

# 2014 Interim Report

H Share Code: 323  
A Share Code: 600808



**MAANSHAN IRON & STEEL COMPANY LIMITED**

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## IMPORTANT NOTICE

1. The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
2. All members of the Board attended the Board meeting.
3. The interim financial statements of the Group are unaudited, but have been approved by the Audit Committee of the Company.
4. Mr. Ding Yi, representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the interim report.
5. No appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.
6. There is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.

# I. Definitions

In this report, unless the context otherwise requires, the terms set forth below have the following meanings:

## Definitions of common terms

The Company or Magang	means	Maanshan Iron and Steel Company Limited
The Group Holding	means	The Company and its subsidiaries
Board	means	Magang (Group) Holding Company Limited
Directors	means	the Board of Directors of the Company
Supervisory Committee	means	the directors of the Company
Supervisors	means	the Supervisory Committee of the Company
Hong Kong Stock Exchange	means	the supervisors of the Company
SSE	means	The Stock Exchange of Hong Kong Limited
A shares	means	Shanghai Stock Exchange
		the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB.
H shares	means	the foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars.
SD&C Shanghai Branch	means	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi
CSRC	means	China Securities Regulatory Commission
CBRC	means	China Banking Regulatory Commission
CISA	means	China Iron and Steel Association
Ernst & Young Hua Ming	means	Ernst & Young Hua Ming LLP
Logistics Company	means	Maanshan Masteel Yuyuan Logistics Co., Ltd.
Masteel Financial	means	Magang Group Finance Co. Ltd.
Ma Steel Gases	means	Maanshan BOC-Ma Steel Gases Company Limited
Valdunes	means	SAS VALDUNES
Hefei Steel Plates	means	Ma Steel (Hefei) Steel Plates Co., Ltd.
Articles of Association	means	the Articles of Association of Maanshan Iron and Steel Company Limited

## II. Company Introduction

### (1) COMPANY PROFILE

Statutory Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Statutory Chinese short name of the Company	馬鋼股份
Statutory English name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
Statutory English short name of the Company	MAS C.L.
Legal representative of the Company	Ding Yi

### (2) CONTACT PERSONS

	<b>Secretary to the Board</b>	<b>Representative for Securities Affairs</b>
Name	Ren Tianbao	Hu Shunliang
Correspondence address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Telephone	86-555-2888158/2875251	86-555-2888158/2875251
Fax	86-555-2887284	86-555-2887284
Email address	mggfdms@magang.com.cn	mggfdms@magang.com.cn

### (3) BASIC INFORMATION

Registered address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the registered address	243003
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the office address	243003
Company's website	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a> (A shares); <a href="http://www.magang.com.hk">http://www.magang.com.hk</a> (H shares)
Email address	mggfdms@magang.com.cn

## II. Company Introduction (Continued)

### (4) INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for interim report publication	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Location for inspection of interim report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

### (5) BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Type of shares	Stock Exchange for listing of shares	Short name of stock	Stock code
A Shares	Shanghai Stock Exchange	馬鋼股份	600808
H Shares	The Stock Exchange of Hong Kong Limited	MAANSHAN IRON	323

### (6) COMPANY REPORT REGISTRATION CHANGES DURING THE PERIOD

Date of registration	1 September 1993
Location of registration	Anhui Administration for Industry & Commerce
Registration number of the Company's business licence	340000400002545
Tax registration number	340504610400837
Organisation code	61040083-7

### (7) OTHER RELATED INFORMATION

Maanshan Iron & Steel Company Limited (the "Company") is principally engaged in the manufacture and sale of iron and steel products. Currently, it is one of the largest iron and steel producers and marketers in the PRC. The manufacturing process primarily involves iron-making, steel-making and steel rolling. The Company's principal product is steel products which are divided into four major categories: steel plates, section steel, wire rods, train wheels and wheel rims, with a full range of models and specifications designed for a variety of applications. Over 90% of these products are sold in the domestic market.

