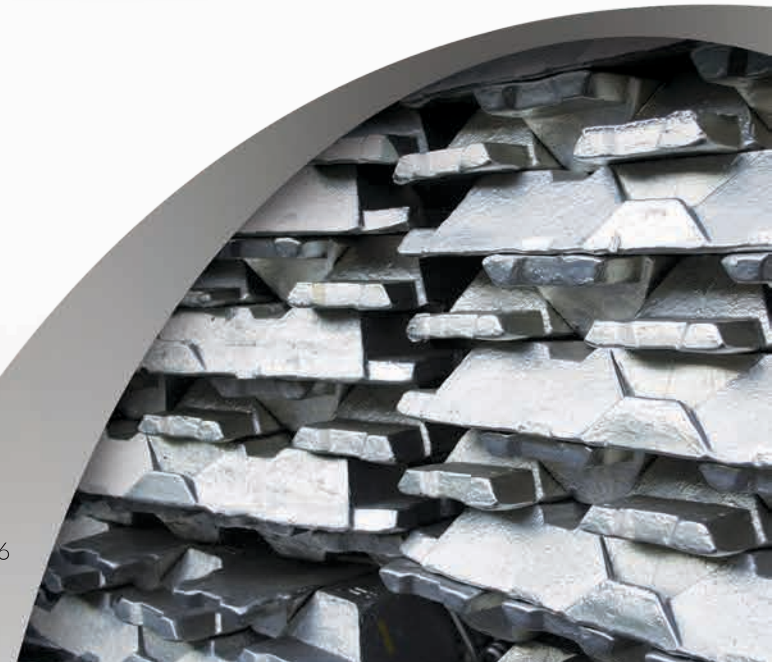
EXECUTIVE OFFICERS

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

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

Mr Wu Yujie is the General Manager of Laiyuan County Aoyu Steel Co., Ltd ("Aoyu Steel") and is responsible for overseeing the operations of Aoyu Steel. From 2011-2014, Mr Wu was General Manager of Xingtai Delong Machinery and Mill Roll Co., Ltd. Between 2007-2011, Mr Wu was General Manager of Tangshan Hengan Enterprises Co., Ltd. Between 2004-2006, Mr Wu was administration manager of Delong Steel Limited. Prior to that, Mr Wu was a deputy general manager in charge of administration with Xingtai Delong Iron & Steel Co., Ltd from 2000 to 2004 and the head of the finance department of Tangshan Liguo Enterprises Group Co., Ltd from 1998 to 2000. Mr Wu holds a diploma in economic management from the Hebei Economic Management College, PRC.

Mr Sun Jian Xun is the General Manager of Xingtai Delong Machinery and Mill Roll Co., Ltd ("Xingtai Delong Mill Roll") and is responsible for overseeing the operations of Xingtai Delong Mill Roll. From 2013-2014, Mr Sun was Assistant General Manager of Xingtai Delong Mill Roll. Between 2000-2013, Mr. Sun was Assistant General Manager of Tangshan LianQiang Metallurgical Roll Co., Ltd. Mr. Sun holds a Bachelor Degree in Metallurgical from the Hebei Institute of Technology in the PRC.



FINANCIAL HIGHLIGHTS

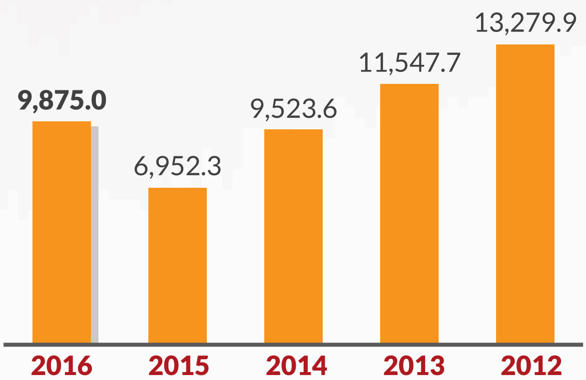
		FY2016	FY2015	FY2014	FY2013	FY2012
Profitability- measures ability to generate earnings						
Revenue	RMB'M	9,875.0	6,952.3	9,523.6	11,547.7	13,279.9
Profit/(loss) before tax	RMB'M	308.7	(423.1)	170.7	14.6	350.7
Proift/(loss) after tax	RMB'M	209.3	(431.3)	94.9	(21.5)	224.5
Profit/(loss) attributable to shareholders	RMB'M	213.0	(392.8)	100.9	(27.1)	204.8
Liquidity - measures ability to meet debt obligations						
Working capital	RMB'M	327.3	(1,073.8)	(323.6)	(63.7)	(338.0)
Operating cash flow	RMB'M	1,466.2	291.5	1,873.4	155.0	993.7
Free cash flow	RMB'M	721.6	(344.9)	1,321.5	(373.2)	461.2
Efficiency - measures efficiency of using fund and managing assets						
Total assets	RMB'M	7,875.5	7,829.9	8,228.1	7,349.8	7,223.1
Shareholders' funds	RMB'M	2,544 .4	2,293.8	2,683.9	2,588.1	2,609.7
Return on assets	%	2.7	-	1.2	-	3.1
Return on shareholders' funds	%	8.4	-	3.8	-	7.3
Debt leverage - measures capital employed and financial leverage						
Total borrowings	RMB'M	3,825.9	3,860.4	3,797.3	3,013.5	2,522.8
Net borrowings	RMB'M	1,287.2	2,143.7	1,539.6	2,016.5	1,572.4
Gross gearing	Times	1.50	1.64	1.36	1.15	0.96
Net gearing	Times	0.51	0.91	0.55	0.77	0.60
Shareholders' return - measures wealth creation for shareholders						
Earnings / (losses) per share	RMB	1.93	(3.57)	0.92	(0.25)	1.85
Net assets value per share	RMB	23.09	20.82	24.36	23.49	23.69

Definitions:

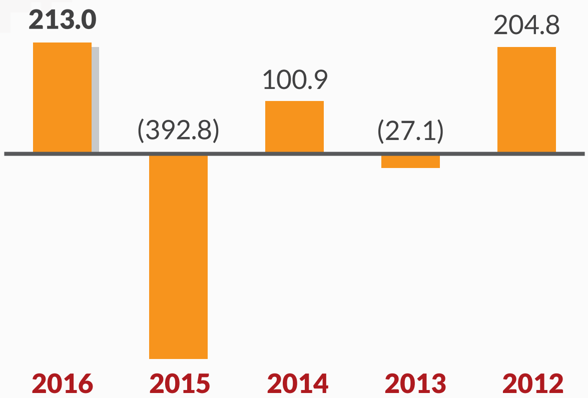
1. Free cash flow= operating cash flow + investing cash flow
2. Return on asset = profit after tax/total assets
3. Return on shareholders' funds = profit attributable to shareholders/shareholders' fund
4. Gross gearing = total borrowings/total equity; Net gearing = net borrowings/total equity

FINANCIAL
HIGHLIGHTS

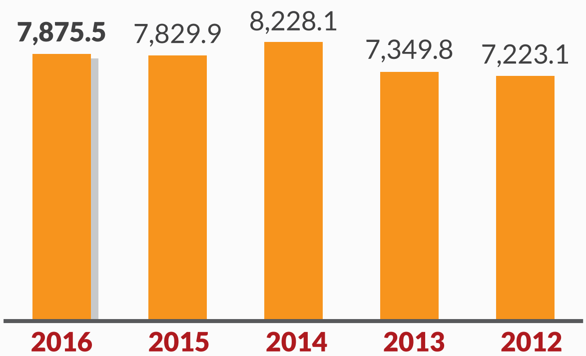
REVENUE
RMB'M



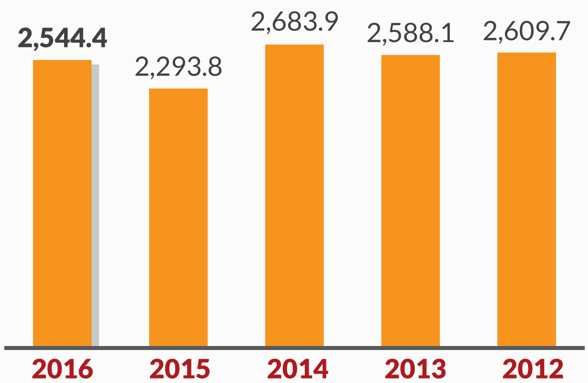
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS
RMB'M



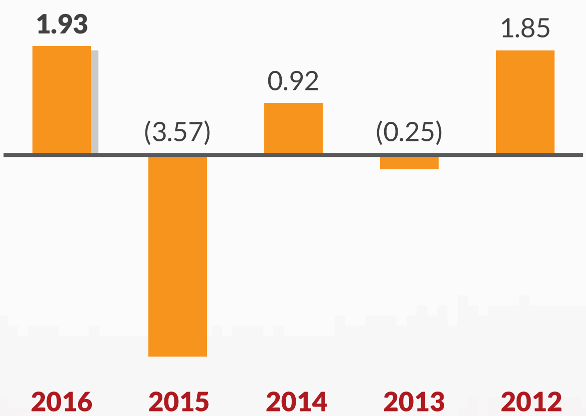
TOTAL ASSETS
RMB'M



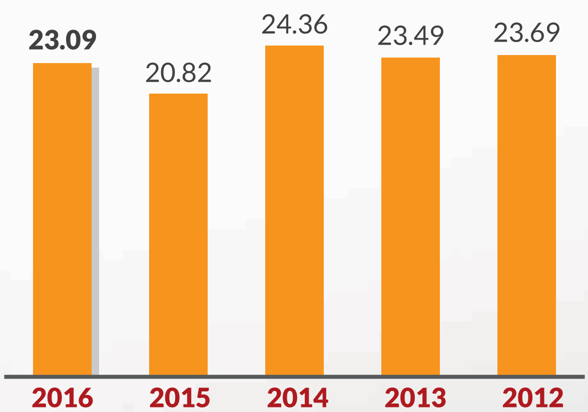
SHAREHOLDERS' FUNDS
RMB'M



EARNING PER SHARE
RMB



NET ASSETS VALUE PER SHARE
RMB

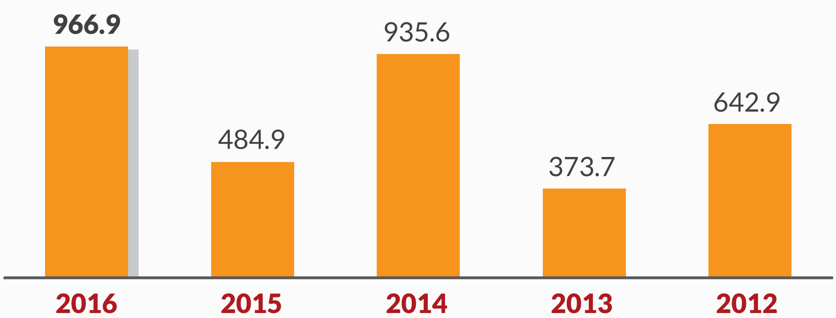


CASH FLOW AND LIQUIDITY

The Group maintains a strong balance sheet and an efficient capital structure to maximise returns for shareholders. The Group has sufficient cash and cash equivalents and an adequate amount of standby credit facilities. Funding of working capital requirements and capital expenditure is mainly through short term bank borrowings.

As at 31 December 2016, credit facilities in the form of short-term loans, letter of credit and other bank facilities provided by major banks to the Group amounted to RMB4,259.0 million of which RMB3,130.3 million was utilised.

CASH AND CASH EQUIVALENTS
RMB'M



Overall, the Group's cash and cash equivalents increased by approximately RMB482.0 million in FY2016 to RMB966.9 million as compared to approximately RMB484.9 million in FY2015.

The movements in cash and cash equivalents during both financial years are set out as follows:

The increase in the Group's net cash from operating activities in FY2016 was mainly due to an increase in operating profit.

Net cash used in investing activities was mainly related to payments for on-going technical enhancements to upgrade production facilities in the PRC and held for trading investments.

Net cash used in financing activities was RMB264.3 million, reflecting a net loan repayment of RMB33.9 million and interest payment of approximately of RMB230.4 million.

	2016 RMB'000	2015 RMB'000
Net Cash from operating activities	1,466,256	291,545
Net Cash used in investing activities	(744,648)	(636,441)
Net Cash used in financing activities	(264,324)	(106,774)
Net increase / (decrease) in cash and cash equivalents	457,284	(451,670)
Cash and cash equivalents as at end of year	966,932	484,864

FINANCIAL HIGHLIGHTS

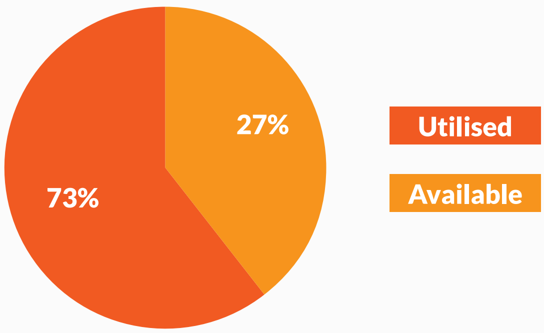
BORROWINGS

As at 31 December 2016, the Group had approximately RMB3,825.9 million of borrowings comprising notes payables of RMB2,288.7 million, short term borrowings of RMB1,332.3 million and long-term borrowings of RMB204.9 million. Almost all of the Group's borrowings were secured and guaranteed.

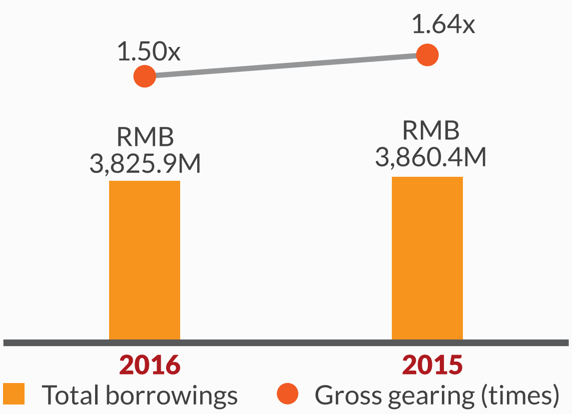
The borrowings were obtained mainly for financing capital expenditures and working capital purposes.

As at 31 December 2016, there were corporate guarantees given by the Group to financial institutions for banking facilities extended to third parties amounting to approximately RMB475.1 million (FY2015:RMB481.6 million).

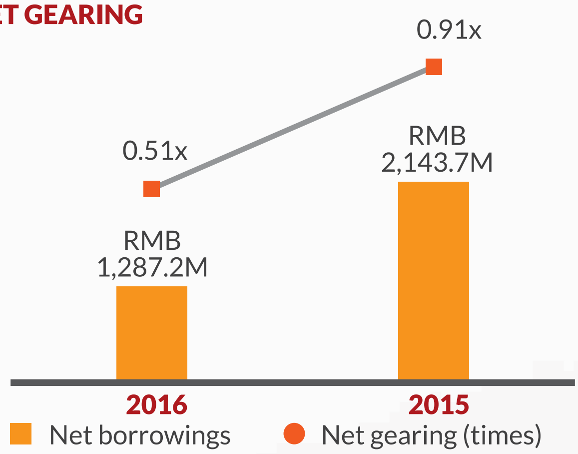
TOTAL CREDIT FACILITY
(RMB 4,259.0 million)



GROSS GEARING

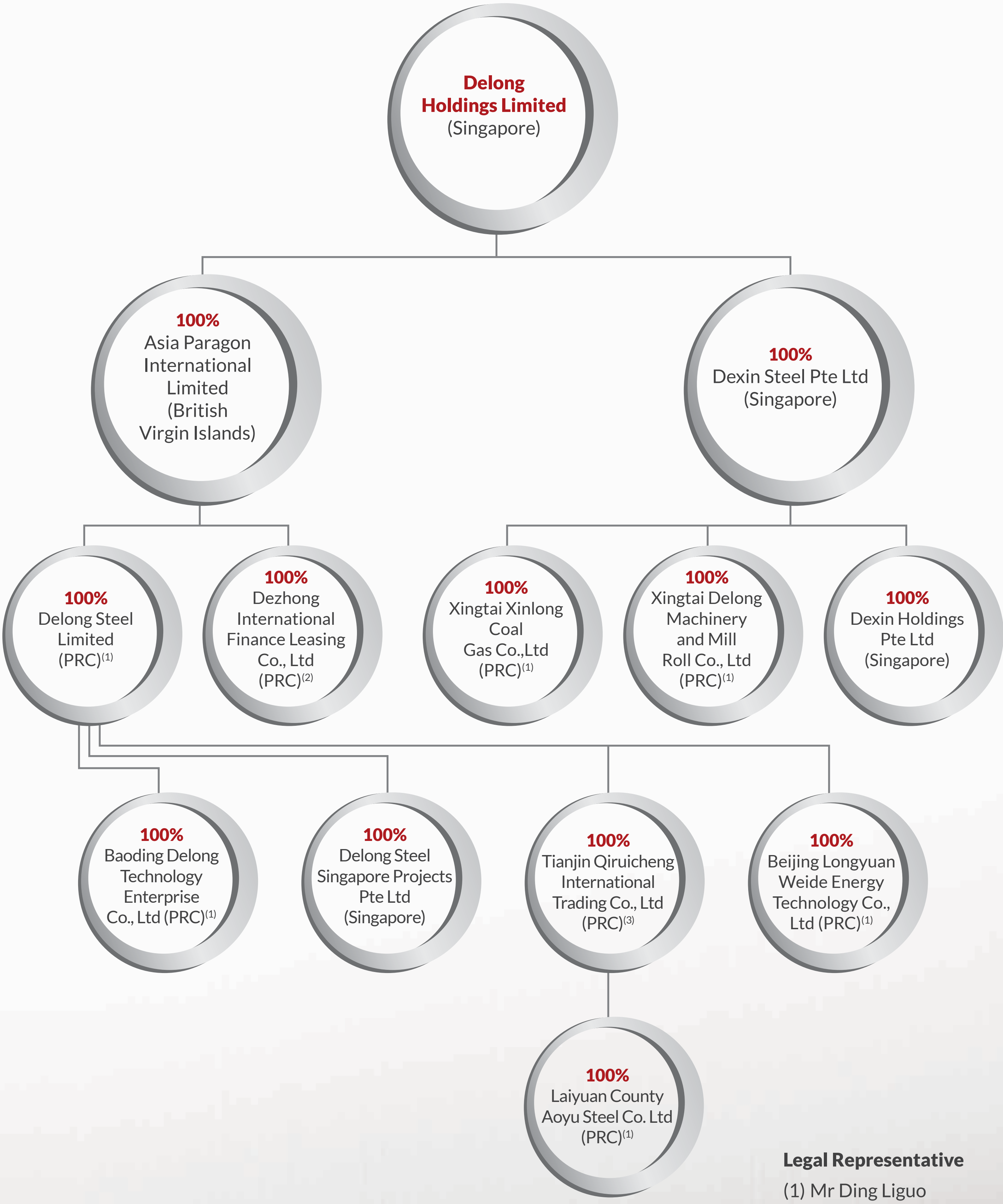


NET GEARING



As at 31 December 2016, gross gearing ratio improved to 1.50 times and net gearing ratio to 0.51 times. Last year, it was 1.64 times and 0.91 times respectively. This was attributable primarily to improved shareholders profit and a significant increase in cash and cash equivalents.

CORPORATE STRUCTURE



Legal Representative

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

CORPORATE PROFILE

Delong Holdings Limited is principally engaged in the manufacture and sale of hot-rolled steel coil ("HRC"), with the People's Republic of China as its principal market.

Asia Paragon International Limited ("Asia Paragon")

Asia Paragon is an investment holding company.

Delong Steel Limited ("Delong Steel")

Located 5km off Xingtai City in Hebei province, the People's Republic of China ("PRC"), Delong Steel is an important private enterprise in the province, employing a sizeable workforce of 3,695 and contributing significantly to the local economy. A member of the China Iron & Steel Association, Delong Steel is principally engaged in the manufacture and sale of hot-rolled coil ("HRC").