### III. Summary of Accounting and Financial Data

#### (1) THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

##### 1. Major accounting data

*Unit: RMB'000*

Major accounting data	Reporting period (January to June)	Corresponding period of the previous year	Increase/ (decrease) at the reporting period as compared to the corresponding period of the previous year (%)
	As at the end of the reporting period	As at the end of the previous year	Increase/ (decrease) at the end of the reporting period as compared to the end of the previous year (%)
Operating revenue	28,864,352	36,952,562	-21.89
Net loss attributable to shareholders of the Company	-730,266	-332,823	-
Net loss excluding non-recurring gains or losses attributable to shareholders of the Company	-792,094	-393,338	-
Net cash flows from operating activities	1,388,044	3,758,529	-63.07
Net assets attributable to shareholders of the Company	22,411,803	23,131,446	-3.11
Total assets	73,299,178	71,821,618	2.06

### III. Summary of Accounting and Financial Data (Continued)

#### 2. Major Financial Data

Major financial indicators	Reporting period (January to June)	Corresponding period of the previous year	Increase/ (decrease) at the reporting period as compared to the corresponding period of the previous year (%)
Basic earnings per share (RMB/share)	-0.095	-0.043	-
Diluted earnings per share (RMB/share)	-0.095	-0.043	-
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	-0.103	-0.051	-
Return on net assets (weighted average) (%)	-3.21	-1.45	-1.76 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	-3.48	-1.72	-1.76 percentage points

#### (2) ITEMS OF NON-RECURRING GAINS OR LOSSES

*Unit: RMB'000*

Items of non-recurring gains or losses	Amount
Subsidy income	37,960
Amortization of deferred income	48,586
Losses from disposal of non-current assets	-521
Non-operating income and expenses other than the above items	13,429
Loss on fair value changes of financial assets held for trading	-20
Other investment income	6
Effects of income tax	-26,076
Effect of minority interests (After tax)	-11,537
Total	61,827

## IV. Report of the Directors

### (1) BOARD'S DISCUSSION AND ANALYSIS ON OPERATION DURING THE REPORTING PERIOD

#### 1. The macro environment for production and operation

During the reporting period, US economy regained its momentum and the employment market continued to improve, while Eurozone and Japan showed moderate recovery. However, growth of emerging economies has slowed down. The drop in demand of steel has led to the fluctuation and decrease in steel price. The price index for global steel products stood at 162.1 at the end of June, down 0.92% year-on-year.

During the reporting period, China's overall national economic performance remained steady. GDP grew by 7.4%, down 0.2 percentage point year-on-year; while fixed asset investment across the country grew by 17.3%, down 2.8 percentage point year-on-year. The general oversupply situation in the Chinese domestic iron and steel industry became intense, while the pace of growth in the major steel-consuming sectors decelerated so that the demand intensity for steel products declined, leading to the fluctuation and fall in steel prices. The consolidated price index for domestic steel products as at the end of June was 92.99, down 5.61% year-on-year.

As for imports and exports, according to customs statistics, exported steel products during the first half of 2014 amounted to 41,010,000 tonnes, a year-on-year increase of 33.63%, while imported steel products amounted to 7,250,000 tonnes, a year-on-year increase of 6.15%. Equivalent net export of crude steel amounted to 35,700,000 tonnes in the first half of 2014, a year-on-year increase of 42.34%.

During the reporting period, the prices of main raw materials, such as iron ore and coking coal, dropped significantly, which has partially eased the cost pressure faced by steel companies. In the first half of 2014, the average CIF price of China's imported iron ore fell by 11.38% year-on-year to US\$118.04/tonne. According to CISA's statistics, their member companies' average rate of return on sales was 0.41% in the first half of the year, slightly increased year-on-year.



## IV. Report of the Directors (Continued)

### 2. Production and operation of the Company

During the reporting period, the Company's production and sales volumes have decreased as compared to the corresponding period last year, while fixed costs have increased. Coupled with the continued fluctuation and decrease in steel price, the Company has reported larger losses compared with the corresponding period last year.

During the reporting period, the Company's major achievements included:

- The establishment of iron-making technology office, which has helped blast furnace operation to endure the worst time, and provided strong support for the stable and smooth operation of blast furnace. During the reporting period, the Group produced 8,650,000 tonnes of pig iron, down 1.6% year-on-year; 9,050,000 tonnes of crude steel and 8,730,000 tonnes of steel products, representing a year-on-year increase of 0.7% and 0.3%, respectively (in which the Company produced 6,150,000 tonnes of pig iron, 6,600,000 tonnes of crude steel and 6,630,000 tonnes of steel products, representing a year-on-year decrease of 8.3%, 4.9% and 4.4%, respectively).
- The formation of regional sales company, which has formed a marketing and sales network that covers our major customer base, and accelerates our transformation to become a service provider. During the reporting period, the Group's total sales of steel products amounted to 8,660,000 tonnes, in which sales of steel plates, section steels, wire rods, train wheels and rims amounted to 3,840,000 tonnes, 1,090,000 tonnes, 3,640,000 tonnes and 90,000 tonnes, respectively.
- The acquisition of SAS VALDUNES, which will have positive effects for our railway wheel products to tap into the high-speed railway markets in China.

### 3. Financial position and exchange risks

As at 30 June 2014, the total amount of loans borrowed by the Group amounted to RMB22,444 million, including loans of RMB16,977 million for working capital and long-term loans of RMB5,467 million. Except for foreign currency loans amounting to US\$1,059 million and EUR20 million, among which US\$724 million was import bill advance, all other loans were denominated in Renminbi. Except for US dollar loans amounting to US\$335 million with interest rates of LIBOR plus a fixed percentage, among the Renminbi loans of the Group, loans amounting to RMB10,139 million carried fixed interest rates and loans amounting to RMB5,621 million carried floating interest rates. Foreign currency loans amounting US\$724 million and EUR20 million carried fixed interest rates. Also, the Group issued corporate bonds of RMB5.5 billion in 2011, mid-term notes of RMB2.8 billion in 2011, and short-term bills of RMB1.5 billion in 2013. The amounts of all the Group's loans varied according to the scale of production and construction projects. There has been no loans overdue during the reporting period.

At present, all capital required for the Company's construction was derived from self-owned cash. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB42,028 million.

As at 30 June 2014, the Group's cash and balances with financial institutions amounted to RMB7,067 million. Bills receivable amounted to RMB8,676 million. Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payments was relatively immaterial.

#### **4. Status of Internal Control**

Pursuant to the "Basic Standards for Internal Control of Enterprises" jointly published by the Ministry of Finance in conjunction with the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission (the "five ministries and commissions"), the Company has established an internal control system that covers the whole process of production and operation management. The system ensures orderly conduct of various work of the Company and forms a regulated management system, giving effective identification and control over operating risks.

During the reporting period, the Company compiled and published the "Self-evaluation Report on Internal Control of Maanshan Iron & Steel Co., Ltd. for Year 2013". The Company enhances control measures to improve the internal control policy; and continues to improve the internal control system to ensure its internal control always remains effective.

## IV. Report of the Directors (Continued)

### 5. The environment for production and operation and coping strategies

In the second half of the year, we will still operate in a complex global economy, and the influence of geopolitical risk will keep rising. In order to promote the healthy growth of the country's economy, China will adhere to the main theme of "make progress while maintaining stability" for its work, to maintain consistent and stable macroeconomic policies. The effects of the measures for maintaining stability will show gradually, and may drive up steel consumption, the extent, however, may be limited. As there is no obvious improvement on the issue of overcapacity of steel, the business environment of steel companies will still be challenging.

In the second half of the year, the Company will do a better job in the following areas by adhering to the approach of production operation, which is "Enhancing Efficiency as Core, Exploring Market as Primary Task, Restructuring as Direction, Stabilizing Production as Foundation, Lowering Cost as Key, Strengthening Management as Guarantee":

- Strengthening our manufacturing system while stabilizing production, pre-metallurgy system will focus on blast furnaces, while steel rolling system will aim at delivering orders. To better utilize the ideal time of the equipment for maintenance. To centralize production activities and operate in an economic manner, so as to ensure high efficiency and stability of production;
- Strive for further reducing the cost of our manufacturing system, to study into every cost reduction measures to make sure that it will work as expected;
- To adjust our strategy, seize every opportunity, as well as strive for lowering procurement costs;
- Put more effort on restructuring product mix, and promote the efficiency of our sales system;
- Further ensuring consistent product quality, as well as improving order fulfilment rate and enhancing customer satisfaction.

## (2) ANALYSIS OF PRINCIPAL OPERATIONS

### Analysis of the change in items of the financial statements

Unit: RMB'000

Items	Amount of the current period	Amount of the same period of last year	Change (%)
Revenue	28,864,352	36,952,562	-21.89
Cost of operation	27,822,934	35,243,795	-21.06
Selling expenses	231,264	183,696	25.89
Administrative expenses	598,280	683,662	-12.49
Financial expenses	693,488	625,836	10.81
Net cash flows from operating activities	1,388,044	3,758,529	-63.07
Net cash flows from investing activities	1,808,194	-2,891,839	-
Net cash flows from financing activities	-566,979	-1,819,516	-
Research and development expenditure	282,730	223,816	26.32

Revenue decreased by 21.89% year-on-year, which was mainly attributable to the decrease in the selling price of steel products. Cost of operation decreased by 21.06% over the previous comparative period, which was mainly attributable to the prices of raw material and fuel, such as iron ore and coking coal, dropped during the period when compared with the same period of last year.