Sitting on a land area of over 900,000 square meters and ISO9001:2000-certified, the plant is outfitted with advanced steelmaking equipment, including multi-layered low-temperature sintering equipment, fully automated Programmable Logic Controller (PLC) production systems and ultrasonic cleaning technology. The Company has a fully-integrated steel plant capable of handling production from raw material processing through final product packaging. Over the years, the company has continually invested to upgrade its facilities through a technological enhancement programme.

Delong Steel's key products are HRC ranging from 350 to 1,250 mm in width and 1.4 to 25.0 mm in thickness. The products, which can be customized to clients' specifications, are mainly used for the infrastructure, pipe-making and machinery industries. As at 31 December 2016, the total HRC production from the two lines stood at 2.4 million tonnes a year.

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

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

Located in Fengle Village, Laiyuan Town, Laiyuan County, Hebei province, the People's Republic of China ("PRC"), Aoyu Steel is principally engaged in the manufacture and sale of HRC and steel billets. Aoyu Steel has a staff strength of 2,069 employees and an annual manufacturing production capacity of 1,200,000 tonnes. The main customers of Aoyu Steel are located in the Tianjin and Hebei area.

Dexin Steel Pte Ltd ("Dexin Steel")

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

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

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

Xingtai Xinlong Coal-Gas Co., Ltd ("Xingtai Xinlong")

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

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

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

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

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

CORPORATE PROFILE

Dexin Holdings Pte Ltd ("Dexin Holdings")

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

Delong Steel Singapore Projects Pte Ltd ("Delong Steel Singapore")

Operationally located in Singapore, Delong Steel Singapore is an investment holding company.

Beijing Longyuan Weide Energy Technology Pte Ltd ("Longyuan Weide")

Operationally located in the PRC, Longyuan Weide is engaged in the technology development, technology services, technology advisory and investments.

Baoding Delong Technology Enterprise Co., Ltd ("Baoding Delong")

Operationally located in the PRC, Baoding Delong is principally engaged in the manufacture and sale of hot-rolled coils.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding Liguo
Executive Chairman and Non-Independent
First appointed: 8 March 2005
(re-appointed on 29 April 2015)

Zuo Shuowen
Executive Director and Non-Independent
First appointed: 1 January 2010
(re-appointed on 29 April 2016)

Yuan Weimin
Non-Executive Director and Non-independent
First appointed: 16 April 2008
(re-appointed on 28 April 2014)

Hee Theng Fong
Non-Executive Director and Independent
First appointed: 1 June 2006
(re-appointed on 29 April 2016)

Lai Hock Meng
Non-Executive Director and Independent
First appointed: 15 June 2007
(re-appointed on 29 April 2015)

Wang Tianyi
Non-Executive Director and Independent
First appointed on 15 August 2013
(re-appointed on 28 April 2014)

AUDIT COMMITTEE

Lai Hock Meng (Chairman)
Hee Theng Fong
Wang Tianyi

NOMINATING COMMITTEE

Hee Theng Fong (Chairman)
Lai Hock Meng
Wang Tianyi

REMUNERATION COMMITTEE

Wang Tianyi (Chairman)
Hee Theng Fong
Lai Hock Meng

COMPANY SECRETARY

Yeo Lee Luang
Chartered Accountant

SHARE REGISTRAR

B.A.C.S Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544
Tel: (65) 65934848
Fax: (65) 65934847

REGISTERED OFFICE

55 Market Street
Level 10
Singapore 048941
Tel: (65) 65212964
Fax: (65) 65357505
Website: www.delongsteel.com
Investor Relations Website: delong.listedcompany.com

COMPANY REGISTRATION NUMBER

199705215G

AUDITORS

Deloitte & Touche LLP
6 Shenton Way #33-00
OUE Downtown 2
Singapore 068809
Tel: (65) 62248288

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

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China
China Minseng Bank
DBS Singapore

The Board of Directors (the "Board") of Delong Holdings Limited (the "Company") is committed to a high standard of corporate governance and transparency and to the protection of shareholders' interest. The Company's corporate governance policies and processes are in line with the revised Code of Corporate Governance (the "Code") released by the Council on Corporate Disclosure and Governance in May 2012. Explanations have been provided for any deviation from the Code and how such alternative governance practices achieve the objectives of the principles and conform to the guidelines in the Code.

This report describes the Company's corporate governance policies and processes for the financial year ended 31 December 2016 with specific reference to specific guideline in the Code.

The Board is pleased to confirm that for the financial year ended 31 December 2016, the Group has adhered to the principles and guidelines as set out in the Code, where appropriate.

I. BOARD MATTERS

The Board plays a pivotal role in overseeing the Group's overall strategy and business direction and is collectively responsible for the Group's long term success. The Management has been providing Directors with full and timely information to assist the Directors in the fulfillment of their responsibilities.

PRINCIPLE 1: EFFECTIVE BOARD TO LEAD AND CONTROL THE COMPANY

Guideline 1.1
Board's Role
The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the "Group") and oversees management. To fulfill this objective also, the Board takes responsibility for implementing and maintaining sound corporate governance practices for the Group. The Board provides leadership, sets strategic direction, establishes risk policies and procedures and requires goals from management as well as monitors the achievement of those goals.

Guideline 1.2
Objective Decision Making
The Board exercises due diligence and independent judgment in dealing with the business affairs of the Group and works with the management to make objective decisions in the interest of the Group.

Guideline 1.3
Delegation of Authority to Board Committees
To assist the Board in the execution of its responsibilities, the Board has established an Audit Committee ("AC"), a Nominating Committee ("NC") and a Remuneration Committee ("RC") (the "Board Committees"). These committees are chaired by independent directors and function within clearly defined terms of reference and operating procedures. The Board and the Board Committees meet regularly and, if necessary, on an ad hoc basis.

Guideline 1.4
Meetings of Board and Board Committees
To facilitate the ease, frequency and speed of Board meetings, the Company's Constitution allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via tele-conference.

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

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Number of meetings held	**6**	**4**	**1**	**1**
Number of Meetings Attended				
Ding Liguo	6	4*	-	-
Zuo Shuowen	6	4*	-	-
Hee Theng Fong	6	4	1	1
Lai Hock Meng	6	4	1	1
Yuan Weimin	6	4*	-	-
Wang Tianyi	5	4	1	1

*-Attendance by invitation to the Committee

Guideline 1.5
Internal Guideline On Matters Requiring Board Approval
The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcement of financial results, annual reports and any acquisition or disposal of material assets. There are internal guidelines on matters that require the Board's approval, such as directors dealing in the Company's shares, changes in the Company's constitution and structure, material capital commitments etc. These guidelines were approved by the Board and review annually.

Guideline 1.6
Continuous Training And Development Of Directors
The Board recognizes the importance of appropriate orientation training and continuing education for its Directors. Newly appointed directors are fully briefed as to the business activities of the Group and its strategic directions. Newly appointed directors receive a formal letter explaining their statutory duties and responsibilities as a director.

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

With effect from 1 January 2013, all directors are encouraged to obtain at least 3 hours continuing education each financial year by way of seminars, courses and other programs relating to the discharge of their duties as directors. The Company is prepared to undertake funding for such continuing education. During FY2016, directors met the continuing education target.

PRINCIPLE 2: INDEPENDENT ELEMENT ON THE BOARD

Guideline 2.1
Independent Element Of the Board
The Board comprises six directors of whom three are independent directors. The particulars of the directors are set out on pages 4 and 5. The directors are not related to one another.

Guideline 2.2
Composition Of Independent Directors On the Board
Where the Chairman and the CEO is the same person, the independent directors should make up at least half of the Board. The Company has complied with the relevant guideline in the Code as half of the Board is make up of independent directors.

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

– Establishes the methodology the Board shall use to assess the independence of each independent director bearing in mind the definition of independence in the Code;

– Identifies the information that shall be collected from each independent director to make the assessment of independence; and

– Fixes the elements of disclosure to shareholders with regard to the assessment to be made, including the disclosure of any relationships and associations that may be perceived to affect the independence or objectivity of an independent director.

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

On an annual basis, the NC shall require each independent director to complete, confirm and sign a Declaration of Independence, the content and form of which has been approved.

Each declaration shall be reviewed by the other members of the NC. This forms the basis of the assessment. All relevant facts and circumstances shall be considered in making the assessment. Generally (but without limiting the scope of the factors which may be taken into account), in accordance with best practices, independence is, prima facie, established if the criteria set out below is met.

A director is independent if he or she:

(a) is not an executive director of the Company or any of its related corporations and have not been employed by the Company or any of its related corporations in the current or any of the past three financial years;

(b) does not have an immediate family member, who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations as a senior executive officer whose remuneration is determined by the RC;

(c) does not accept any significant compensation from the Company or any of its related corporation for the provision of services, for the current or immediate past financial year, other than compensation for board service;

(d) does not have an immediate family who is accepting any compensation from the Company or any of its related corporation for the provision of services, for the current or immediate past financial year, other than compensation for board service;

(e) is not a shareholder of or a partner in (with 10% or more stake), or an executive director of, or a director of any organization to which the Company or any of its subsidiaries made or from which the Company or any of its subsidiaries received, significant payments or materials services (in excess of an aggregate of S$200,000 per annum) in the current or immediate past financial year;

(f) does not have a relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with my exercise of independent business judgment with a view to the best interests of the Company and in carrying out my functions as an independent director and a member of any Board committee(s);

(g) is not directly associated with, a 10% shareholder of the Company in the current or immediate past financial year; and

(h) has not served on the Board for a period which could, or could reasonably be perceived to , materially interfere with the independent director's ability to act in the best interests of the Company

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

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

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

– the status of each of its members, that is whether each is an independent or non-independent director (and any change in status that occurred during the year) and their period of office.

– The justification for designating any member an independent director who fails to meet all the criteria stated above or whose status requires an explanation for any reason.

– The policy and criteria mentioned above.

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

Guideline 2.3

Independence Of Directors

There is no director deemed to be independent notwithstanding the existence of a relationship.

Mr Hee Theng Fong, Mr Lai Hock Meng and Mr Wang Tianyi have satisfied the criteria stipulated in the above policy and the Board is of the view they are in fact independent and non-executive directors. For key information relating to the directors, please refer to the particulars of the Directors as set out on pages 4 and 5. The dates of the first appointment and last re-appointment of each director are provided in the corporate information section on page 14.

Guideline 2.4

Independence Of Directors Who Have Served On The Board Beyond Nine Years

The Board recognizes that independent directors may over time develop significant insights in the Group's business and operations, and can continue to provide noteworthy and valuable contribution to the Board. The independence of the independent directors must be based on the substance of their professionalism, integrity, and objectivity, and not merely based on form, such as the number of years which they have served on the Board.

Currently, Mr Hee Theng Fong and Mr Lai Hock Meng have served on the Board for more than 9 years from the date of his first appointment. The Board has subjected their independence to a particularly rigorous review.

The Board is of the view that Mr Hee Theng Fong and Mr Lai Hock Meng have demonstrated strong independence character and judgment over the years in discharging their duties and responsibilities as independent directors of the Company with the utmost commitment in upholding the interest of the non-controlling shareholders. They have expressed individual viewpoints, debated issues and objectively scrutinized and challenged Management.

Taking into account the above, and also having weighed the need for the Board's refreshment against tenure for relative benefit, the Board has resolved that Mr Hee and Mr Lai continue to be considered independent directors, notwithstanding they have served on the Board for more than nine years from the date of their first appointment.

Mr Hee will not be seeking re-election at the 2016 Annual General Meeting and the Board and Nominating Committee are in the process of reviewing and appointing a new independent director.

Guideline 2.5

Composition And Size Of The Board

The NC is responsible for examining the size and composition of the Board and Board Committees. Having considered the scope and nature of the Group's businesses, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board, in concurrence with the NC, considers that a board size of between five to seven members as appropriate.

The Board believes that its current board size and the existing composition of the Board Committees effectively serve the Group. It provides sufficient diversity without interfering with efficient decision-making.

A summary of the current composition of the Board and its committees is set out below:

Name of director	Board	Audit Committee	Remuneration Committee	Nominating Committee
Ding Liguo (Executive/Non-independent)	Chairman	–	–	–
Zuo shuowen (Executive/Non- independent)	Member	–	–	–
Yuan Weimin (Non-executive/Non-independent)	Member	–	–	–
Lai Hock Meng (Non-executive/Independent)	Member	Chairman	Member	Member
Hee Theng Fong (Non-executive/Independent)	Member	Member	Member	Chairman
Wang Tianyi (Non-executive/Independent)	Member	Member	Chairman	Member

Guideline 2.6
Competency Of The Board
To assist the NC in its annual review of the directors' mix of skills and experiences that the Board requires to function competently and efficiently, all directors submitted a Director Competency Form, providing information of their areas of specialization and expertise. The NC, having reviewed the completed forms, is satisfied that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies to lead and govern the Group effectively. Each director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute the development of the Group strategy and the performance of its business.

The Board has not formulated an official diversity policy but the Board has been mindful of diversity and from inception its members have been and diverse in terms of their competencies, expertise, background, race, gender and so have and shall contribute to the Board with different perspective and insights.

Guideline 2.7
Role of Non-Executive Directors
The Board and the management fully appreciate that an effective and robust board whose members engage in open and constructive debate and challenge the management on its assumptions and proposals is fundamental to good corporate governance. A Board should also aid in the development of strategic proposals and oversees the effective implementation by management to achieve set objective.

For this to happen, the Board, particularly the independent directors, which are non-executive directors, must be kept well informed of the Group's business and be knowledgeable about the industry the Group operates in. To ensure that the independent directors are well supported by accurate, complete and timely information, they have unrestricted access to management, and have sufficient time and resources to discharge their oversight functions effectively.

Guideline 2.8
Regular Meetings Of Non-Executive Directors
The independent directors meet on a need-basis without the present of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the executive directors.

PRINCIPLE 3: CLEAR DIVISION OF RESPONSIBILITIES AND BALANCE OF POWER AND AUTHORITY

Guideline 3.1

Separate Role Of Chairman And CEO

The Board is of the view that it is in the best interests of the Group to adopt a single leasdership structure, whereby the CEO and Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

All major proposals and decisions made by the Executive Chairman and CEO are discussed and reviewed by the AC. His performance and appointment to the Board is reviewed periodically by the NC and his remuneration package is reviewed periodically by the RC. As the AC, NC and RC consist of all independent directors, the Board believes that there are sufficient strong and independent elements and adequate safeguards in place against an uneven concentration of power and authority in a single individual.

Guideline 3.2

Roles and Responsibilities Of Chairman

The Group's Executive Chairman, Mr Ding Liguo, plays an instrumental role in developing the business of the Group and provides the Group with strong leasdership and vision. In addition to managing day-to-day business operations of the Group, he is to ensure that each member of the Board and the Management works well together with integrity and competency.

As the Executive Chairman and CEO, he, with the assistance of the Company Secretary, schedules Board meetings as and when required and prepares the agenda of the Board meetings and ensures sufficient allocation of time for thorough discussion of each agenda item, in particular strategic issues. In addition, he sets guidelines and exercise control over the quality, quantity, accurateness and timeline of information flow between the Board and the Management. He also takes a leading role in ensuring the Company's drive to achieve and maintain a high standard of corporate governance practices with the full support of the Board, Company Secretary and the Management.

Guideline 3.3

Appointment Of Lead Independent Director

The Board has appointed Mr Lai Hock Meng as the lead independent non-executive director to co-ordinate and to lead the independent directors, to provide a non-executive perspective and contribute a balance of view points to the Board. He is the principal liaison on Board issues between the independent directors and the Executive Chairman. He is available to shareholders where they have concerns with contact through the normal channels of the Executive Chairman and CEO or CFO has failed to resolve or is inappropriate.

PRINCIPLE 4: FORMAL AND TRANSPARENT PROCESS FOR THE APPOINTMENT OF DIRECTORS TO THE BOARD

Guideline 4.1

NC Membership And Key Terms Of Reference

The NC has three members, all of whom are independent directors. The members are:

Chairman	:	Hee Theng Fong
Member	:	Lai Hock Meng
Member	:	Wang Tianyi

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

- Review the nominations and recommend to the Board the appointment and re-appointment.

- Annual review of balance and diversify of skills, experience, gender and knowledge required by the Board, determine the suitable size of the Board which would facilitate decision-making after taking into consideration the scope and nature of the operations of the Company.

- Annual review of independence of each director, and to ensure that the Board comprises at least one –third independent directors. In this connection, the NC should conduct particularly rigorous review of the independence of any director who has served on the Board beyond nine years from the date of his first appointment.

- Where a director has multiple listed companies board representation and/or other principal commitments, to decide whether the director is able to and has been adequately carrying out his duties as director of the Company.

- Recommend to the Board the process for the evaluation of the performance of the Board, the Board Committees and individual directors, and propose objective performance criteria to assess the effectiveness of the Board as a whole and the contribution of each director.

- Annual assessment of the effectiveness of the Board as a whole and the individual directors.

- Perform such other functions as the Board may determine.

Guideline 4.2 and 4.6
Responsibilities Of NC
Process For The Selection And Appointment Of New Directors
The NC is responsible for identifying candidates and reviewing all nominations for the appointments of new directors.

When an existing director chooses to retire or the need for a new director arises, either to replace a retiring director or to enhance the Board 'strength, the NC, in consultation with the Board, evaluates and determines the selection criteria so as to identify candidates with the appropriate expertise and experience for the appointment as new director. The selection criterion includes integrity, diversity of competencies, expertise, industry experience and financial literacy. The NC seeks potential candidates widely and beyond directors/management recommendations and is empowered to engage external parties, such as professional research firms, to undertake research on or assessment of candidates as it deems necessary.

The NC then meets with the shortlisted potential candidates with the appropriate profile to assess suitability and to ensure that the candidates are aware of the expectation and the level of commitment required, before nominating the most suitable candidate to the Board for approval and appointment as director.

The role of the NC also includes the responsibility of reviewing the renomination of directors who retire by rotation, taking into consideration the director's integrity, independence mindedness, contribution and performance (such as attendance, participation and preparedness) and any other factors as may be determined by the NC.

All directors, including the Executive Chairman and CEO, submit themselves for re-nomination and re-appointment at regular intervals of at least every three years. Pursuant to the Article 89 of the Company's Constitution, one third of the Board are to retire from office by rotation and be subject to re-appointment at the Company's AGM.

The Board recognizes the contribution of its independent directors who over time have developed deep insight into the Group's businesses and operations and who are therefore able to provide invaluable contributions to the Group. As such, the Board has not set a fixed term of office for each of its independent directors so as to be able to retain the services of the directors as necessary.

Guideline 4.4

Commitments Of Directors Sitting On Multiple Boards

All directors are required to declare their board representations. When a director has multiple board representation, the NC will consider whether the director is able to adequately carry out his duties as a director of the Company, taking into consideration the director's number of listed company board representations and other principal commitments.

The NC has reviewed and is satisfied that Mr Hee Theng Fong and Mr Lai Hock Meng, who sit on multiple boards, have been able to devote sufficient time and attention to the affairs of the Company to adequately discharge their duties as directors of the Company, notwithstanding her multiple board appointments.

The Company's current policy stipulates that a director should not have in aggregate more than six listed company board representations and other principal commitments concurrently so as to be able to devote sufficient time and attention to the affairs of the Company to adequately discharge his duties as director of the Company.

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

Name of director	Present Directorships	Past Directorships (preceding 3 years)
Ding Liguo	–	–
Zuo Shuowen	–	–
Hee Theng Fong	• Datapulse Technology Limited • Tye Soon Limited • YHI International Limited • First Resources Limited	–
Lai Hock Meng	• PureCircle Ltd • EC World Asset Management Pte Ltd	• China Energy Limited • China Essence Group Ltd • China Oilfield Technology Services Group Ltd • ASTI Holdings Limited • CFM Holdings Limited
Yuan Weimin	–	–
Wang Tianyi	• China Oriental Group Co Ltd	–

Guideline 4.5
Appointment Of Alternate Directors
Currently, the Company does not have any alternate director.

Guideline 4.7
Information On Directors
Directors who are seeking re-appointment at the forthcoming AGM to be held on 27 April 2017 are stated in the Notice of AGM set out on pages 127 and 128 of this Annual Report.

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

PRINCIPLE 5: ASSESSMENT OF THE EFFECTIVENESS OF THE BOARD

Guideline 5.1
Board Performance
The Company has implemented a formal process to evaluate the performance of the Board as a whole and its ability to discharge its responsibilities in providing stewardship, corporate governance and oversight of management's performance.

For the year under review, all directors participated in the evaluation by providing feedback to the NC in the form of completing a Board Performance Assessment checklist. To ensure confidentially, the evaluation returns completed by all directors were submitted to the Company Secretary for collation and the consolidated responses were presented to the NC for review and discussion. The NC has reported to the Board on its review of the Board's performance for the year.

Guideline 5.2
Performance Criteria For Board Evaluation
The Company has established objective criteria to evaluate the Board's performance. In this respect, the NC reviewed the Group's share price performance over a five-year period and benchmarked it against relevant indices. Other performance criteria employed to assess the Board's performance are financial indicators such as return on equity, return on assets and earnings per share over a five-year period. Other relevant and meaningful criteria would also be used when applicable.

Guideline 5.3
Evaluation Of Individual Director
Evaluation of individual director's performance is a continuous process. For the year under review, the NC took note of each individual director's attendance at meetings of the Board, Board Committees and at general meeting(s); participation in discussion at meetings; the individual director's functional expertise and his commitment of time to the Company.

PRINCIPLE 6: BOARD MEMBERS SHOULD BE PROVIDED WITH COMPLETE, ADEQUATE AND TIMELY INFORMATION

Guideline 6.1
Board's Access To Information
All directors have unrestricted access to the Company's records and information. From time to time, they are furnished with accurate and detailed information in a timely manner concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's key management personnel. The Board receives monthly management reports, quarterly financial statements, annual budgets and explanation on material forecasts variances to enable them to oversee the Group's operational and financial performance.

The directors have separate and independent access to the Company Secretary and to other key management personnel of the Group at all times through email, telephone and face-to-face meetings. Any additional materials or information requested by the directors to make informed decisions is promptly furnished.

Guideline 6.2
Provision Of Information To The Board
The Board and the Board Committees are furnished with complete, adequate and reliable board papers and information in a timely manner prior to any meeting so as to facilitate directors in the proper and effective discharge of their duties. Detailed Board papers are prepared for each meeting and are circulated in advance for each meeting. The Board papers include sufficient information from management on financial, business and corporate issues to enable the directors to properly consider these matters before the Board meetings.

Guideline 6.3
Board's Access To The Company Secretary
The Company Secretary attends and minutes all Board meetings. She assists with proper procedure and compliance with the Companies Act, the Company's Constitution, the Listing Rules of the SGX-ST, and other applicable rules and regulations. The directors have access to the Company Secretary with regard to any corporate issues.

Guideline 6.4
Appointment And Removal Of Company Secretary
The appointment and the removal of the Company Secretary is subject to the approval of the Board.

Guideline 6.5
Board's Access To Independent Professional Advices
In the furtherance of their duties, Directors may seek independent professional advice, where appropriate, with such expense borne by the Company.

II. REMUNERATION MATTERS

Matters concerning remuneration of the Board and senior executives are handled by the RC whose primary function is to establish formal and transparent policies on remuneration matters in the Company.

PRINCIPLE 7: PRPCEDURES FOR DEVELOPING REMUNERATION POLICIES

Guideline 7.1
Remuneration Committee
The Remuneration Committee ("RC") has three members, all of whom are independent directors. The members are:

Chairman	:	Wang Tianyi
Member	:	Hee Theng Fong
Member	:	Lai Hock Meng

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

– to make recommendations to the Board on the framework of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses and benefits in kind for the Board and key executives and to determine specific remuneration packages for each executive director;

- To review all benefits and long term incentive schemes (including share option), whether directors should be eligible for benefits under long-term incentive schemes and compensation/ remuneration packages for the Board and key executives; and

- to review service contracts of the executive directors.

Guideline 7.2

Remuneration Framework

To attract, retain and motivate directors and employees, the RC establishes appropriate remuneration frameworks for the directors and employees of the Company. Such frameworks are being reviewed periodically to ensure that they remain relevant.

The calculation of director's fees for each non-executive director is as follows:

- the base director's fee for each Committee Member

- Additional S$5,000 per annum for each Committee Chairperson

- Additional S$10,000 per annum for Lead Independent Director

The RC recommends for the Board's endorsement, a framework of remuneration which covers all aspects of remuneration, including but not limited to directors fees, salaries, allowances, bonuses, and benefits-in-kind for each director. In addition, the RC reviews the performance of the Group's key management personnel taking into consideration the CEO's assessment of and recommendation for remuneration and bonus.

No member of the RC is involved in deliberating in respect of any remuneration, compensation or any form of benefits to be granted to him.

Guideline 7.3

RC's Access To Advice On Remuneration Matters

The RC has explicit authority within its terms of reference to seek appropriate expert advice in the field of executive compensation outside the Company on remuneration matters where necessary.

During the financial year, the RC did not require the service of an external remuneration consultant.

Guideline 7.4

Service Contract

The RC reviews the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

Guideline 8.1

Remuneration Of Executive Director And Key Management Personnel

The Company's remuneration structure for its executive directors and key management personnel comprises both fixed and variable components. The fixed component is the basic salary and the variable component is performance related and is linked to the Group's performance as well as individual's performance. This is designed to align remuneration with the interests of shareholders and to link rewards to corporate and individual performance so as to promote long-term success of the Group.

Executive directors do not receive directors' fees but are remunerated as members of management.

In addition, the Company's remuneration structure takes into consideration benchmarks in comparable size of entities in similar industries.

Service contracts for executive Chairman and executive director, are for a fixed appointment period and do not contain onerous removal clauses.

Guideline 8.2
Long-term Incentive Scheme
The Company does not have any long-term incentive scheme or schemes involving the offer of shares or grant of options or any other forms of deferred remuneration.

Guideline 8.3
Remuneration of Non-Executive Directors
The Board concurred with the RC's proposal for non-executive directors' fees for the year ended 31 December 2016. The RC and the Board are of the view that the remuneration of the directors is appropriate not excessive after taking into account factors such as effort and time spent, and the increasingly onerous responsibilities of the directors.

The fees for non-executive directors are subject to shareholders' approval at the AGM.

Guideline 8.4
Contractual Provisions To Reclaim Incentive Components Of Remuneration
Having reviewed and considered the variable components of the executive directors and key management personnel, which are moderate, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of the remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

In addition, the executive directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the executive directors in the event of such breach of fiduciary duties.

PRINCIPLE 9: DISCLOSURE OF REMUNERATION

Guideline 9.1
Remuneration Report
Details on the remuneration of directors and key management personnel for the year under review are reported below. During the year, there was no termination, retirement or post-employment benefits granted to any director or key management personnel.

Guideline 9.2
Remuneration of Directors
The Board supports and is keenly aware of the need for transparency. However, after deliberation and debate, the Board is of the view that full disclosure of the specific remuneration of each executive director (including the Executive Chairman) and the key management personnel is not in the best interests of the Company and therefore shareholders. Inter alia, the Board took into account the very sensitive nature of the matter, the relative size of our Group, the competitive business environment we operate in and the irrevocable negative impact such disclosure would have on the Group.

The breakdown of the level and mix of remuneration of each director for the year ended 31 December 2016 is as follows:

Remuneration band & name of director	Status	Director's fees	Salary	Bonus	Total
S$900,000 - S$999,999					
Ding Liguo	EC	–	100%	–	100%
S$100,000 -S$199,999					
Zuo Shuowen	ED	–	100%	–	100%

Remuneration band & name of director		Director's fees S$	Salary	Bonus	Total S$
Lai Hock Meng	LD, ID	75,000	–	–	75,000
Hee Theng Fong	ID	65,000	–	–	65,000
Wang Tianyi	ID	65,000	–	–	65,000
Yuan Weimin	NID	60,000	–	–	60,000

Legend:

EC : Executive Chairman
ED : Executive Director
LD : Lead Independent Director
NID : Non-Independent Director
ID : Independent Director

Guideline 9.3
Remuneration of key management personnel
The breakdown of the level and mix of remuneration of the top four key management personnel for the year ended 31 December 2016 is set out below:

Name of Top 4 Management Personnel	Salary	Bonus	Benefits	Total	Total remuneration in compensation bands of S$100,000
Lan Jihong	88%	12%	–	100%	S$400,000-S$499,999
Yeo Lee Luang	79%	21%	–	100%	S$100,000-S$199,999
Wu Yujie	100%	–	–	100%	S$100,000-S$199,999
Sun Jian Xun	100%	–	–	100%	Below S$99,999

Legend:

Salary: Basic salary, allowance and employer's provident fund or equivalent contribution thereof
Benefits: Car benefits, travel allowance and health insurance
Bonus: Variable bonus and employer's provident fund or equivalent contribution thereof

The aggregate remuneration paid to the Top 4 key management personnel for the year ended 31 December 2016 was S$874,086.

The Company discloses the above information using a narrower band of S$100,000 to improve transparency as compared to the S$250,000 bands stipulated in the Code.

Guideline 9.4
Employee Related To Directors
No employee of the Group is an immediate family member of the substantial shareholders, a director or the executive Chairman in the financial year under review, earning remuneration more than S$50,000 during the year.

Guideline 9.5 and 9.6
Employee Share Scheme
The Group does not have any share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

III. ACCOUNTABILITY AND AUDIT

The Board recognizes the importance of providing accurate and relevant information on a timely basis. In this respect, the AC reviews all financial statements and recommends them to the Board for approval. In addition, the AC ensures that the Company maintains sound system of internal controls to safeguard the shareholders' investments and the Group's assets as well as to manage potential risks.

PRINCIPLE 10: PRESENTATION OF A BALANCED AND UNDERSTANDABLE ASSESSMENT OF THE COMPANY'S PERFORMANCE, POSITION AND PROSPECT

Guideline 10.1
Accountability For Accurate Information
The Company announces its quarterly results and annual financial reports as required by the Code within the mandatory period.

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide shareholders with detailed analysis and a balanced and understandable assessment of the Company's performance, position and prospect. Financial reports and other price-sensitive information are disseminated to shareholders through announcement via SGXNET, press releases and the Company's website.

Guideline 10.2
Compliance With Legislative And Regulatory Requirements
In accordance with SGX-ST's requirements, the Board issued negative assurance statements in its quarterly financial results announcements, confirming to the best of the knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

Guideline 10.3
Management Accounts
The Management updated the Board on the Group's financial performance through monthly management reports. Such reports compare the Group's actual performance against the results of the previous year. They also highlighted key issues that are relevant to the Group's performance from time to time in order for the Board to make balanced and informed assessments of the Company's performance, position and prospects.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

Guideline 11.1
Risk Management And Internal Control Systems
The Board recognizes the importance of maintaining a sound system of risk management and internal controls to safeguard the shareholders' interests and the Group's assets. The AC oversees and ensures that such system has been appropriately implemented and monitored.

Risk assessment and evaluation has become an essential part of the business planning and monitoring process. Having identified the risks to the achievement of the Group's strategic objectives, each business unit is required to document the mitigating actions in place and/or proposed in respect of each significant risk. Risk awareness and ownership of risk treatments are also continuously fostered across the organization.

An overview of the key risks, the extent of the Group's exposure and the approach to managing these risks are set out on page 86 to 94 of this Annual Report.

Guideline 11.2
Adequacy And Effectiveness Of Risk Management And Internal Control Systems
The Board recognizes its responsibility in ensuring a sound system of internal controls to safeguard shareholders' investments and the Group's assets. For the financial year under review, the Board is of the view that there is no significant weakness or breakdown in the Group's existing system of internal controls and they provide reasonable, but no absolute assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board notes that no system of internal controls could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision making, human error, losses, fraud and other irregularities.

As part of the annual statutory audit of the financial statements, the independent auditor also reports to the AC and management on material internal control weaknesses which have come to their attention during the course of the statutory audit. The independent auditor carries out, in the course of the statutory audit, an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate to the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Guideline 11.3 and Listing Rule 1207 (10)
Board's Comment On Adequacy And Effectiveness Of Internal Controls
To strengthen the Group's monitoring control over the related party and interest party transactions, the management will be imposing the following additional internal control procedures:

– To implement internal guidelines and policies for approving, reporting and monitoring of the Group's related party and interested party transactions.

– the audit committee will review and monitor on an on-going basis transactions constituting related party and interested party transactions;

– the Group's internal auditors will review and monitor the related party and interested party transactions on a quarterly basis, where the internal auditors will conduct periodic checks and report their findings to the AC on a quarterly basis; and

– The Company will engage external legal advisers to conduct briefings and provide updates to its board of directors and executive officers and the employees on the applicable laws and regulations in relation to the related party and interested party transactions.

The ineffective monitoring controls over the related party and interested party transactions were an isolated event and were attributable to certain weaknesses implementing the existing internal control procedures by the subsidiary management.

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

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

– work done and reports by the internal and external auditors, and third party independent experts given during the year;

– the written representation from the CEO and the CFO

Guideline 11.4
Risk Committee
The responsibility of overseeing the Company's risk management framework and policies is undertaken by the AC with the assistance of the internal auditors. Having considered the Company's business operations as well as its existing internal control and risk management systems, the Board is of the view that a separate risk committee is not required for the time being.

PRINCIPLE 12: ESTABLISHMENT OF AUDIT AND RISK COMMITTEE WITH WRITTEN TERMS OF REFERENCE

Guideline 12.1
ARC Membership
The Audit and Risk Committee ("ARC") comprises three members, all of whom are independent directors.

Chairman	:	Lai Hock Meng
Member	:	Hee Theng Fong
Member	:	Wang Tianyi

During the year, the AC held four scheduled meetings, which most members attended.

Guideline 12.2
Expertise of AC members
The AC members bring with them professional expertise and experience in the accounting, financial management and legal domains. The Board is satisfied that the AC members are appropriately qualified to discharge their responsibilities.

Guideline 12.3 &12.4
Roles, Responsibilities And Authority Of AC
The AC's written terms of reference which describe its major responsibilities are:

- to review the scope, approach and results of the audit carried out by external auditors;
- To review the scope, approach and results of the specific procedures carried out by third party independent expert;
- to review quarterly and audited financial statements, SGXNET announcements and all related disclosures to shareholders before submission to the Board for approval;
- to review and discuss with external auditors any suspected fraud or irregularities, or failure of internal controls or rule and regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review a framework for the policies and procedures of related party or interested party transactions;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST listing Manual;
- to review transactions constituting related party transactions;
- to review the scope of work of the internal auditors;
- to review annually the adequacy and the effectiveness of the internal audit function to ensure that the internal audit resources are adequate and that the internal audits are performed effectively;
- to oversee the Company 's risk management framework and policies, to determine the Company's overall levels of risk tolerance and risk policies:;
- to review the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology annually, either internally or with the assistance of any competent third parties;
- to review and monitor on an on-going basis, the procedures implemented to ensure the legal and regulatory compliance of the Group's bill financing activities in the applicable jurisdictions;
- To review and monitor on an on-going basis, corporate guarantees given to third parties;
- to review assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems; and
- Perform such other functions as the Board may determine.

Guideline 12.5
External And Internal Auditors
The AC meets with the external auditors separately at least once a year without the presence of Executive Directors and senior management, to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements with particular emphasis on the observations and recommendations of the external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

Guideline 12.6
Independence Of External Auditors
The AC confirms that there were no non-audit services provided by the Company's auditors during the year. The AC has recommended their re-appointment at the forthcoming AGM. The aggregate amount of fees paid to the external auditors for the year is S$526,000.

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

External Auditor Fees for FY2016	**S$'000**	**% of Total Fees**
Total Audit Fees	526.0	100
Total Non-Audit fees	–	–
Total Fees Paid	526.0	100

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

Guideline 12.7
Whistle-blowing Policy
The Board has formulated a written and comprehensive Whistle Blowing policy which has been disseminated through the Group and is an integral part of the Company Handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

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

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

The policy covers all and any improprieties and wrongdoings:

– affecting the financial position of the company;

– relating to the honestly and integrity of the company's dealings;

– relating to the honesty and integrity of any employee or director in the course of his or her employment or dealing with or on behalf of the Company.

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

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

Guideline 12.8
AC To Keep Abreast Of Changes To Accounting Standards
It is the Company's practice for our external auditor to present the AC with their audit plan and with updates relating to any change of accounting standards impacting on the financial statements before an audit commences. It is also the responsibility of the CFO to update the Board on any changes in accounting standards which may have an impact on the financial statements. During the financial year in review, the changes in accounting standards did not have any impact on the Company's financial statements.

Guideline 12.9
Cooling-Off Period For Partners Or Directors Of The Company's auditing Firm
No former partner or director of the Company's existing auditing firm or auditing corporation is a member of the AC.

PRINCIPLE 13: INTERNAL AUDIT

Guideline 13.4
Internal Audit Function
The AC is assisted by the Internal Audit Group ("IAG") of Delong Steel in reviewing and testing during the year the proper functioning and adequacy of the Company's risk management and internal control systems. The Company's IAG is staffed by suitably qualified and experienced professional's personnel with the relevant experience. The IAG reports directly to the AC on internal audit matters and may request from it the necessary resources to adequately perform its functions. The AC endeavours to ensure that internal audit functions are adequately resourced and given an appropriate standing within the Company.

To ensure the adequacy and effectiveness of the risk management and internal audit functions, the AC reviews the IAG's activities on a quarterly basis.

Since 2011, the Company has engaged PricewaterhouseCoopers Business Advisory Services Pte Ltd ("PwC") to perform a limited review on internal controls over the Group's cash and bank management, promissory notes management etc on a yearly basis of our main subsidiaries in the PRC. Any material non-compliance or lapses in internal controls, together with recommendation for improvement are reported to the AC. A copy of the report is also issued to the relevant department for its follow-up actions.

IV. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

The Company believes in treating all shareholders fairly and equitably by recognizing, protecting and facilitating the exercise of shareholders' rights and continuously reviewing and updating such governance arrangements. In addition, the Company embraces effective as well as fair communication with its shareholders and encourages shareholders to participate at general meeting(s).

Guideline 14.1
Sufficient Inforamtion To Shareholders
The Company believes in providing sufficient and regular information to its shareholders beyond the mere compliance of prevailing statutory or professional standards, if it deems beneficial to its shareholders. In this respect, the Board adopts a comprehensive policy to provide clear, timely and fair disclosure of information about the Company's business developments and financial performance that could have a material impact on the price or value of its shares.

Guideline 14.2
Providing Opportunity For Shareholders To Participate And Vote At General Meetings
Shareholders are informed of general meetings through reports/circulars sent to all shareholders in addition to notices published in the newspapers, Company's announcements via SGXNET and the Company's website. General meetings are held at venue within the central business district and easily accessible by the shareholders. Resolutions tabled at general meetings are passed through a process of voting by poll which procedures are explained by the scrutineer at such general meetings.

Guideline14.3
Proxies For Nominees Companies
Currently, the Constitution of the Company allows all shareholders (members) to appoint up to two proxies to attend general meeting and vote on their behalf.

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant intermediary includes corporation holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

Guideline 15.1
Communication With Shareholders
In line with the continuous disclosure obligations under the listing rules of the SGX-ST and the Singapore Companies Act, Cap. 50, the Board informs shareholders promptly of all major developments that may have material impact on the Group.

The Board embraces openness and transparency in the conduct of the Company's affairs, whilst safeguarding the commercial interests. Material information on the Group is being released to the public through the Company's announcements via SGXNET.

Guideline 15.2
Timely Information To Shareholders
All material information on the performance and development of the Group and of the Company is disclosed as an accurate and comprehensive manner through SGXNET and the Company's website. The Company does not practice selective disclosure of material information. All materials on the quarterly, half yearly and full year financial results are available on the Company's website- www.delongsteel.com.