In the consolidated financial statements, when compared to the same period of the previous year, the changes in some related items and the reasons therefor were as follows:

- Business tax and surcharges decreased by 31.31% year-on-year, mainly attributable to the decrease of city construction and maintenance tax, education surcharge, local education surcharge and water conservancy fund, which were levied based on decreased VAT and business tax during current period.
- Administrative expenses decreased by 12.49% year-on-year, which was primarily attributable to the disposal of some subsidiaries in October last year and Maanshan Iron and Steel (Australia) Proprietary Limited recorded decrease in its operating costs of mining investments based on respective shareholding during the period, resulting in a decrease in relevant administrative expenses.

## IV. Report of the Directors (Continued)

### Analysis of the change in items of the financial statements (Continued)

- Asset impairment losses decreased by 27.94% year-on-year, mainly attributable to the provision made for the significant decline in inventory price during the previous period.
- Losses from fair value changes decreased by 79.78% year-on-year, mainly attributable to the reduced fall in the prices of underlying investee shares of tradable financial assets.
- Non-operating expenses decreased by 35.83% year-on-year, mainly attributable to the decrease of net loss arising from disposal of fixed assets by the Company during the period.
- Income tax decreased by 75.79% year-on-year, which was mainly attributable to the increase of total loss during the period.
- Minority interest loss decreased by 446.29% year-on-year, mainly attributable to the net loss recorded by non-wholly owned subsidiaries during the period instead of profit during the same period of last year.
- Net cash inflow from operating activities decreased by 63.07% year-on-year, mainly attributable to the decrease in the cash received from selling goods during the period.
- Net cash inflow from investing activities increased by 162.53% year-on-year, mainly attributable to the recognition of the consideration receivables due from the Holding in relation to the assets reorganization arising from the disposal of non-steel related equity interests and assets at the end of last year was fully received during the period, as well as the decrease of cash expenditures for construction projects.
- Net cash outflow from financing activities decreased by 68.84% year-on-year, mainly attributable to the decrease in cash paid for the repayment of debts during the period.
- Impact of exchange rate changes on cash and cash equivalents resulted in an decrease of 147.70% in cash outflow year-on-year, mainly attributable to the appreciation of foreign currencies held by the Company against Renminbi during the period.

In the consolidated financial statements, when compared with the end of last year, the changes in some related items and the reasons therefor were as follows:

- Cash and bank balances increased by 38.39%, of which restricted cash decreased by RMB 758,227,076, it was mainly attributable to the decrease of deposits used in bank acceptance bills and performance bonds; non-restricted cash increased by RMB2,718,858,634, which was mainly attributable to the cash inflows generated from operating activities.
- Dividends receivables decreased by 100.00%, mainly attributable to the receipt of final dividends of last year from jointly-controlled entities and associates during the period.
- Interest receivables increased by 220.48%, mainly attributable to the expansion of Masteel Financial into cross-month time deposits business, resulting in the increase of interest income of time deposits at the end of the period when compared with the end of prior year.

### Analysis of the change in items of the financial statements (Continued)

- Prepayments decreased by 30.91%, mainly attributable to the decrease of prepayments for the purchase of raw materials and fuels.
- Other receivables decreased by 77.47%, mainly attributable to the full collection of consideration receivables due from the Holding in relation to the assets reorganization during the period.
- Fixed assets increased by 17.92%, mainly attributable to the Magang New-zone late-stage structural adjustment on 1580mm hot rolling project at No.4 steel and rolling plant, Magang Phase II silicon steel technological transformation project and Hefei Steel Plates sheet processing project achieved an expected useable status and transferred into fixed assets during the period.
- Construction materials increased by 106.85%, mainly attributable to the increase in purchase of special materials for sheet processing projects by subsidiary Hefei Steel Plates.
- Construction in progress decreased by 52.28%, mainly attributable to the Magang New-zone late-stage structural adjustment on 1580mm hot rolling project at No.4 steel & rolling plant, Magang Phase II silicon steel technological transformation project and Hefei Steel Plates sheet processing project achieved an expected useable status and transferred into fixed assets during the period.
- Borrowing funds increased by 100.00%, mainly attributable to the borrowing of Masteel Financial from other financial institutions to satisfy short-term capital requirement of the Group.
- Repurchase agreements decreased by 47.94%, mainly attributable to the decrease of re-discounted bills by Masteel Financial to the Central Bank during the period.
- Interests payable increased by 165.53%, mainly attributable to the payment of corporate bond interests in August of each year, resulting in the increase in interests payable as at 30 June compared with the end of the year.
- Other payables increased by 39.67%, mainly attributable to the increases of accrued and unpaid sales incentive and refund balance during the period.
- Long-term borrowings decreased by 9.78%, mainly attributable to the reclassification of certain long-term borrowings due within a year to non-current liabilities due within a year.
- Deferred income increased by 27.41%, mainly attributable to the land compensation received by Magang (Hefei) Iron & Steel Co., Ltd.