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

Guideline 15.3

Regular Dialogue With Shareholders

General meetings have been and are still the principal forum for dialogue with shareholders. At these meetings, shareholders are able to engage the Board and the Management on the Group's business activities, financial performance and other business- related matters. The Company could also gather views or input and address shareholders' concerns at general meetings.

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

The Company conducts its IR on the following principles:

– Information deemed to be price-sensitive is disseminated without delay via announcements and/or press releases on SGXNET;

– Discuss only publicly-available and publicly known information during dialogues with investors and analyst, principally following announcement of financial results;

– Maintain a blackout period prior to the planned release of financial statements during which no meetings and presentations will be held with analysts or investors. The blackout period is two weeks for quarterly financial results and one month for the full-year financial results;

– Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions;

– Announce the date of release of quarterly financial reports at least a week in advance

– Operate an open policy with regard to investor/email enquiries; and

– Management and IR team are accessible to requests for one-on-one meetings and conference calls with investors and analysts.

Guideline 15.4

Soliciting And Understanding Views Of Shareholders

To promote a better understanding of shareholders' views, the Board actively encourages shareholders to participate during the Company's general meetings. These meetings provide excellent opportunities for the Company to obtain shareholders views on value creation.

Guideline 15.5

Dividend Policy

The Company does not have a dividend policy at present.

The Board does not recommend that a dividend be paid for the year ended 31 December 2016 after taking into consideration the need to conserve cash for its working capital and the retention of its prior year's profits for investment into the future for long-term capital growth.

PRINCIPLE 16: CONDUCT OF SHAREHOLDER MEETINGS

Guideline 16.1
Effective Shareholders Participation
The Company supports active shareholders participation at general meetings. The shareholders are encouraged to attend the general meetings to ensure high level of accountability and to stay informed of the Group's strategies and visions. If shareholders are unable to attend the meetings, the Constitution allow a shareholder of the Company to appoint up to two proxies to attend and to vote in place of the shareholder through proxy form in advance.

Guideline 16.2
Separate Resolutions At General Meetings
The Board ensures that separate resolutions are proposed for approval on each distinct issue at general meetings. Shareholders can vote either in person or through proxies.

Guideline 16.3
Attendees At General Meetings
The Chairman of the Board and its Committees attend general meetings to address issues raised by shareholders. The Company's external auditors are also present to address any relevant queries from shareholders.

Guideline 16.4
Minutes Of General Meetings
The minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon request.

Guideline 16.5
Voting By Poll At General Meetings
All resolutions tabled at the AGM are voted by poll counted and validated by an independent scrutineer. The results of the poll voting on each resolution tabled at the AGM, including the total number of votes cast for or against each resolution, will be announced after the said meeting via SGXNET.

Listing Manual Rule 1207 (19)
DEALING IN SECURITIES & COMPLIANCE WITH BEST PRACTICES GUIDE
The Company has adopted Internal Code of Conduct on dealing in the Company's securities. The Code has been modelled along the rules in the listing manual of the SGX-ST in respect of dealing in securities. The Group has procedures in place prohibiting directors and senior executives of the Group from dealing in the Company's shares during the periods commencing two weeks before the announcement of the Company's quarterly results and one month before full year financial results, and ending on the date of the announcement of the results, or if they are in possession of unpublished material price-sensitive information of the Company. Directors and senior executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period. Officers and directors are also prohibited from dealing in the Company's shares on short-term considerations.

The Board confirms that for the financial year ended 31 December 2016, the Company has complied with the listing rules of the SGX-ST in respect of dealing in securities.

MATERIAL CONTRACTS

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

Listing Manual Rule 907
INTERESTED PERSON TRANSACTIONS

Interested Person Transactions ("IPT") are executed on fair terms and at arm's length regardless of nature and size. When a potential conflict of interest arises, the Directors concerned neither takes part in discussions nor exercises any influence over other members of the Board.

The interested person transactions for the financial year ended 31 December 2016 are as follows:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual	
	FY 2016 RMB'000	**FY2015 RMB'000**	**FY 2016 RMB'000**	**FY2015 RMB'000**
Hebei Delong Modern Special Tube Manufacturing Co., Ltd[1]	-	859.0	-	-

Notes:

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

As at December 31, 2016, the Group provided corporate guarantee to a bank in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Liguo and his spouse, Ms Zhao Jing. The corporate guarantee granted amounted to RMB50.0 million (2015:RMB15.6 million) (Note 33). The corporate guarantee was discharged in March 2017.

SUSTAINABILITY
REPORT

As a public-listed company, Delong is in the business of making profit and creating long-term value for its shareholders. This cannot be accomplished without understanding the need of our many stakeholders that contributes to Delong's success. We would like to help our customers, employees and communities to prosper together, keep people surrounding us happy and the community environment free from harm. This is how we run our businesses which go beyond financial and operational performance.

ENVIRONMENT INITIATIVES

The Group places much importance on environmental protection, energy-saving and emission-reduction, and has continuously formulated and improved a series of regulatory policies to improve our environmental management, laying a solid foundation for future development.

AIR

Dust is one of the main environmental impacts of steelmaking, and creates visible pollution both inside and outside the plant. Over the years, the Group has continually invested in technological upgrades and enhancements to reduce emissions. We also continue to invest in monitoring our emissions, improving our production processes, and using techniques such as 'green belts' of trees to filter dust in the air. Other pollutants, such as nitrogen oxides (NOx) and sulphur oxides (SOx), have also been significantly controlled in recent years.

Enclosed raw materials warehouse to keep the amount of dust to a minimum.

WATER

Steel plants require water for cooling and processing. At our steel sites, we actively manage the risk of water contamination, to prevent risks to human health and the environment. Our water treatment facility plays a vital role in improving the water efficiency of our operations, as well as managing our emissions to water. Delong has a closed system for conserving and recycling water; we treat the waste water and recycle it in a closed system with the objective of conserving diverted water.

ENERGY EFFICIENCY

Energy efficiency is an important way to manage our carbon emissions. We re-use the waste gases from our steelmaking processes as fuel instead of burning natural gas: for example, through new technology which re-uses high-pressure gases (known as flue gases) from the blast furnaces to drive electricity generators. We have achieved cost savings as a result of our energy management.

ENVIRONMENTAL INDICATOR

		2016	2015	Benchmark (MIIT)
Total dust emissions	kg per tonne of steel	0.7	0.7	1.19
Water consumption	kg per tonne of steel	1,830.0	2,020.0	3,000.0
Energy intensity	GJ/kg per tonne of steel	575.5	545.4	N.A
Greenhouse gas emission CO_2	kg per tonne of steel	2,017.3	2,189.3	N.A
Nitrogen oxides (NOx)	kg per tonne of steel	5.9	8.0	N.A
sulphur oxides (SOx)	kg per tonne of steel	1.1	1.5	1.63

Note:
N.A.: Data not available
MITT: Ministry of Industry and Information Technology

The Group's environmental indicators such as dust particle emission, water consumption and sulphur oxides are well within the benchmark set by the Ministry of Industry and Information Technology in the PRC. Other indicators such as greenhouse gas emission and nitrogen oxides have also been improved in 2016. In 2016, the energy consumed increased by 30.1 GJ/kg per tonne of steel as a result of higher production volumes and new environmental technologies in place also increased the consumption of energy.

ENVIRONMENT INITIATIVES

RESIDUES, BY-PRODUCTS AND WASTE

We have always re-used the residues of the steel production process as far as we can, and where this is not possible, we sell them for external re-use or recycling.

Slag from the blast furnace is a prime example: it can be used in cement production, as aggregate for road-building or as fertiliser. Slag can also be returned to the furnaces for use as flux and as a supplemental source of iron. We have increased the recycling of blast furnace slag at our sites.

RESPONSIBLE ENERGY USER THAT HELPS CREATE A LOWER CARBON FUTURE

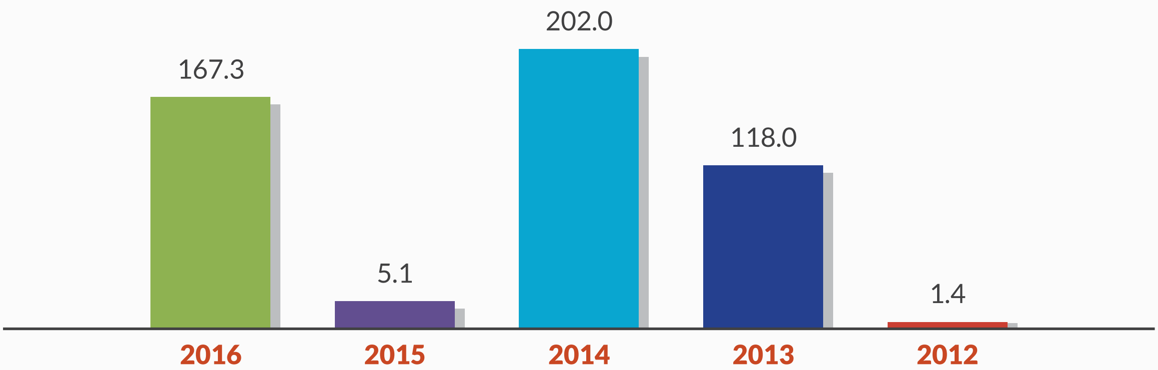
Steel is an energy- and carbon-intensive industry. We are cutting our energy consumption and carbon emissions wherever we can. However, our focus is not just on our own processes: through innovation and new product development we are also helping our customers find ways to reduce their energy consumption and carbon emissions.

ECONOMIC INDICATOR

		2016	2015
Investment in new processes and products	% of revenue	8.10%	1.28%

The percentage of revenue spent on investment in new processes and products increased by 6.8 percentage points, from 1.28% in 2015, to 8.10% in 2016

FIVE-YEAR ENVIRONMENTAL AND ENERGY CAPEX (RMB'M)



LABOUR PRACTICE AND CONDUCIVE WORKPLACE

LABOUR PRACTICE AND CONDUCIVE WORKPLACE

We recognize that employees are the Group's most important asset for the continued and sustained growth of the Company. We also believe that a happy and satisfied employees tends to share positive information about the Company. As such, we endeavour to provide our employees with a safe and happy work environment and care for them so that they can be at their best.

A SAFE WORKING ENVIRONMENT

Safety is our number one priority and always has been. To produce steel with no fatalities or injuries, everyone must take responsibility for ensuring a safe environment, not just for themselves but also for their colleagues. We have a safety policy, which ensures we have the right procedures at each site to cover how we work and use equipment, how we identify and manage risk, how we take responsibility for our own and others' safety, and how we learn from accidents and near misses.

EMPLOYEE RELATIONS

Our company has a strong history of commitment to open dialogue with our people. This ensures we have a strong mutual understanding between the employees and leadership of each business unit. Good communication makes our workforce feel respected, cared for, empowered and rewarded.

EMPLOYEE ENGAGEMENT

We value a working environment based on mutual trust and respect for our employees. Some of our communications channels are formal (like the employee survey), and others are more informal. The aim in all cases is to give everyone the opportunity to give feedback, ask questions and offer ideas. Other ways of communicating include our monthly newsletter. These sessions with our senior management are a unique opportunity for a two-way communication on topics of interest for the Company.

DIVERSITY WORKFORCE

The steel industry has historically been a male-dominated sector. However, the number of women in the industry has been growing, and we have been working to increase the number of women interested in the field, as well as recruiting more engineers and preparing more women for advancement and promotion in our own business. We believe that a diverse workforce is more creative and more innovative, and we both need and value these fresh ideas and different perspectives.

EMPLOYEE DEVELOPMENT

Our business will only be successful and sustainable in the future if we can attract, develop and retain the best talent, and inspire the workforce of tomorrow. We invest significant amounts to train our employees, enabling them to develop their careers, fulfil their potential, and make the best possible contribution to the success of the company.

LABOUR PRACTICE AND
CONDUCIVE WORKPLACE

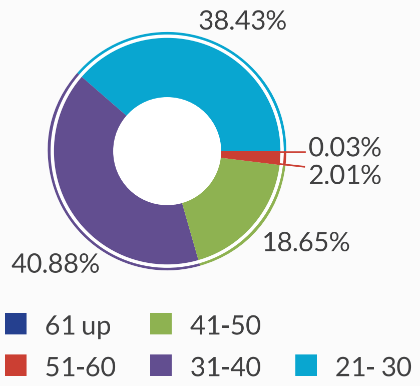
CONTINUING EDUCATION
In order to ensure that our employees acquire new knowledge and keep abreast with new technologies and developments, the Group sends or arranges for selected employees to participate in conferences and training course. Post training evaluations are conducted to assess whether training objectives have been met. Employees sent for training will in turn conduct training seminars for other staff members to promulgate the knowledge gained.

SUCCESSION PLANNING
Delong Strives to continually groom and retain a diverse and robust talent pool to ensure that our employees are ready for the future needs and strategies are in place to handle change. Employees are also given priority whenever there is a job vacancy within the Group.

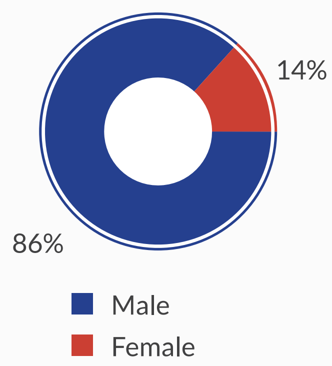
EMPLOYEE CODE OF CONDUCT
Delong upholds a strong belief in integrity and professionalism in the conduct of our business activities and expects our employees to embrace, practice and adopt these values. To ensure employees understand the Group's philosophy in this aspect, an Employee Handbook that provides guidelines on Code of Conducts is available to all employees.

EMPLOYEE PROFILE 2016

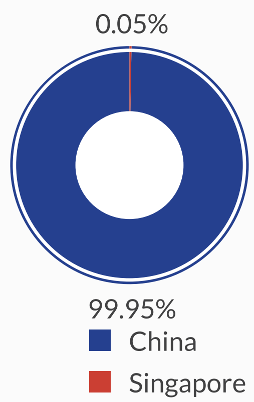
Employees by age band



Employees by gender



Employees by country



SOCIAL INDICATOR

Employee training

COMMUNITY INVOLVEMENT

Delong believes in fulfilling its role as a good corporate citizen, impacting and contributing positively to communities where it operates. We also encourage our employees to play meaningful roles in their communities, volunteer their time to various causes and also give financial support to less fortunate groups in the society. By taking part in these activities, Delong continues to contribute to the wellbeing of the communities and brings happiness to less privileged groups.

In 2016, the Group donated a total amount of about RMB4,713,000, of which, RMB2,600,000 to the Hebei Charity Federation, RMB1,000,000 to the China Charities Aid Foundation for Children, RMB1,113,000 to other charities.

Mr Ding Liguo, CEO of the Company, was seen distributing school goodie bag to a student at Jingyuan Liuchuan Middle School in Gansu province.

Delong employees took part in distributing school goodie bags to students in Gansu province.

Students at Jingyuan Liuchuan Middle School, Gansu province

FINANCIAL CONTENTS

DIRECTORS' STATEMENT

The directors present their statement with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2016.

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 57 to 124 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at December 31, 2016, and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1 DIRECTORS

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

Ding Liguo
Zuo Shuowen
Hee Theng Fong
Lai Hock Meng
Yuan Weimin
Wang Tianyi

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

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

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

	Shareholdings registered in the name of directors		Shareholdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	**At beginning of year**	At end of year
Ordinary shares of the Company				
Ding Liguo	**–**	–	**320,817,502**	64,163,500

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

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

The directors' interests in the shares of the Company as at January 21, 2017 were the same as at December 31, 2016.

4 SHARE OPTIONS

(a) *Options to take up unissued shares*

During the financial year, no option to take up unissued shares of the Company was granted.

(b) *Options exercised*

During the financial year, there were no shares of the Company issued by virtue of the exercise of an option to take up unissued shares.

(c) *Unissued shares under options*

At the end of the financial year, there were no unissued shares of the Company under options.

5 AUDIT COMMITTEE

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

- to review the scope, approach and results of the specific procedures carried out by third party independent expert;
- to review the scope, approach and results of the audit carried out by external auditors;
- to review the quarterly and audited financial statements, SGXNET announcements, and all related disclosures to shareholders, before submission to the Board of Directors (the "Board") for approval;
- to review and discuss with external auditors any suspected fraud or irregularities, or failure of internal controls or rule and regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review a framework for the policies and procedures of related party transaction ("RPT") or interested person transaction ("IPT");
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST listing Manual;
- to review transactions constituting related party transactions;
- to review the scope of work of the internal auditors;
- to review annually the adequacy and effectiveness of the internal audit function to ensure that the internal audit resources are adequate and that the internal audits are performed effectively;
- to oversee the Company's risk management framework and policies, to determine the Company's overall levels of risk tolerance and risk policies;
- to review the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology annually, either internally or with the assistance of any competent third parties;
- to review and monitor on an on-going basis, the procedures implemented to ensure the legal and regulatory compliance of the Group's bill financing activities in the applicable jurisdictions;
- to review assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems; and
- perform such other functions as the Board may determine.

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

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

6 AUDITORS

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

ON BEHALF OF THE DIRECTORS

Ding Liguo
Director

Zuo Shuowen
Director

April 6, 2017

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Delong Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 124.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at December 31, 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of *Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the audit matter was addressed in the audit
Identification and disclosure of related party transactions Management informed the Audit Committee that certain related parties transactions were omitted for disclosure in the past due to a lack of understanding and lack of familiarity with the definition of a related party. Arising from this matter, management has performed an assessment and presented their findings to the Audit Committee. Management has assessed and determined that two parties whom they have management agreements with to facilitate bill financing arrangements with the banks are not related parties. During the course of their assessment, management has also determined that certain corporate guarantees given by the Group to banks in respect of bank loans granted to related parties and third parties were previously not disclosed. The Audit Committee has appointed third party independent experts to review management's findings including reviewing the completeness. The findings from the third party independent experts are generally consistent with management's findings. It has also been noted during the course of their work that there are improvements which could be made to enhance understanding of related party and the internal controls over the identification and disclosure of related party relationships and transactions. The Group has made disclosures on the related party transactions in Note 5b to the financial statements, including disclosures on corporate guarantees that were given to banks by the Group in respect of bank loans granted to related parties. The Group has also made disclosures on the bill financing arrangement with the two parties in Note 21. The Group has made disclosures on corporate guarantees that were given to banks by the Group in respect of bank loans granted to third parties in Note 33 to the financial statements.	Our audit procedures include: ● Understanding and evaluating the processes undertaken by the Audit Committee, including the scope of work set and approved by the Audit Committee of the third party independent experts. ● Evaluating the qualifications and competency of the third party independent experts engaged by the Audit Committee and considering whether there were any matters that might have affected their objectivity or limited the scope of their work. ● Obtaining the reports issued by the third party independent experts. We also held discussions with the third party independent experts to understand the work that they have performed, and considered the implications of their findings thereon to determine additional audit procedures. ● The additional audit procedures include the following: ▪ Having discussion and interviews with representatives from certain banks. ▪ Obtaining the list of corporate guarantees at December 31, 2015 and 2016, and agreeing such corporate guarantees on a sample basis to the underlying supporting documents. ▪ Assessing the additional disclosures in the financial statements made by management and understanding the reasons for non-disclosure in the past. We also agreed such additional disclosures on a sample basis to the underlying supporting documents. ● Obtaining legal opinion directly from the external legal adviser on the legality of the bill financing arrangement.

Key Audit Matters	How the audit matter was addressed in the audit
	• Discussing with the Audit Committee, understand and evaluating the procedures, including additional controls to be implemented going forward, that will be undertaken by the Audit Committee and management to address the deficiencies noted by the experts.
Impairment review of available-for-sale financial assets At the end of each reporting period, the Group is required to assess whether there is any objective evidence that available-for-sale financial assets is impaired. The identification of impairment events, and the basis and determination of the quantum of impairment charge, requires the application of judgement by management. Inappropriate judgements made in the assessment of the recoverable amounts could have a significant impact on the value of the assets and therefore could affect the financial results of the Group. The Group has made disclosures on the impairment of investment in available-for-sale financial assets in Note 3 to the financial statements, and further information related to the available-for-sale financial assets is provided in Note 14.	Our audit procedures focused on evaluating and challenging the key estimates used by management in the valuation of available-for-sale financial assets. These procedures include: • Evaluating the design and implementation of key controls over Group's valuation of available-for-sale financial assets; and • Assessing management's assumptions used in their impairment review and corroborated our understanding with external data where available or other supporting documents.

Key Audit Matters	How the audit matter was addressed in the audit
Impairment of property, plant and equipment At the fifth meeting of Hebei Province's 12th National People Congress, there are reforms introduced in relation to plans to reduce steelmaking capacity by 31.86 million tonnes in 2017, and the acceleration of reducing steelmaking capacity in cities of Langfang, Baoding and Zhangjiakou in 2017 (the "Capacity Reduction Plans"). The Group's subsidiary, Laiyuan County Aoyu Steel Co., Ltd. ("Aoyu Steel"), is located in Baoding, one of the affected cities under the Capacity Reduction Plans. Based on existing information available to the Group, Aoyu Steel may be required to cease its operations in view of the Capacity Reduction Plans. Compensation details to the Group arising from such Capacity Reduction Plans are not clear. This provides an indication of potential risk of impairment on the property, plant and equipment. The valuation for Aoyu Steel's property, plant and equipment involves significant judgement and estimates due to insufficient information from the authorities on the Capital Reduction Plans, and thus requires management to make certain judgement and estimates. In assessing the recoverable amount of the property, plant and equipment of Aoyu Steel, management had relied on the valuation performed by an independent external valuers. A resultant impairment of RMB600 million has been charged to the profit or loss statement for the year ended 31 December, 2016. The Group's disclosure of the above judgement and estimates is provided in Note 3 to the financial statements, and further information related to the property, plant and equipment is provided in Note 17.	Our audit procedures focused on evaluating and challenging the key judgement exercised by management in valuation of Aoyu Steel's property, plant and equipment. These procedures include: ● Discussed and challenged management on the basis used in their assessment in determining the recoverable amounts; ● We evaluated the qualifications and competence of the third party independent valuer and considered whether there were any matters that might have affected their objectivity or limited the scope of their work; ● Assessed the scope of work (as determined by management) of the external valuers, and the results of the valuations reported by the valuers; and ● Considered the valuation methodology (which is the replacement cost approach) and assess the appropriateness of such valuation approach, including involving our own valuation specialists in the review of the work performed by the external valuers.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Information Other than the Financial Statements and Auditor's Report Thereon (cont'd)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair view financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr Yang Chi Chih.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

April 6, 2017

STATEMENT OF
FINANCIAL POSITION

31 December 2016

	Note	Group 2016 RMB'000	Group 2015 RMB'000	Company 2016 RMB'000	Company 2015 RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	6	**966,932**	484,864	**7,585**	13,400
Bank balances pledged	7	**1,571,779**	1,231,877	**–**	–
Held for trading investments	8	**725,943**	232,873	**–**	–
Held-to-maturity financial asset	9	**371,050**	200,000	**–**	–
Trade and other receivables	10	**570,020**	484,192	**220,270**	214,923
Inventories	12	**552,518**	540,113	**–**	–
Other assets	13	**672,066**	867,426	**88**	170
Total current assets		**5,430,308**	4,041,345	**227,943**	228,493
Non-current assets					
Bank balances pledged	7	**–**	206,000	**–**	–
Trade and other receivables	10	**–**	1,016	**–**	–
Other assets	13	**–**	38,050	**–**	–
Available-for-sale financial assets	14	**203,988**	157,539	**–**	–
Investments in subsidiaries	15	**–**	–	**1,984,916**	1,984,916
Investment in an associate	16	**4,001**	4,340	**–**	–
Property, plant and equipment	17	**2,229,273**	3,374,392	**63**	114
Intangible asset	18	**1,440**	7,200	**–**	–
Deferred tax assets	19	**6,508**	–	**–**	–
Total non-current assets		**2,445,210**	3,788,537	**1,984,979**	1,985,030
Total assets		**7,875,518**	7,829,882	**2,212,922**	2,213,523
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	**1,442,102**	1,595,934	**5,280**	4,543
Borrowings and notes payables	21	**3,621,011**	3,519,179	**10**	9
Provision for taxation		**39,879**	–	**–**	–
Total current liabilities		**5,102,992**	5,115,113	**5,290**	4,552
Non-current liabilities					
Borrowings	21	**204,906**	341,230	**32**	42
Deferred tax liabilities	19	**23,249**	24,689	**–**	–
Total non-current liabilities		**228,155**	365,919	**32**	42
Total liabilities		**5,331,147**	5,481,032	**5,322**	4,594
Net assets		**2,544,371**	2,348,850	**2,207,600**	2,208,929
Capital reserves and non-controlling interests					
Share capital	23	**406,644**	406,644	**2,112,480**	2,112,480
Capital reserve	24	**261,613**	261,613	**249,218**	249,218
Fair value reserve	24	**(304)**	(23,098)	**–**	–
Currency translation reserve		**23,424**	8,650	**–**	–
Statutory reserve	24	**141,072**	141,072	**–**	–
Retained earnings (Accumulated losses)	24	**1,711,922**	1,498,892	**(154,098)**	(152,769)
Equity attributable to owners of the Company		**2,544,371**	2,293,773	**2,207,600**	2,208,929
Non-controlling interests		**–**	55,077	**–**	–
Total equity		**2,544,371**	2,348,850	**2,207,600**	2,208,929

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2016

	Note	Group 2016 RMB'000	2015 RMB'000
Revenue	25	**9,874,981**	6,952,304
Cost of sales	28	**(8,410,749)**	(6,931,311)
Gross profit		**1,464,232**	20,993
Other income	26	**88,948**	85,431
Other losses - net	27	**(676,832)**	(15,509)
Distribution and marketing costs	28	**(76,576)**	(68,962)
Administrative expenses	28	**(260,351)**	(266,309)
Finance costs	29	**(230,361)**	(178,464)
Share of loss of an associate	16	**(339)**	(237)
Profit (Loss) before tax		**308,721**	(423,057)
Income tax expenses	30	**(99,398)**	(8,204)
Profit (Loss) for the year	31	**209,323**	(431,261)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**6,753**	(1,320)
Fair value change on available-for-sale financial assets	14	**22,794**	(12,243)
Other comprehensive income (loss) for the year, net of tax		**29,547**	(13,563)
Total comprehensive income (loss) for the year		**238,870**	(444,824)
Profit (Loss) attributable to:			
Owners of the Company		**213,030**	(392,845)
Non-controlling interests		**(3,707)**	(38,416)
		209,323	(431,261)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**238,670**	(402,539)
Non-controlling interests		**200**	(42,285)
		238,870	(444,824)
Earnings (Losses) per share	32		
(expressed in RMB per share)			
- Basic		**1.93**	(3.57)
- Diluted		**1.93**	(3.57)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2016

	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Capital reserve RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group										
Balance as at January 1, 2015	**406,644**	**249,218**	**(10,855)**	**6,101**	**141,072**	**1,891,737**	**2,683,917**	**(90,385)**	**195,433**	**2,788,965**
Total comprehensive (loss) income for the year:										
Loss for the year	–	–	–	–	–	(392,845)	(392,845)	–	(38,416)	(431,261)
Other comprehensive (loss) income	–	–	(12,243)	2,549	–	–	(9,694)	–	(3,869)	(13,563)
Total	–	–	(12,243)	2,549	–	(392,845)	(402,539)	–	(42,285)	(444,824)
Effect of acquiring non-controlling interest in a subsidiary, representing transaction with owners, recognised directly in equity	–	12,395	–	–	–	–	12,395	90,385	(98,071)	4,709
Balance as at December 31, 2015	**406,644**	**261,613**	**(23,098)**	**8,650**	**141,072**	**1,498,892**	**2,293,773**	**–**	**55,077**	**2,348,850**
Total comprehensive income for the year:										
Profit (loss) for the year	–	–	–	–	–	213,030	213,030	–	(3,707)	209,323
Other comprehensive income	–	–	22,794	2,846	–	–	25,640	–	3,907	29,547
Total	–	–	22,794	2,846	–	213,030	238,670	–	200	238,870
Disposal of a subsidiary (Note 22), representing transaction with owners, recognised directly in equity	–	–	–	11,928	–	–	11,928	–	(55,277)	(43,349)
Balance as at December 31, 2016	**406,644**	**261,613**	**(304)**	**23,424**	**141,072**	**1,711,922**	**2,544,371**	**–**	**–**	**2,544,371**

See accompanying notes to financial statements.

STATEMENT OF
CHANGES IN EQUITY (CONT'D)

Year Ended 31 December 2016

	Share capital RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Company				
Balance at January 1, 2015	2,112,480	249,218	(140,920)	2,220,778
Loss for the year, representing total comprehensive loss for the year	–	–	(11,849)	(11,849)
Balance at December 31, 2015	2,112,480	249,218	(152,769)	2,208,929
Loss for the year, representing total comprehensive loss for the year	–	–	(1,329)	(1,329)
Balance at December 31, 2016	2,112,480	249,218	(154,098)	2,207,600

See accompanying notes to financial statements.

STATEMENT OF
CASH FLOWS

Year Ended 31 December 2016

	Notes	Group 2016 RMB'000	Group 2015 RMB'000
Operating activities			
Profit (Loss) for the year		**209,323**	(431,261)
Adjustments for:			
Income tax expenses	30	**99,398**	8,204
Depreciation	17	**459,735**	433,396
Amortisation of intangible assets	18	**5,760**	5,760
impairment loss for property, plant and equipment	17	**600,000**	–
Allowance for inventories - net	12, 27	**37,867**	6,055
Allowance for doubtful debts	10, 27	**2,903**	–
Loss on disposal of property, plant and equipment	27	**13,318**	18,125
Prepaid leases written off	27	**–**	27,319
Refundable deposit written off	27	**20,791**	–
Fair value gain on held for trading investments	27	**825**	–
Impairment loss for available-for-sale financial assets	27	**45,000**	–
Fair value changes on purchase consideration payable	27	**–**	(15,443)
Share of loss of an associate	16	**339**	237
Loss on disposal of subsidiary	22, 27	**3,416**	–
Interest income	26	**(72,801)**	(79,074)
Interest expenses	29	**230,361**	178,464
Unrealised exchange differences		**(42,027)**	8,266
Operating cash flow before movements in working capital		**1,614,208**	160,048
Bank balances pledged		**(133,902)**	90,235
Receivables		**43,289**	(126,226)
Inventories		**(123,489)**	109,717
Payables (Note A)		**93,684**	64,639
Cash generated from operations		**1,493,790**	298,413
Income taxes paid		**(27,534)**	(6,868)
Net cash from operating activities		**1,466,256**	291,545
Investing activities			
Payments for property, plant and equipment (Note A)		**(69,451)**	(723,690)
Proceeds from disposal of available-for-sale financial assets		**14,696**	109,159
Proceeds from disposal of property, plant and equipment		**11,077**	137,251
Purchase of investments held for trading		**(493,895)**	(232,873)
Purchase of available-for-sale financial assets	14	**(83,351)**	(12,000)
Purchase of held-to-maturity financial assets		**(171,050)**	–
Proceeds from held-to-maturity financial assets		**–**	100,000
Acquisition of non-controlling interest in a subsidiary		**–**	(93,362)

See accompanying notes to financial statements.

STATEMENT OF
CASH FLOWS (CONT'D)

Year Ended 31 December 2016

	Notes	Group 2016 RMB'000	2015 RMB'000
Disposal of a subsidiary	22	**(25,475)**	–
Interest received		**72,801**	79,074
Net cash used in investing activities		**(744,648)**	(636,441)
Financing activities			
Proceeds from borrowings from banks, non-controlling shareholders and other financial institutions		**2,901,089**	2,127,585
Repayment of borrowings from banks and other financial institutions		**(2,935,052)**	(2,064,510)
Capital contribution by non-controlling interest		**–**	8,615
Interest paid		**(230,361)**	(178,464)
Net cash used in financing activities		**(264,324)**	(106,774)
Net increase (decrease) in cash and cash equivalents		**457,284**	(451,670)
Cash and cash equivalents at the beginning of the year		**484,864**	935,621
Effects of currency translation on cash and cash equivalents		**24,784**	913
Cash and cash equivalents at the end of the year (Note 6)		**966,932**	484,864

Note A:

In 2016, total additions of property, plant and equipment was RMB232,624,000 (2015 : RMB787,203,000) and an amount of RMB128,913,000 (2015 : RMB29,000,000) remained unpaid as at end of the reporting period. The Group had also prepaid plant and equipment amounting to RMB63,260,000 in 2015.

See accompanying notes to financial statements.

1 GENERAL

The Company (Registration Number 199705215G) is incorporated in Singapore with its principal place of business and registered office at 55 Market Street, Level 10, Singapore 048941. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Chinese Renminbi.

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

The principal activities of the subsidiaries and associate are disclosed in Notes 15 and 16 to the financial statements respectively.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2016 were authorised for issue by the Board of Directors on April 6, 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of FRS 102 *Share-based Payments*, leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

ADOPTION OF NEW AND REVISED STANDARDS - On January 1, 2016, the Group and the Company have adopted all the new and revised FRSs and Interpretations of FRS (“INT FRS”) that are effective from that date and are relevant to its operations. The adoption of these new/revised FRS and INT FRSs does not result in changes to the Group’s and Company’s accounting policies and has no material effect on the amounts reported for the current or prior years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New FRS and INT FRS yet to be adopted

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

- Amendments to FRS 7 *Statement of Cash Flows: Disclosure Initiative*[1]
- Amendments to FRS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*[1]
- FRS 109 *Financial Instruments*[2]
- FRS 115 *Revenue from Contracts with Customers (with clarifications issued)*[2]
- FRS 116 *Leases*[3]

1 *Applies to annual periods beginning on or after 1 January 2017, with early application permitted.*

2 *Applies to annual periods beginning on or after 1 January 2018, with early application permitted.*

3 *Applies to annual periods beginning on or after 1 January 2019, with early application permitted if FRS 115 is adopted.*

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

Management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of initial adoption except for the following:

FRS 109 Financial Instruments

FRS 109 was issued in December 2014 to replace FRS 39 *Financial Instruments: Recognition and Measurement* and introduced new requirements for (i) the classification and measurement of financial assets and financial liabilities (ii) general hedge accounting (iii) impairment requirements for financial assets.

Key requirements of FRS 109:

- All recognised financial assets that are within the scope of FRS 39 are now required to be subsequently measured at amortised cost or fair value through profit or loss (FVTPL). Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at FVTPL at the end of subsequent accounting periods. In addition, under FRS 109, entities may make an irrevocable election, at initial recognition, to measure an equity investment (that is not held for trading) at FVTOCI, with only dividend income generally recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

***FRS 109 Financial Instruments** (cont'd)*

- With some exceptions, financial liabilities are generally subsequently measured at amortised cost. With regard to the measurement of financial liabilities designated as at FVTPL, FRS 109 requires that the amount of change in fair value of such financial liability that is attributable to changes in the credit risk be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch to profit or loss. Changes in fair value attributable to the financial liability's credit risk are not subsequently reclassified to profit or loss.

- In relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in FRS 39. Under FRS 109, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the initial application of the new FRS 109 will result in changes to the accounting policies relating to the impairment provisions of financial assets and liabilities. Additional disclosures will also be made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new FRS 109.

FRS 115 Revenue from Contracts with Customers

In November 2014, FRS 115 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. FRS 115 will supersede the current revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Construction Contracts* and the related Interpretations when it becomes effective. Further clarifications to FRS 115 were also issued in June 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

***FRS 115 Revenue from Contracts with Customers** (cont'd)*

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under FRS 115, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in FRS 115 to deal with specific scenarios. Furthermore, extensive disclosures are required by FRS 115.

Management anticipates that the initial application of the new FRS 115 should not result in changes to the accounting policies relating to revenue recognition. However, additional disclosures for trade receivables and revenue may be required, including any significant judgement and estimation made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new FRS 115.

FRS 116 Leases

FRS 116 was issued in June 2016 and will supersede FRS 17 *Leases* and its associated interpretative guidance.

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the predecessor FRS 17.

Management is currently still assessing the possible impact of implementing FRS 116. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the above new FRS 116.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IFRS convergence in 2018

Singapore-incorporated companies listed on the SGX will be required to apply a new Singapore financial reporting framework that is identical to the International Financial Reporting Standards ("IFRS") for annual periods beginning on or after 1 January 2018. The Group will be adopting the new framework for the first time for financial year ending 31 December 2018.

Based on a preliminary assessment of the potential impact arising from IFRS 1 *First-time adoption of IFRS*, management does not expect any changes to the Group's current accounting policies or material adjustments on transition to the new framework, other than those that may arise from implementing new/revised IFRSs as set out in the preceding paragraphs.

Management is currently performing a detailed analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under IFRS 1, and the preliminary assessment above may be subject to change arising from the detailed analysis.

BASIS OF CONSOLIDATION - Pursuant to the reverse acquisition ("Reserve Acquisition") of the Company by Asia Paragon International Limited ("Asia Paragon") effected on January 1, 2005, the Group's consolidated statements of comprehensive income, consolidated statement of financial position, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2005 and after the business combination have been prepared as continuation of Asia Paragon's financial statements.

Since such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary (i.e. Asia Paragon Group), the assets and liabilities and equity (including issued equity and retained profits) at the date of Acquisition are accounted for as follows:

(i) the assets and liabilities of Asia Paragon Group are recognised and measured in the consolidated statement of financial position at their pre-combination carrying amounts; and

(ii) the retained profits and equity balances recognised in those consolidated financial statements are the retained profits and equity balances of the Asia Paragon Group immediately before the business combination. However, the equity structure appearing in those consolidated financial statements (i.e. the number and type of equity instruments issued) reflects the equity structure of the Company as the legal parent.

The consolidated financial statements incorporate the financial statements of the company and entities (including structured entities) controlled by the company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable FRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39, when applicable, the cost on initial recognition of an investment in an associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

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

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits respectively*;

- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale* and *Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another FRS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

Effective interest method

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

Financial assets

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

Certain shares and debt securities held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 4. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Available-for-sale financial assets (cont'd)

disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the available-for-sale monetary asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserves. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

Offsetting arrangements

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

Convertible shares

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

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

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

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

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

The Group as lessor

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Group as lessor (cont'd)

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Prepaid leases	–	over the terms of leases which are from 21 to 50 years
Leasehold buildings	–	the shorter of 20 years or the lease term
Plant and equipment	–	10 years
Motor vehicles	–	5 years

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

ASSOCIATES - An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with FRS 105. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of FRS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with FRS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with FRS 36 to the extent that the recoverable amount of the investment subsequently increases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with FRS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associates. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Sale of goods and scrap materials

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the entity; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

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

Dividend income

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

Rental income

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

The Group participates in retirement insurance scheme organised by the social security bureau in the PRC pursuant to the relevant provisions. The subsidiaries in PRC are required to make monthly contribution in respect of the above insurance schemes to the PRC social security bureau based on the monthly salaries of its employees.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

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

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgements in applying the entity's accounting policies

Impairment review of Aoyu Steel's property, plant and equipment

During the recent reforms introduced at the fifth meeting of Hebei Province's 12th National People Congress, in relation to plans to reduce steelmaking capacity by 31.86 million tonnes in 2017, and the acceleration of steelmaking capacity reductions in cities of Langfang, Baoding and Zhangjiakou in 2017 (the "Capacity Reduction Plans"). The Company's subsidiary, Laiyuan County Aoyu Steel Co., Ltd. ("Aoyu Steel"), is located in Baoding, one of the affected cities under the Capacity Reduction Plans. Based on current discussion between the Company and the authorities in the PRC, Aoyu Steel may be required to cease its operations in view of the Capacity Reduction Plans. This provides an indication of potential risk of impairment on the property, plant and equipment. Management of the company had engaged an independent external valuer to perform a valuation of Aoyu Steel's property, plant and equipment based on the replacement cost method. The key assumptions used to determine the residual values of property, plant and equipement include new replacement costs and useful life.

Based on the valuation performed, the recoverable amount of the property, plant and equipment of Aoyu Steel was less than the net book value of the plant and equipment by approximately RMB600 million. As such, an impairment loss of RMB600 million was recognised for the year ended December 31, 2016.

Key sources of estimation uncertainty

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

Impairment review of available-for-sale investments

The Group follows the guidance of FRS 39 in determining whether available-for-sale investments are considered impaired. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and the near-term business outlook of the investee, including factors such as industry and sector performance that the investee is operating in, changes in technology and operational and financing cash flows. As the evaluation is based on both prospective financial information and non-financial factors that are beyond the investees' and management's control, it requires considerable judgement and is highly subjective. Accordingly, actual outcome could be different from that anticipated since forecasted events and judgment taken by management on the industry and sector performance may not occur as expected. Based on management's judgement and estimates at December 31, 2016, an impairment loss of RMB45 million is determined by comparing the carrying amount of cost against the company's share in the net asset of the investee, which according to management, is the best estimate of the recoverable amount. The fair values of available-for-sale investments are disclosed in Note 14 to the financial statements.

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

Impairment review of non-financial assets

Property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and where applicable, cash-generating units ("CGU") have been determined based on value-in-use calculations. A wholly-owned subsidiary of the Group, Xingtai Delong Machinery and Mill Roll Co., Ltd ("Mill Roll"), had performed below expectations and incurred net losses for the year ended December 31, 2015 and 2016. Accordingly, management of the company performed a valuation of Mill Roll's property, plant and equipment based on the asset's value-in-use, which is the future cash flow that the plant and equipment is expected to generate and the expected costs thereof over its remaining useful life. Based on the valuation performed, the value-in-use of the plant and equipment of Mill Roll exceeded its net carrying amount of the plant and equipment. As such, no further impairment was made for the year ended December 31, 2016.

The discount rate used in the value-in-use calculation was approximately 10.31% (2015 : 10.80%) which management believes reflect the specific risks relating to the Mill Roll CGU.

As at December 31, 2016, the Mill Roll's property, plant and equipment has a carrying amount of approximately RMB117.4 million (2015 : RMB131.4 million), net of impairment loss.

Allowance for inventories

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

Allowance for doubtful trade and other receivables

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

Useful lives of property, plant and equipment

Management exercises their judgement in estimating the useful lives of the depreciable assets.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The carrying amounts of property, plant and equipment are disclosed in Note 17 to the financial statements.

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

Income taxes

The Group has exposure to income tax in different jurisdictions. Significant assumption is required in determining the provision for income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises deferred tax assets for tax losses and other temporary differences based on estimates of whether the deferred tax assets can be realised. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of income tax recoverable and deferred tax liabilities are disclosed in Notes 13 and 19 to the financial statements.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

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

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	**3,488,778**	2,672,177	**227,920**	228,387
Held for trading investments	**725,943**	232,873	**–**	–
Held-to-maturity financial assets	**371,050**	200,000	**–**	–
Available-for sale financial assets	**203,988**	157,539	**–**	–
Total	**4,789,759**	3,262,589	**227,920**	228,387
Financial liabilities				
At amortised cost	**4,690,778**	4,888,333	**5,322**	4,594

(i) Foreign exchange risk management

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

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

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

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

	HKD RMB'000	USD RMB'000	SGD RMB'000
Group			
At December 31, 2016			
Assets	60,474	593,641	10,909
Liabilities	–	37,581	6,288
At December 31, 2015			
Assets	37,661	23,547	3,177
Liabilities	–	9,140	4,594

	USD RMB'000	SGD RMB'000
Company		
At December 31, 2016		
Assets	5,976	1,705
Liabilities	–	5,322
At December 31, 2015		
Assets	10,418	3,066
Liabilities	–	4,594

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

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

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

If the value of HKD, USD and SGD had changed against the RMB by 3% (2015 : 3%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position would have been as follows:

	2016 **Profit after tax** **RMB'000**	2015 Profit after tax RMB'000
Group		
HKD against RMB		
- strengthened	**1,361**	847
- weakened	**(1,361)**	(847)
USD against RMB		
- strengthened	**12,511**	322
- weakened	**(12,511)**	(322)
SGD against RMB		
- strengthened	**104**	(32)
- weakened	**(104)**	32
Company		
USD against RMB		
- strengthened	**149**	259
- weakened	**(149)**	(259)
SGD against RMB		
- strengthened	**(90)**	(38)
- weakened	**90**	38

(ii) Interest rate risk management

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are to a certain extent dependent on changes in market interest rates. The Group has not entered into any hedging activity during the year. Nevertheless, the Group's exposure to fair value interest rate risk and cash flow interest rate risk are controlled and monitored on a regular basis. The Group's borrowings are at variable rates on which effective hedges have not been entered into are denominated mainly in RMB and USD. If the interest rates had increased/decreased by 1% (2015 : 1%) with all other variables including tax rate being held constant, the profit after tax would have been higher/lower by RMB11,529,000 (2015 : loss after tax would have been higher/lower by RMB16,491,000) as a result of higher/lower interest expense on these borrowings.

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

(iii) Equity price risk management

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

If prices for the equity securities at fair value through profit or loss had increased/decreased by 5% with all other variables including tax rate being held constant, the effect on profit after tax would have increased/decreased by RMB27,223,000 (2015 : RMB8,733,000).

If prices for the available-for-sale investments had increased/decreased by 5% (2015 : 5%) with all other variables including tax rate being held constant, the effect on fair value reserves would have increased/decreased by RMB3,007,000 (2015 : RMB1,867,000).

(iv) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and the Company are bank deposits and trade and other receivables and other assets. The Group has policies in place to ensure that sale of products are either under cash in advance or cash on delivery terms for new customers. Credit terms are only granted to customers with an appropriate credit history. Cash and cash equivalents of the Group are principally deposited with reputable banks in the People's Republic of China, Hong Kong and Singapore.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Group based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and by the Group.

The Group and the Company do not hold any collateral except for the finance leased assets. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position grossed up for any allowance for losses, except as follows:

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Corporate guarantees provided to bank on:				
- third parties' loans	**475,050***	481,640	**–**	–
Corporate guarantees provided to bank on: to bank on:				
- Related party's loan	**50,000**	15,640	**–**	–

The corporate guarantees are recallable on demand by the banks.

* Including guarantees amounting to RMB 140 million (Restated 2015: Nil) was signed in December 2016 with a third party but the guarantees were utilised only in January 2017 and subsequently rescinded in March 2017.

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

(iv) Credit risk management (cont'd)

As at December 31, 2016, the finance lease receivables were mainly due from 1 debtor (2015 : 1 debtor), Tangshan Delong Steel Co., Ltd., a company that is not related to the Group. The Group's credit exposure to Tangshan Delong Steel Co., Ltd at the end of the reporting period was as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Finance lease receivables (Note 11)	**1,256**	7,349
Corporate guarantees provided to banks on (Note 33):		
Tangshan Delong Steel Co., Ltd's loans	**145,050**	275,640
	146,306	282,989

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

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
By geographical areas				
People's Republic of China	**911,512**	697,492	**55,167**	55,164
Singapore	**38,555**	9,235	**165,191**	159,823
Thailand	**–**	42,709	**–**	–
	950,067	749,436	**220,358**	214,987
By types of customers				
Non-related parties	**950,067**	716,573	**118**	84
Subsidiaries	**–**	–	**220,240**	214,903
Related parties	**–**	32,863	**–**	–
	950,067	749,436	**220,358**	214,987

Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks in the People's Republic of China, Hong Kong and Singapore. Trade and other receivables that are neither past due nor impaired are substantially companies with a good collection record with the Group.

(v) Liquidity risk management

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

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

(v) Liquidity risk management (cont'd)

As at December 31, 2016, the Group's current assets exceeded its current liabilities by RMB327.3 million and the Group has available committed credit facilities amounting to RMB1,128.7 million (2015 : RMB2,417.0 million) which are not yet utilised and all conditions precedent have been met. These facilities will be available for draw down for the purpose of meeting working capital needs or replacing its short-term borrowings when they fall due.

The Group had satisfactorily maintained its credit facilities with the financial institutions in the PRC and had successfully renewed or rolled over its short-term borrowings when they fall due during the financial year. The Group and Company have met with all covenants imposed by the financial institutions. Management is not aware of any circumstances that may cause the financial institutions not to continue with the credit facilities.

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

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

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

(v) Liquidity risk management (cont'd)

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

	Weighted average effective interest rate	Less than 1 year	Later than 1 year and not later than 5 years
	% per annum	RMB'000	RMB'000
Group			
At December 31, 2016			
Notes payables	–	2,288,711	–
Trade and other payables	–	1,442,102	–
Borrowings	4%	1,396,433	217,544
Financial guarantee contracts	–	525,050	–
At December 31, 2015			
Notes payables	–	1,654,818	–
Trade and other payables	–	1,595,934	–
Borrowings	4%	1,945,754	358,399
Financial guarantee contracts	–	497,280	–
Company			
At December 31, 2016			
Trade and other payables	–	5,280	–
Borrowings	4%	12	36
At December 31, 2015			
Trade and other payables	–	4,543	–
Borrowings	4%	12	48

The Group and the Company manage the liquidity risk by maintaining sufficient cash to meet the normal operating commitments and maintaining adequate amount of committed credit facilities.

(vi) Fair value of financial assets and financial liabilities

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

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

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

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is used, based on the applicable yield curve of the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group and Company				
At December 31, 2016				
Assets				
Held for trading investments	725,943	–	–	725,943
Available-for-sale financial assets	60,136	–	143,852	203,988
At December 31, 2015				
Assets				
Held for trading investments	232,873	–	–	232,873
Available-for-sale financial assets	37,343	–	120,196	157,539

The carrying amounts of cash and cash equivalents, trade and other receivables and payables, and notes payables approximate their fair values. The fair values of other borrowings approximate their carrying amounts. There were no transfers into or out of Level 3 in 2015 and 2016.

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

Fair value measurements (cont'd)

The following table presents the changes in Level 3 financial assets (liabilities) instruments for financial year 2015:

	Purchase consideration payable RMB'000
At January 1, 2015	(113,514)
Change in fair value recognised in profit or loss	15,443
Purchase consideration paid	93,362
Discount arising from the acquisition of remaining equity interests from non-controlling interest	4,709
At December 31, 2015	–

Capital management policies and objectives

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

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

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net debt	**1,287,206**	2,143,667	**(7,543)**	(13,349)
Total equity	**2,544,371**	2,293,773	**2,207,600**	2,208,929
Total capital	**3,831,577**	4,437,440	**2,200,057**	2,195,580
Gearing ratio	**33.6%**	48.3%	**N.A.**	N.A.

5a HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

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

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

5b OTHER RELATED PARTY TRANSACTIONS

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

Trading transactions

Group entities entered into the following significant trading transactions with related parties:

	Group	
	2016	2015
	RMB'000	RMB'000
Sales to non-controlling shareholders of a subsidiary	**–**	71,448
Purchases from non-controlling shareholders of a subsidiary	**–**	89,492
Interest expense to non-controlling shareholders of a subsidiary	**–**	334
Donation to a charity trust whose founder is spouse of a director of the Company	**100**	440
Sales to a company who has a common director with the Company	**–**	859

Due to a lack of understanding and lack of familiarity with the definition of a related party, the declaration and disclosure of related party transactions by management in prior years has not been complete. Management will be putting in place a series of policies and procedures, including a framework for the identification, valuation, approval and reporting of related party transactions. Management has also established oversight framework on identifying and disclosure of related party transactions, including training for key management and staff on such areas, to ensure proper compliance and disclosure/reporting requirements going forward. These new policies and framework are subject to approval by the Audit Committee.

As at December 31, 2016, the Group provided corporate guarantee to a bank in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Liguo and his spouse, Ms Zhao Jing. The corporate guarantee granted amounted to RMB50.0 million (2015 : RMB15.6 million) (Note 33) and was discharged in March 2017. Management has reviewed the list of corporate guarantees given as at December 31, 2015 and 2016 and confirmed that there has been no other corporate guarantees given to related or interested parties.

5b OTHER RELATED PARTY TRANSACTIONS (cont'd)

Compensation of directors and key management personnel

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

	Group	
	2016	2015
	RMB'000	RMB'000
Salaries and other short term employee benefits	**8,183**	10,563
Post-employment benefits - defined contributions plans	**1,728**	1,696
	9,911	12,259

The remuneration of directors and key management is determined by the remuneration committee having regard to the Group's performance and individual performance.

6 CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**961,040**	466,901	**1,693**	3,064
Fixed deposits	**5,892**	17,963	**5,892**	10,336
Cash and cash equivalents in the statement of cash flows	**966,932**	484,864	**7,585**	13,400

The average effective interest rate of the fixed deposits ranging from 0.31% to 1.2% (2015 : 0.08% to 0.53%) per annum and for a tenure of approximately 30 days (2015 : 30 days).

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

7 BANK BALANCES PLEDGED

These bank balances were pledged as security for certain bank borrowings and notes payables (Note 21) and letter of credit facilities (Note 20) amounting to RMB1,571,779,000 as at December 31, 2016 (2015 : RMB1,437,877,000).

Bank balances pledged bear average effective interest rate ranging from 1.30% to 1.55% (2015 : 1.78%) per annum.

8 HELD FOR TRADING INVESTMENTS

	Group	
	2016	2015
	RMB'000	RMB'000
Quoted equity shares, at fair value	**725,943**	232,873

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

Included in the held for trading investments is the investment in EC World Reit amounting to RMB8,578,000. During the financial year, the Company acquired 2,350,000 shares in EC World Reit, a company which the Chief Executive Officer is Mr Lai Hock Meng, the lead independent director of the Company.

9 HELD-TO-MATURITY FINANCIAL ASSET

	Group	
	2016	2015
	RMB'000	RMB'000
Unquoted debt security, at amortised cost	**371,050**	200,000

The coupon rate of the unquoted debt security ranges from 1.1% to 7.0% (2015 : 6.55%) per annum and matures within 12 months (2015 : 12 months).

10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Finance lease receivables (Note 11)	**1,256**	6,333	**–**	–
Trade receivables				
- Third parties	**135,280**	85,262	**31**	20
- Related parties (Note 5)	**–**	32,863	**–**	–
Notes receivables (a)	**433,484**	359,734	**–**	–
Loans to subsidiaries (b)	**–**	–	**220,239**	214,903
	570,020	484,192	**220,270**	214,923
Non-current				
Finance lease receivables (Note 11)	**–**	1,016	**–**	–

10 TRADE AND OTHER RECEIVABLES (cont'd)

(a) Notes receivables in 2015 and 2016 are interest-free and repayable within 180 days.

(b) Loans to subsidiaries in 2015 and 2016 are unsecured, interest-free and repayable on demand.

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

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not past due and not impaired	**38,444**	57	**31**	20
Past due but not impaired (a)	**96,836**	118,068	**–**	–
Impaired receivables individually assessed (b)	**19,362**	16,459	**–**	–
Less: Allowance for doubtful debts	**(19,362)**	(16,459)	**–**	–
Total trade receivables, net	**135,280**	118,125	**31**	20

(a) Aging of trade receivables that are past due but not impaired:

	Group	
	2016	2015
	RMB'000	RMB'000
1 to 90 days	**36,564**	81,158
91 to 180 days	**25,124**	26,258
> 180 days	**35,148**	10,652
Total	**96,836**	118,068

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

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

Movement of allowance for doubtful debts:

	Group	
	2016	2015
	RMB'000	RMB'000
Balance at beginning of the year	**16,459**	16,459
Increase in allowance recognised in profit or loss	**2,903**	–
Balance at end of the year	**19,362**	16,459

11 FINANCE LEASE RECEIVABLES

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts receivable under finance leases:				
Within one year	**1,430**	6,722	**1,256**	6,333
In the second to fifth year inclusive	**–**	1,600	**–**	1,016
	1,430	8,322	**1,256**	7,349
Less: Unearned finance income	**(174)**	(973)	**–**	–
Present value of minimum lease payments receivable	**1,256**	7,349	**1,256**	7,349

The finance lease arrangements entered into by the Group are mainly for the leasing of plant and equipment to third parties. The leases are denominated in the Chinese Renminbi and the term of the finance leases ranging from a period of 2 to 5 years. The effective interest rates contracted is 9.63% (2015 : 10.45%) per annum.

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

12 INVENTORIES

	Group	
	2016	2015
	RMB'000	RMB'000
Raw materials	**374,126**	383,879
Work-in-progress	**133,192**	68,098
Finished goods	**45,200**	88,136
	552,518	540,113

The cost of inventories recognised as an expense includes RMB37,867,000 (2015 : RMB6,055,000) in respect of write-down of inventory to net realisable value.

13 OTHER ASSETS

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**239,701**	532,220	**23**	106
Deposits	**65**	9,112	**65**	64
Entrusted loans to third parties (a)	**107,667**	102,667	**–**	–
VAT	**52,318**	69,095	**–**	–
Income tax recoverable	**–**	39,933	**–**	–
Other receivables from Delong Thailand (c)	**251,902**	–	**–**	–
Refundable deposit (b)	**–**	108,626	**–**	–
Others	**20,413**	43,823	**–**	–
	672,066	905,476	**88**	170
Analysed as:				
Current	**672,066**	867,426	**88**	170
Non-current	**–**	38,050	**–**	–
	672,066	905,476	**88**	170

(a) The Group advanced RMB107.7 million (2015 : RMB102.7 million) through a bank to 2 third parties (2015 : 2 third parties). The loans are unsecured, bear interest rate ranging from 7.47% to 10% (2015 :7.47% to 10%) per annum and are due within the next twelve months. The loan agreement was renewed during the financial year.

(b) The refundable deposit in 2015 was made to the Municipal Land Resources Authority of Xingtai, Hebei Province in relation to the purchase of land use rights (the "Purchase") (Note 17). The refundable deposit is non interest-bearing and will be refunded upon legal completion of the Purchase.

During the year, RMB87,835,000 of the refundable deposit was received by the Group and the remaining balance of RMB20,791,000 (Note 27) was written off in the profit or loss.

(c) Other receivables comprised the sale consideration for the disposal of the Group's 55% shareholding in Delong (Thailand) Co., Ltd ('Delong Thailand") and the shareholder loan owing by Delong Thailand. Please refer to Note 22 for details of the disposal.

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2016	2015
	RMB'000	RMB'000
Beginning of financial year	**157,539**	266,941
Additions	**83,351**	12,000
Disposal	**(14,696)**	(109,159)
Impairment loss	**(45,000)**	–
Change in fair value	**22,794**	(12,243)
End of financial year	**203,988**	157,539
Unquoted equity shares, at cost	**188,852**	120,196
Less: Accumulated impairment	**(45,000)**	–
	143,852	120,196
Quoted debt securities, at fair value	**60,136**	37,343
	203,988	157,539

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

Management has assessed the impairment loss of the investment based on the operating and financial performance of the investee. The impairment loss is determined by comparing the carrying amount of cost against the company's share in the net asset of the investee, which according to management, is the best estimate of the recoverable amount. As of December 31, 2016, impairment loss of RMB 45 million has been provided.

15 INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	2015
	RMB'000	RMB'000
Unquoted equity shares, at cost	**1,984,916**	1,984,916

15 INVESTMENTS IN SUBSIDIARIES (cont'd)

Details of the Company's subsidiaries at December 31, 2016 are as follows:

Name of subsidiary	Country of incorporation	Proportion of ownership interest		Proportion of voting power held		Principal activity
		2016 %	2015 %	**2016 %**	2015 %	
Held by the Company						
Asia Paragon International Limited [a]	British Virgin Islands	**100**	100	**100**	100	Investment holding
Dexin Steel Pte Ltd [b]	Singapore	**100**	100	**100**	100	Procurement and sale of iron ore
Held by Asia Paragon International Limited						
Delong Steel Limited [c]	PRC	**100**	100	**100**	100	Production and sales of hot-rolled
Dezhong International Financing Leasing Co., Ltd [c]	PRC	**100**	100	**100**	100	Finance leasing activities
Held by Dexin Steel Pte Ltd						
Xingtai Xinlong Coal-Gas Co., Ltd [c]	PRC	**100**	100	**100**	100	Coal gas recycling
Xingtai Delong Machinery and Mill Roll Co., Ltd [c]	PRC	**100**	100	**100**	100	Design, development, manufacturing and sale of large
Dexin Holdings Pte Ltd [b]	Singapore	**100**	100	**100**	100	Investment holding
Held by Dexin Holdings Pte Ltd						
Dexin Holdings Cambodia Pte Ltd [a][d]	Cambodia	**-**	100	**-**	100	Investment in steel-related project
Held by Delong Steel Limited						
Tianjin Qiruicheng International Trading Co., Ltd [c]	PRC	**100**	100	**100**	100	Investment in resource-related projects and trading in steel and steel-related products
Beijing Longyuan Weida Energy Technology Co., Ltd [c]	PRC	**100**	100	**100**	100	Technology development, technology advisory and technology related investments
Delong Steel Singapore Projects Pte Ltd [b]	Singapore	**100**	100	**100**	100	Investment holding
Baoding Delong Technology Enterprise Co., Ltd [c]	PRC	**100**	100	**100**	100	Production and sales of hot-rolled coils

15 INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Country of incorporation	Proportion of ownership interest		Proportion of voting power held		Principal activity
		2016	2015	**2016**	2015	
		%	%	**%**	%	
Held by Delong Steel Singapore Projects Pte Ltd						
Delong (Thailand) Co., Ltd [e]	Thailand	**–**	55	**–**	55	Production and sale of hot-rolled narrow strip coils
Held by Tianjin Qirucheng International Trading Co., Ltd						
Laiyuan County Aoyu Steel Co., Ltd [c]	PRC	**100**	100	**100**	100	Production and sales of hot-rolled coils

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

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

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

(d) Liquidated during the financial year.

(e) Disposed during the financial year. Please see Note 22 for the detail.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non controlling interests:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Laiyuan County Aoyu Steel Co., Ltd	PRC	**–**	–	**–**	(15,443)	**–**	–
Delong (Thailand) Co., Ltd	Thailand	**–**	45	**(3,707)**	(22,973)	**–**	55,077
Total				**(3,707)**	(38,416)	**–**	55,077

15 INVESTMENTS IN SUBSIDIARIES (cont'd)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Name of subsidiaries	Laiyuan County Aoyu Steel Co., Ltd		Delong (Thailand) Co., Ltd	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current assets	**–**	–	**–**	143,017
Non-current assets	**–**	–	**–**	313,836
Current liabilities	**–**	–	**–**	(334,831)
Non-current liabilities	**–**	–	**–**	(246)
Equity	**–**	–	**–**	121,776
Total income	**–**	408,276	**594,941**	72,817
Total expenses	**–**	(484,409)	**(603,178)**	(123,869)
Loss for the year	**–**	(76,133)	**(8,237)**	(51,052)
Other comprehensive income for the year	**–**	–	**9,300**	(7,178)
Net cash (outflow) inflow from operating activities	**–**	(322,959)	**119**	68,062
Net cash outflow from investing activities	**–**	(7,846)	**(2,096)**	(177,798)
Net cash inflow from financing activities	**–**	17,098	**11,872**	107,055
Net cash (outflow) inflow	**–**	(313,707)	**9,895**	(2,681)

The Company has provided financial support to certain subsidiaries for a period of twelve months from the end of the reporting period so as to enable the subsidiaries to continue to operate as a going concern and meet their contractual obligations when they fall due.

16 INVESTMENT IN AN ASSOCIATE

	Group	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**4,340**	4,577
Share of post-acquisition loss, net of dividend received	**(339)**	(237)
At end of the year	**4,001**	4,340

16 INVESTMENT IN AN ASSOCIATE (cont'd)

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with FRS.

Name of associate	Country of incorporation	Proportion of ownership interest		Proportion of voting power held		Principal activity
		2016	2015	**2016**	2015	
		%	%	**%**	%	
Held by Asia Paragon International Limited						
Xingtai Xilan Zhongde Natural Gas Co., Ltd.	PRC	**49**	49	**49**	49	Constructing and operating liquefied natural gas (LNG) fueling stations

At the end of the financial year, the associate has a total current asset of RMB521,000 (2015 : RMB8,355,000), non-current asset of RMB7,985,000 (2015 : RMB604,000) and current liabilities of RMB340,000 (2015 : RMB100,000). The associate reported a net loss of RMB691,000 (2015 : RMB483,000) for the year ended December 31, 2016.

17 PROPERTY, PLANT AND EQUIPMENT

	Prepaid leases	Leasehold buildings	Plant and equipment	Motor vehicles and others	Construction -in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group						
Cost						
At January 1, 2015	246,542	1,437,361	4,809,853	219,286	165,166	6,878,208
Additions [(a)]	177,686	4,835	32,622	–	572,060	787,203
Disposals	–	(61,441)	(259,041)	(27,131)	(261)	(347,874)
Write-off [(a)]	(47,351)	–	–	–	–	(47,351)
Transfer (out) in	(32,117)	114,831	523,145	1,355	(607,214)	–
Exchange difference	(1,751)	(1,633)	(4,889)	(13)	(2,455)	(10,741)
At December 31, 2015	343,009	1,493,953	5,101,690	193,497	127,296	7,259,445
Additions	1,260	2,230	26,693	7,272	195,169	232,624
Disposals	–	(10,253)	(25,899)	(15,765)	–	(51,917)
Disposal of subsidiary	(19,859)	(80,310)	(268,927)	(619)	–	(369,715)
Transfer (out) in	–	77,404	125,442	–	(202,846)	–
Exchange difference	876	3,543	29,585	30	–	34,034
At December 31, 2016	325,286	1,486,567	4,988,584	184,415	119,619	7,104,471

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Prepaid leases RMB'000	Leasehold buildings RMB'000	Plant and equipment RMB'000	Motor vehicles and others RMB'000	Construction -in-progress RMB'000	Total RMB'000
Group						
Accumulated depreciation						
At January 1, 2015	46,734	418,563	2,976,364	86,544	–	3,528,205
Charge for the year	7,266	73,760	334,343	18,027	–	433,396
Disposals	(1,105)	(19,258)	(169,213)	(2,922)	–	(192,498)
Write-off [(a)]	(20,032)	–	–	–	–	(20,032)
Exchange difference	–	(26)	(214)	(2)	–	(242)
At December 31, 2015	32,863	473,039	3,141,280	101,647	–	3,748,829
Charge for the year	1,187	81,211	362,856	14,481	–	459,735
Disposals	(1,105)	(1,740)	(12,172)	(12,505)	–	(27,522)
Disposal of subsidiary	–	(1,363)	(50,639)	(104)	–	(52,106)
Exchange difference	–	60	9,973	5	–	10,038
At December 31, 2016	32,945	551,207	3,451,298	103,524	–	4,138,974
Accumulated impairment						
At January 1, 2015 and December 31, 2015	–	31,791	103,551	579	303	136,224
Impairment for the year	–	–	600,000	–	–	600,000
December 31, 2016	–	31,791	703,551	579	303	736,224
Carrying amounts						
At December 31, 2015	310,146	989,123	1,856,859	91,271	126,993	3,374,392
At December 31, 2016	292,341	903,569	833,735	80,312	119,316	2,229,273

(a) In 2015, the Group paid RMB172 million to the Municipal Land Resources Authority of Xingtai, Hebei Province, as purchase consideration for land-use rights (the "Purchase"). The Purchase was legally completed in September 2016. Accordingly, the remaining unamortised portion of the prepaid lease of RMB27.3 million (Note 27) from the previous lease arrangement was fully written off in 2015.

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Office equipment RMB'000
Company	
Cost	
At January 1, 2015	67
Additions	86
At December 31, 2015	153
Additions	–
At December 31, 2016	153
Accumulated depreciation	
At January 1, 2015	3
Charge for the year	36
At December 31, 2015	39
Charge for the year	51
At December 31, 2016	90
Carrying amounts	
At December 31, 2015	114
At December 31, 2016	63

At December 31, 2016, certain property, plant and equipment of the Group with a total carrying amount of approximately RMB1,935 million (2015 : RMB1,213 million), are pledged as security for certain bank borrowings (Note 21(a)).

18 INTANGIBLE ASSET

	Customer Relationship RMB'000
Group	
Cost	
At January 1, 2015 and December 31, 2015 and December 31, 2016	28,800
Accumulated amortisation	
At January 1, 2015	15,840
Charge for the year	5,760
At December 31, 2015	21,600
Charge for the year	5,760
At December 31, 2016	27,360
Carrying amount	
At December 31, 2016	1,440
At December 31, 2015	7,200

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

19 DEFERRED TAX ASSETS (LIABILITIES)

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

	Unutilised capital allowances RMB'000	Unremitted profits RMB'000	Revaluation of assets RMB'000	Deferred income RMB'000	Total RMB'000
At January 1, 2015	2,644	(22,889)	(3,108)	–	(23,353)
(Charged) Credited to profit or loss (Note 30)	(2,644)	–	1,308	–	(1,336)
At December 31, 2015	–	(22,889)	(1,800)	–	(24,689)
Charged to profit or loss (Note 30)	–	–	1,440	6,508	7,948
At December 31, 2016	–	(22,889)	(360)	6,508	(16,741)

19 DEFERRED TAX ASSETS (LIABILITIES) (cont'd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relates to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statements of financial position as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Deferred tax liabilities	**23,249**	24,689
Deferred tax assets	**(6,508)**	–
	16,741	24,689

Subject to the agreement by the tax authorities, at the end of the reporting period, two of the Group's subsidiaries have unutilised tax losses of RMB183.4 million (2015 : RMB499.4 million) available for offset against future profits. No deferred tax asset has been recognised in respect of this due to unpredictability of future profit streams of these subsidiaries. The tax losses arising from subsidiaries in PRC have an expiry period of five years.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables				
- Third parties	**351,214**	585,830	**–**	–
- Related parties (Note 5)	**–**	70,346	**–**	–
Letters of credit (b)	**146,253**	113,532	**–**	–
VAT and other taxes payable	**75,678**	3,642	**–**	–
Payable to contractors for construction-in-progress	**128,913**	29,000	**–**	–
Advances from customers				
- Third parties	**439,208**	425,314	**–**	–
- Related parties (Note 5)	**–**	77,977	**–**	–
Other accrual for operating expenses	**14,697**	7,457	**3,112**	2,504
Accrual for interest expense	**19,616**	4,128	**–**	–
Accrual for staff cost	**109,203**	36,816	**–**	–
Due to directors (non-trade) (a)	**2,138**	2,006	**2,138**	2,006
Deferred income	**17,848**	23,388	**–**	–
Deferred government grant	**44,507**	37,689	**–**	–
Rental from customers	**819**	1,189	**–**	–
Other payables	**92,008**	177,620	**30**	33
	1,442,102	1,595,934	**5,280**	4,543

20 TRADE AND OTHER PAYABLES (cont'd)

(a) Amounts due to directors (non-trade) are unsecured, interest-free and repayable within the next 12 months.

(b) Letters of credit bear an average interest rate of 4.3% - 5.0% per annum (2015 : 4.9%) and are repayable within 90 to 180 days (2015 : 90 to 180 days).

The average credit period on purchases of goods is 60 days (2015 : 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

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

21 BORROWINGS AND NOTES PAYABLES

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Notes payables (d)	**2,288,711**	1,654,818	**–**	–
Finance lease liabilities (f)	**10**	121	**10**	9
Bank borrowings (a)				
- Unsecured	**–**	13,846	**–**	–
- Secured (b)	**691,000**	952,804	**–**	–
- Guaranteed (c)	**641,290**	891,196	**–**	–
Non-controlling shareholders' loans (e)	**–**	6,394	**–**	–
	3,621,011	3,519,179	**10**	9
Non-current				
Finance lease liabilities (f)	**32**	288	**32**	42
Bank borrowings (a)				
- Unsecured	**9,966**	7,430	**–**	–
- Secured (b)	**95,908**	100,000	**–**	–
- Guaranteed (c)	**99,000**	233,512	**–**	–
	204,906	341,230	**32**	42
Total borrowings and notes payables	**3,825,917**	3,860,409	**42**	51

21 BORROWINGS AND NOTES PAYABLES (cont'd)

(a) Bank borrowings

Bank borrowings bear an average interest rate of 4% per annum (2015 : 4%). Bank borrowings amounting to RMB1,332,290 (2015 : RMB1,857,846,000) are repayable within 12 months from the financial year end and have been classified as current. The remaining balances of RMB204,874,000 (2015 : RMB340,942,000) are not expected to be repaid within 12 months and have been classified as non-current.

(b) Security granted

As at December 31, 2016 and 2015, the Group's bank loans were secured by certain property, plant and equipment (Note 17), pledged bank balances (Note 7) and a subsidiary's trade receivables.

(c) Credit risk

The bank loans were guaranteed by third parties, and Mr Ding Liguo, a director of the Company. In return, the Group has provided guarantees to banks for borrowings of these third parties as at December 31, 2016 and 2015 (see Note 33).

As at December 31, 2016, guarantee provided to a bank in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Liguo and his spouse, Ms Zhao Jing is as follows:-

	Group	
	2016	2015
	RMB'000	RMB'000
Guarantee given to bank in respect of bank borrowing of Hebei Delong	**50,000**	15,640

Following the repayment of bank borrowing by Hebei Delong, the corporate guarantee given to the bank for bank borrowing of Hebei Delong was subsequently terminated.

(d) Notes payables

The Group has entered into management agreements with two external parties since June 2014 and August 2015 (the "Management Agreements") respectively to facilitate certain of its bill financing arrangement with the banks. In order to facilitate the bill financing arrangement, in accordance with the signed Management Agreements, the Group manages the book-keeping function for the two parties to ensure that cash or bank acceptance notes presented to the two parties would be returned to the Group. Management has assessed and confirmed that these parties are not related parties nor interested parties, and they do not participate in any other transactions of these parties, if any, and the arrangements between the Group and the two parties strictly adhered to the Management Agreements signed.

21 BORROWINGS AND NOTES PAYABLES (cont'd)

(d) Notes payables (cont'd)

Management has obtained legal opinion from an independent external legal counsel who has confirmed that the above arrangements do not contravene the existing laws and regulations in the PRC, and will not subject to the Group to any legal exposures. Notwithstanding this, on advices by the Audit Committee, management will cease such arrangement on a go-forward basis.

Notes payables in 2015 and 2016 are interest-free and repayable within 180 days.

(e) Non-controlling shareholders' loans

Non-controlling shareholders' loans bear an interest rate of 8% per annum in 2015 and are repayable within 12 months from the financial year end.

(f) Minimum lease payments

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Group				
Within one year	**12**	137	**10**	121
In the second to fifth years inclusive	**36**	320	**32**	288
	48	457	**42**	409
Less: Future finance charges	**(6)**	(49)	**–**	–
Present value of lease obligations	**42**	408	**42**	409
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(10)**	(121)
Amount due for settlement after 12 months			**32**	288
Company				
Within one year	**12**	12	**10**	9
In the second to fifth years inclusive	**36**	48	**32**	42
	48	60	**42**	51
Less: Future finance charges	**(6)**	(9)	**–**	–
Present value of lease obligations	**42**	51	**42**	51
Less: Amount due for settlement within12 months (shown under current liabilities)			**(10)**	(9)
Amount due for settlement after 12 months			**32**	42

22 DISPOSAL OF A SUBSIDIARY

In November 2016, the Group ceased to control the financial and operation of Delong (Thailand) Co., Ltd. ("Delong Thailand") following disagreements with the non-controlling interests of Delong Thailand.

On December 21, 2016, the Group's wholly-owned subsidiary, Delong Steel Singapore Projects Pte. Ltd. ("DSL Singapore"), entered into a binding memorandum of understanding with the non-controlling interests of Delong Thailand for the disposal of the Group's entire equity interest in Delong Thailand for a consideration of THB 385 million (equivalent to RMB 76 million).

Carrying amounts of net assets over which control was lost are as follows:

	RMB'000
Current assets	
Cash and cash equivalent	25,475
Trade and other receivables	54,217
Inventories	73,217
	152,909
Non-current assets	–
Property, plant and equipment	317,609
Total assets	470,518
Current liabilities	
Trade and other payables	(347,428)
Finance lease liabilities	(530)
	(347,958)
Net assets decognised	122,560
Consideration receivable	
Deferred consideration	75,795
Net cash outflow arising on disposal	
Cash and cash equivalent disposed of	(25,475)

On January 25, 2017, DSL Singapore entered into a share purchase agreement with the non-controlling interests for the disposal of its 55% shareholding in Delong Thailand. The sale consideration and shareholder loan of USD 25.3 million (equivalent to RMB 176 million) that the Group previously extended to Delong Thailand were fully received in February 2017.

22 DISPOSAL OF A SUBSIDIARY (cont'd)

The loss on disposal of the subsidiary is recorded in the statement of profit or loss and other comprehensive income, as follows:

	RMB'000
Loss on disposal	
Consideration receivable	75,795
Net assets derecognised	(122,560)
Non-controlling interest decognised	55,277
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity on loss of control of subsidiary	(11,928)
	(3,416)

23 SHARE CAPITAL

	Group and Company		Group		Company	
	2016	2015	**2016**	2015	**2016**	2015
	Number of ordinary shares ('000)		**RMB'000**	RMB'000	**RMB'000**	RMB'000
At beginning of the financial year	**550,914**	550,914	**406,644**	406,644	**2,112,480**	2,112,480
Consolidate every five ordinary shares into one ordinary share	**(440,731)**	–	**–**	–	**–**	–
At beginning and end of the financial year	**110,183**	550,914	**406,644**	406,644	**2,112,480**	2,112,480

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

On February 29, 2016, the Company completed a share consolidation exercise to consolidate every five existing ordinary shares in the capital of the Company into one ordinary share, so as to comply with the Minimum Trading Price requirement as implemented by the SGX-ST, as an additional continuing listing requirement. As a result of the exercise, the issued share capital of the Company comprises 110,182,709 shares.

24 RESERVES

Capital reserve

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

Capital reserve amounting to RMB12,395,000 pertains to the cumulative fair value change in gross obligation of the purchase consideration and the discount arising from the acquisition of Balance Equity .

Fair value reserve

Fair value reserve amounting to RMB304,000 (2015 : RMB23,098,000) at December 31, 2016 pertains to fair value changes on available-for-sale financial assets (Note 14).

Statutory reserve

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

Retained earnings

As at December 31, 2016, approximately RMB126,974,000 (2015 : RMB126,974,000) of the total retained earnings cannot be distributed as dividends as these are accumulated before the Reserve Acquisition (Note 2).

25 REVENUE

	Group	
	2016	2015
	RMB'000	RMB'000
Sale of goods	**9,874,981**	6,952,304

26 OTHER INCOME

	Group 2016 RMB'000	Group 2015 RMB'000
Government grants	**16,778**	2,482
Finance lease income	**(744)**	3,875
Dividend	**113**	–
Interest income		
- bank deposits	**46,086**	66,216
- amount due from an investee company	**336**	3,840
- entrusted loans to third parties (Note 13)	**18,876**	3,098
- held-to-maturity financial assets (Note 9)	**7,503**	5,920
	72,801	79,074
	88,948	85,431

27 OTHER LOSSES - NET

Other losses include the following:

	Group 2016 RMB'000	Group 2015 RMB'000
Fair value gain on held for trading investment	**(825)**	–
Loss on disposal of property, plant and equipment	**(13,318)**	(18,125)
Refundable deposit written off (Note 13)	**(20,791)**	–
Impairment charges on property, plant and equipment	**(600,000)**	–
Net foreign exchange gain (loss)	**31,314**	(655)
Loss on disposal of subsidiary (Note 22)	**(3,416)**	–
Fair value changes on purchase consideration payable	**–**	15,443
Allowance for inventories	**(37,867)**	(6,055)
Allowance for doubtful debts	**(2,903)**	–
Impairment loss on available-for-sale financial assets	**(45,000)**	–
Prepaid leases written off (Note 17)	**–**	(27,319)

28 EXPENSES BY NATURE

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

	Group	
	2016	2015
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 17)	**459,735**	433,396
Amortisation of intangible assets (Note 18)	**5,760**	5,760
Staff costs	**459,670**	385,992
Rental on operating leases	**608**	767
Repairs and maintenance	**19,259**	89,708

29 FINANCE COSTS

	Group	
	2016	2015
	RMB'000	RMB'000
Interest expenses:		
- Bank borrowings	**150,460**	122,350
- Finance lease liabilities	**3**	13
- Related parties (Note 5)	**–**	334
Bills discounting charges - net	**39,347**	32,484
Bank charges	**40,551**	23,283
	230,361	178,464

30 INCOME TAX EXPENSES

	Group	
	2016	2015
	RMB'000	RMB'000
Tax expense is made up of:		
Current tax:		
- Singapore	**2,685**	905
- Foreign	**106,651**	15,302
Deferred tax (Note 19)	**(7,948)**	1,336
	101,388	17,543
Adjustment in respect of the preceding financial years:		
Current income tax	**(1,990)**	(9,339)
	99,398	8,204

30 INCOME TAX EXPENSES (cont'd)

The Group's operations are mainly in the People's Republic of China ("PRC"). The tax expense on the profit differs from the amount that would arise using the PRC income tax rate of 25% (2015 : 25%) due to the following:

	Group	
	2016	2015
	RMB'000	RMB'000
Profit (Loss) before tax	**308,721**	(423,057)
Tax calculated at tax rate of 25% (2015 : 25%)	**77,180**	(105,764)
Effects of:		
Different tax rates in other countries	**1,389**	2,954
Lower tax rates arising from tax incentives in other country	**(80,042)**	24,453
Expenses not deducted for tax	**178,888**	12,980
Effect of deferred tax assets not recognised	**–**	83,545
Effect of utilisation of deferred tax assets not recognised	**(79,000)**	–
Others	**983**	(625)
Tax charge	**99,398**	17,543

With effect from January 1, 2008, any profit to be remitted out of China in the form of dividend to foreign enterprises is subject to withholding tax. Dividends declared out of profits earned prior to January 1, 2008 are exempted from such withholding tax.

A subsidiary in the People's Republic of China ("PRC"), with a statutory tax rate of 25%, have been granted for the High and New Technology Enterprise ("Hi-Tech") qualification and is taxed at a concessionary tax rate of 15% for three years commencing on September 9, 2014.

31 PROFIT (LOSS) FOR THE YEAR

Other than items disclosed in other notes to the financial statements, profit (loss) for the year has been arrived at after charging:

	Group	
	2016	2015
	RMB'000	RMB'000
Directors' remuneration:		
- of the Company	**1,078**	1,024
- of the subsidiaries	**4,107**	4,107
Total directors' remuneration	**5,185**	5,131
Audit fees:		
- paid to auditors of the Company	**2,454**	2,332
- over-provision in prior year	**(44)**	–
Non-audit fees:		
- paid to other auditors	**224**	247

32 EARNINGS (LOSSES) PER SHARE

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

On February 29, 2016, the Company completed a share consolidation exercise to consolidate every five existing ordinary shares in the capital of the Company into one ordinary share (Note 23).

(a) Basic earnings (losses) per share

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

	Group	
	2016	2015
	RMB'000	RMB'000
Net profit (loss) attributable to equity holders of the Company (RMB'000)	**213,030**	(392,845)
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**110,183**	110,183
Basic earnings (losses) per share (RMB)	**1.93**	(3.57)

(b) Diluted earnings (losses) per share

Diluted earnings (losses) per share is the same as basic earnings (losses) per share as there are no dilution potential ordinary shares.

33 CONTINGENT LIABILITIES

Guarantees given to banks by the Group in respect of bank loans granted to related party (Note 5) and third parties have been restated are as follow:

		Group	
	2016	2015	2015
		(Restated)	(Previously reported)
	RMB'000	RMB'000	RMB'000
Guarantees give to:			
- Third parties(1)	**475,050**	481,640	230,000
- Related party(2)	**50,000**	15,640	–
Total guarantees	**525,050**	497,280	230,000

33 CONTINGENT LIABILITIES (cont'd)

(1) These include the following:

- Guarantees amounting to RMB145.1 million (Restated 2015: RMB275.6 million) were given to the third parties, and in return, these third parties also provided guarantees for the Group's borrowings (Note 21); and

- Guarantees amounting to RMB 140 million (Restated 2015: Nil) was signed in December 2016 with a third party but the guarantees were utilised only in January 2017 and subsequently rescinded in March 2017.

(2) As at December 31, 2016, guarantee given to a bank by the Group in respect of bank borrowing of Hebei Delong Modern Special Tube Manufacturing Co., Ltd ("Hebei Delong"), a company which is owned by Mr Ding Liguo and his spouse, Ms Zhao Jing amounted to RMB50.0 million (2015:RMB15.6 million) (Note 5b).

The directors are of the view that the fair value of these financial guarantee contracts at the date of inception was minimal and that no material losses will arise from the guarantees given to banks at the date of these financial statements.

As at December 31, 2016 and 2015, there was no guarantee given to banks by the Company in respect of bank loans granted to subsidiaries.

34 DIVIDENDS

The company does not recommend that a dividend be paid for the year ended December 31, 2016 and 2015.

35 COMMITMENTS

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

	Group	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**260,563**	105,296

36 OPERATING LEASE ARRANGEMENTS

The Group as lessee

	Group	
	2016	2015
	RMB'000	RMB'000
Payment recognised as an expense during the year	**608**	767

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

	Group	
	2016	2015
	RMB'000	RMB'000
Within one year	**231**	383
In the second to fifth years inclusive	**–**	114

37 SEGMENT INFORMATION

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

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

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

37 SEGMENT INFORMATION (cont'd)

The segment information for the reportable segments for the year ended December 31, 2016 is as follows:

	Manufacturing RMB'000	Others RMB'000	Total RMB'000
2016			
REVENUE			
External Sales	11,917,763	–	11,917,763
Inter-segment sales	(2,042,782)	–	(2,042,782)
Sales to external parties	9,874,981	–	9,874,981
Adjusted EBITDA*	1,706,552	20,834	1,727,386
Depreciation and amortisation	(463,707)	(1,788)	(465,495)
Impairment loss on property, plant and equipment	(600,000)	–	(600,000)
Allowance for inventory	(37,867)	–	(37,867)
Loss on disposal of subsidiary	(3,416)	–	(3,416)
Loss on disposal of property, plant and equipment	(13,318)	–	(13,318)
Fair value gain on held for trading investments	–	825	825
Impairment loss on available-for-sale financial assets	(45,000)	–	(45,000)
Refundable deposit written off	(20,791)	–	(20,791)
Allowance for doubtful debts	(2,903)	–	(2,903)
Unallocated:			
Finance costs			(230,361)
Share of loss of an associate company			(339)
Profit before income tax			308,721
Total assets	7,060,379	815,139	7,875,518
Total assets includes:			
Additions to property, plant and equipment	232,464	160	232,624
Total liabilities	5,315,515	15,632	5,331,147

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

37 SEGMENT INFORMATION (cont'd)

	Manufacturing RMB'000	Others RMB'000	Total RMB'000
2015			
REVENUE			
External Sales	9,253,914	–	9,253,914
Inter-segment sales	(2,301,610)	–	(2,301,610)
Sales to external parties	6,952,304	–	6,952,304
Adjusted EBITDA*	244,176	(5,337)	238,839
Depreciation and amortisation	(437,670)	(1,486)	(439,156)
Prepaid lease written off	(27,319)	–	(27,319)
Loss on disposal of property, plant and Equipment	(18,215)	–	(18,215)
Allowance for inventories	(6,005)	–	(6,005)
Reversal of doubtful debts	7,500	–	7,500
Unallocated:			
Finance costs			(178,464)
Share of loss of an associate company			(237)
Loss before income tax			(423,057)
Total assets	7,529,959	299,923	7,829,882
Total assets includes:			
Additions to property, plant and equipment	780,502	6,701	787,203
Total liabilities	5,463,575	17,457	5,481,032

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

38 EVENT AFTER THE REPORTING PERIOD

Subsequent to the financial year, Aoyu Steel was approached by Tsing Tuo Group Co., Ltd（青拓集团有限公司）(the “Purchaser”) (the “Agreement”) and they entered into a conditional agreement with the Purchaser, pursuant to which Aoyu Steel has agreed to transfer, and the Purchaser has agreed to purchase, Aoyu Steel’s production capacity of 1.08 million tonnes and steel production capacity of 1.21 million tonnes, for an aggregate consideration of RMB 400 million (the “Consideration”) (the “Production Capacity Transfer”).

The Production Capacity Transfer is subject to (i) approvals of the PRC regulatory authorities; and (ii) the Company’s shareholders approval at an extraordinary general meeting in relation to the Production Capacity Transfer to be convened in due course if a waiver from compliance with Rule 1014(2) of the Listing Manual is not obtained from the SGX-ST.

ANALYSIS OF SHAREHOLDINGS

As At 17 March 2017

Authorised and fully paid-up capital	:	RMB2,112,480,000
No. of shares issued	:	110,182,709
Voting rights	:	1 Vote per share
Class of shares	:	Ordinary shares
Treasury shares	:	Nil

Size of shareholdings			No. of shareholders	%	No. of shares	%
1	-	99	345	16.81	15,146	0.01
100	-	1,000	1,020	49.71	382,551	0.35
1,001	-	10,000	541	26.37	1,945,324	1.76
10,001	-	1,000,000	140	6.82	10,410,797	9.45
1,000,001 & ABOVE			6	0.29	97,428,891	88.43
Total			2,052	100.00	110,182,709	100.00

Top Twenty shareholders	No. of shares	%
Best Decade Holdings Limited	64,163,500	58.23
HSBC (Singapore) Nominees Pte Ltd	11,324,755	10.28
DB Nominees (S) Pte Ltd	7,887,551	7.16
DBS Nominees Pte Ltd	7,357,345	6.68
Raffles Nominees (Pte) Ltd	5,618,720	5.10
Phillip Securities Pte Ltd	1,077,020	0.98
Lim Ewe Ghee	936,360	0.85
AGC Asia 2 Ltd	600,000	0.54
Citibank Nominees Singapore Pte Ltd	578,620	0.53
ABN Amro Clearing Bank N.V.	505,500	0.46
Seah Seow Cher	461,400	0.42
Poh Boon Kher Melvin (Fu Wenke Melvin)	400,000	0.36
Atma Singh S/O Nand Singh	369,100	0.34
Singapore Nominees Pte Ltd	336,000	0.30
United Overseas Bank Nominees Pte Ltd	335,920	0.30
Low Pow Chin	255,000	0.23
Wong Ka Fai Martin	240,000	0.22
UOB Kay Hian Pte Ltd	214,110	0.19
Mohammed Humayun Kabir	204,300	0.19
Chew Choo Poh	200,000	0.18
	103,065,201	93.54

ANALYSIS OF SHAREHOLDINGS

As At 17 March 2017

	Direct Interest		Deemed Interest	
Substantial Shareholders	**No. of Shares**	**%**	**No. of shares**	**%**
Best Decade Holding Limited	64,163,500	58.23	–	–
Golden Top Group Limited	–	–	64,163,500(1)	58.23
Honest Joy International Ltd	–	–	64,163,500(2)	58.23
Ding Liguo	–	–	64,163,500(3)	58.23
Zhao Jing	–	–	64,163,500(3)	58.23
Evraz S.A Group	10,711,499(7)	9.72	5,859,300(4)	5.32
Mastercroft Limited	5,859,300(7)	5.32	–	–
EVRAZ plc	–	–	16,570,799(5)	15.04
Lanebrook Limited	–	–	16,570,799(6)	15.04

Notes:

(1) Golden Top Group Limited ("Golden Top") owns 100% of the share capital in Best Decade Holdings Limited ("Best Decade") and is therefore deemed to be interested in the shares of the Company held by Best Decade

(2) Honest Joy International Ltd ("Honest Joy") owns 100% of the share capital in Golden Top and is therefore deemed to be interested in the shares of the Company held by Best Decade

(3) Mr Ding Liguo and Madam Zhao Jing hold 70% and 30% respectively of the share capital in Honest Joy. They are therefore deemed interested in the shares of the Company held by Best Decade

(4) Mastercroft Limited is a subsidiary of Evraz S.A Group. As such Evraz S.A Group is deemed to be interested in the shares of the Company held by Mastercroft Limited

(5) EVRAZ plc owns 100% of the share capital in Evraz S.A. Group and Mastercroft Limited. and is therefore deemed to be interested in the shares of the Company held by Evraz S.A Group and Mastercroft Limited respectively.

(6) Lanebrook is the major shareholder of EVRAZ plc and is therefore deemeed interested in the shares of the Company held by Evraz S.A Group and Mastercroft Limited

(7) Shares are held through nominee account

Public shareholding

Based on the register of shareholdings and to the best of the Company, as at 17 March 2017, 26.73% of the Company's shares were held in public.

The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Delong Holdings Limited ("Company") will be held at 55 Market Street, #03-01, Singapore 048941 on Thursday, 27 April 2017, at 10.30 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to Article 89 of the Company's Constitution:-

   Mr. Yuan Weimin **(Resolution 2)**
   Mr. Wang Tianyi **(Resolution 3)**

   Mr. Wang Tianyi will, upon re-election as Director of the Company, remain as Chairman of the Remuneration Committee, and member of the Audit and Nominating Committees, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To record the retirement of Mr Hee Theng Fong, a Director, pursuant to Article 90 of the Company's Constitution and he will retire at the conclusion of the forthcoming Annual General Meeting. [See Explanatory note]

4. To approve the payment of Directors' fees of RMB1,274,871 for the financial year ended 31 December 2016. (2015: RMB 1,211,930) **(Resolution 4)**

5. To re-appoint Messrs Deloitte & Touche LLP as the Independent Auditor of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6. To transact any other business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

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

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

   (a) shares; or

   (b) convertible securities; or

   (c) additional convertible securities issued pursuant to Rule 829 of the Listing Rules; and/or

   (d) shares arising from the conversion of securities in (b) and (c) above, in the Company (whether by way of rights, bonus or otherwise) at any time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that: (i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution must be not more than 50% of the total number of issued shares excluding treasury shares in the capital of the Company (calculated in accordance with (ii) below); of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20% of the total number of issued shares excluding treasury shares in the capital of the Company (calculated in accordance with (ii) below); and (ii) for the purpose of determining the aggregate number of shares and convertible securities that may be issued pursuant to (i) above, the total number of issued shares excluding treasury shares shall be calculated based on the total number of issued shares excluding treasury shares in the capital of the Company at the time of the passing of this resolution after adjusting for (a) new shares arising from the conversion or exercise of convertible securities; (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution and (c) any subsequent bonus issue, consolidation or subdivision of shares. Unless revoked or varied by ordinary resolution of the shareholders of the Company in general meeting, this resolution shall remain in force until the earlier of the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier." [See Explanatory note] **(Resolution 6)**

BY ORDER OF THE BOARD

Yeo Lee Luang
Company Secretary
Singapore, 12 April 2017

EXPLANATORY NOTE:

(i) Mr Hee Theng Fong, will retire as an Independent Director of the Company at the conclusion of the forthcoming Annual General Meeting. Upon retirement, Mr Hee Theng Fong will cease to be the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees.

(ii) The Ordinary Resolution proposed in item 6 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting, to issue shares and convertible securities in the Company up to an amount not exceeding in total fifty per cent (50%) of the total number of issued shares excluding treasury shares in the capital of the Company of which the aggregate number of shares to be issued other than on a pro rata basis to all existing shareholders of the Company shall not exceed 20% of the total number of issued shares excluding treasury shares in the capital of the Company.

Notes:-

1. A member of the Company (other than a relevant intermediary* as defined under Section 181(6) of the Act) entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company. Where a member of the Company (other than a relevant Intermediary*) appoints more than one proxy, the proportion of shares to be represented by each proxy must be stated.

2. Pursuant to Section 181(1C) of the Act, a member who is a relevant intermediary* may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

3. A member of the Company which is a corporation is entitled to appoint its authorized representative or proxies to vote on its behalf. If the member is a corporation, the instrument appointing a proxy must be executed under common seal or the hand of its duly authorized officer or attorney.

4. The instrument or form appointing a proxy or proxies, duly executed, must be deposited at the Company's registered office at 55 Market Street, Level 10, Singapore 048941 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting in order for the proxy to be entitled to attend and vote at the Annual General Meeting.

5. A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time fixed for the holding of the Annual General Meeting in order for the Depositor to be entitled to attend and vote at the Annual General Meeting.

   *A relevant intermediary means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore, or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore, and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under the Central Provident Fund Act, Chapter 36 of Singapore, providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

DELONG HOLDINGS LIMITED
(Company Registration. No. 199705215G)
(Incorporated in the Republic of Singapore)

IMPORTANT:
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see Note 3 for the definition of "relevant intermediary").
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. PLEASE READ THE NOTES TO THE PROXY FORM.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 12 April 2017.

ANNUAL GENERAL MEETING PROXY FORM

*I/We ______________________ (Name) ______________ *NRIC / Passport No.

of ____

being a *member/members of **DELONG HOLDINGS LIMITED** ("the Company") hereby appoint

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)

as *my/our *proxy/proxies to attend and to vote for *me/us on *my/our behalf, at the Annual General Meeting of the Company to be held at 55 Market Street, #03-01, Singapore 048941 on Thursday, 27 April 2017, at 10.30 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarised below, the *proxy/proxies will vote or abstain from voting at *his/their discretion.

No.	Resolutions	For**	Against**
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2016		
2	Re-election of Mr Yuan Weimin as a Director		
3	Re-election of Mr Wang Tianyi as a Director		
4	Approval of Directors' fees amounting to RMB1,274,871		
5	Re-appointment of Messrs Deloitte & Touche LLP as Company's Auditors		
6	Authority to allot and issue new shares		

* Delete accordingly

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

Dated this ________ day of ______________ 2017.

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

____

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

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:-

1. A member of the Company (other than a relevant intermediary* as defined under Section 181(6) of the Act) entitled to attend and vote at the AGM is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and where there is more than one proxy, the proportion of shares to be represented by each proxy must be stated.

2. Where a member appoints two proxies, the member shall specify the proportion of his/her shares to be represented by each proxy, failing which the appointment shall be deemed to be in the alternaive.

3. Pursuant to under Section 181(1C) of the Act, a relevant intermediary* may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

   *A relevant intermediary means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore, or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore, and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under the Central Provident Fund Act, Chapter 36 of Singapore, providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorized officer.

5. A corporation which is a member, may authorise by resolution of its directors or other governing body, such person as it thinks fit, to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

6. The instrument of appointing a proxy or proxies (together with the power of attorney (if any) under which it is signed or a certified copy thereof), must be deposited at the registered office of the Company at 55 Market Street, Level 10, Singapore 048941 not less than 48 hours before the time set for holding the meeting or adjourned meeting (as the case may be).

7. Please insert the total number of shares held by you. If you have shares entered against your name on the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this instrument of proxy will be deemed to relate to all the shares held by you.

8. The Company shall be entitled to reject this instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Members whose shares are deposited with The Central Depository (Pte) Limited ("CDP"), the Company may reject any instrument of proxy lodged if such Member is not shown to have shares entered against the name in the Depository Register as at 48 hours before the time appointed for holding the AGM as certified by CDP to the Company.

9. Agent Banks acting on the request of CPF Investors who wish to attend the AGM as Observers are required to submit in writing, a list with details of the investor's name, NRIC/Passport Number, addresses and number of shares held. The list, signed by an authorised signatory of the Agent Bank, should reach the Share Registrar of the Company at 8 Robinson Road #03-00, ASO Building, Singapore 048544, not less than 48 hours before the time fixed for holding the AGM.

Personal data policy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 12 April 2017.

德龙控股
DELONG HOLDINGS

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