## IV. Report of the Directors (Continued)

### (3) ANALYSIS BY OPERATION OF INDUSTRY, PRODUCTS OR REGIONS

#### 1. Principal operation by industry and products

Unit: RMB Million

Business segment/ product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (±%)	Year-on-year increase/ (decrease) of operating cost (±%)	Year-on-year increase/ (decrease) of gross profit margin (±%)
Iron and steel	26,954	26,482	1.75	-10.29	-9.25	Decrease by 1.12 percentage points
<b>Product segment</b>						
Steel plates	11,712	11,372	2.90	-12.06	-9.31	Decrease by 2.94 percentage points
Section steels	2,736	2,764	-1.02	-31.38	-30.29	Decrease by 1.58 percentage points
Wire rods	10,189	10,179	0.10	-6.20	-6.57	Increase by 0.39 percentage points
Train wheels and wheel rims	690	563	18.41	6.15	6.63	Decrease by 0.36 percentage points

In the first half of 2014, the Group's operating income amounted to RMB27,968 million, of which RMB26,954 million were income from the iron and steel business, accounting for 96% of the income from the principal business.

Among which the connected transactions which arose from the Group's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB523.75 million during the reporting period.

## 2. Analysis of principal operation by region

Unit: RMB Million

Region	Ratio (%)	Operating income	Increase/ (decrease) in operating income as compared to the corresponding period of the previous year (±%)
Anhui	42.02	12,128	-34.53
Jiangsu	14.99	4,328	-5.19
Shanghai	11.65	3,364	-1.29
Zhejiang	6.24	1,802	-14.11
Guangdong	4.34	1,253	-24.97
Other PRC regions	15.75	4,545	-21.96
Region	5.00	1,444	67.13

## (4) ANALYSIS BY INVESTMENT

### 1. General analysis of external equity investment

Securities investment

Item no	Securities code	Abbreviation	Initial investment amount (RMB)	Numbers of shares held (share)	Book value of the end of the reporting period (RMB)	Proportion of securities investments	Gains/Loss in the reporting period (RMB)
						at the end of the reporting period (%)	
1	601857	PetroChina	584,500	35,000	263,900	53.90	-5,950
2	601186	China Railway Construction	181,600	20,000	92,200	18.83	-1,600
3	601390	China Railway Group	158,400	33,000	85,140	17.39	-3,300
4	601898	China Coal Energy	201,960	12,000	48,360	9.88	-8,880
Total			1,126,460	/	489,600	100	-19,730



## IV. Report of the Directors (Continued)

### 2. Entrusted financial management and derivatives investment of non-financial companies

#### (1) *Entrusted financial management*

The Company had no entrusted financial management during the reporting period.

#### (2) *Entrusted loans*

The Company had no entrusted loans during the reporting period.

### 3. Use of raised proceeds

During the reporting period, the Company had no proceeds raised or proceeds, raised in the previous reporting period and used in the reporting period.

### 4. Analysis of the Group's major subsidiaries and investees

- Ma Steel (Hefei) Iron & Steel Co., Ltd., in which the Company holds a direct stake of 71%, is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB90.4 million.
- Anhui Changjiang Steel Co., Ltd., in which the Company holds a direct stake of 55%, is mainly engaged in ferrous metal smelting, the production and sales of screw-threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. Net loss for the reporting period amounted to approximately RMB17.2 million.
- Magang Group Finance Co., Ltd., in which 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB47.0 million.
- Maanshan BOC-Ma Steel Gases Company Limited, in which the Company holds a direct stake of 50%, is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the planning and construction of other industrial gas product projects. Net profit during the reporting period amounted to RMB67.8 million.

#### 4. Analysis of the Group's major subsidiaries and investees (Continued)

- Jiyuan Shi JinMa Coke Co., Ltd., in which the Company holds a direct stake of 36%, is mainly engaged in the production and sales of coke, tar, benzene and coal gas. Net profit for the reporting period amounted to approximately RMB37.6 million.
- Shenglong Chemical Co., Ltd., in which the Company holds a direct stake of 32%, is mainly engaged in production and sales of coke, tar, coal gas and coke chemical products; provision of ancillary logistics services and operation of economic and trade business. Net profit for the reporting period amounted to approximately RMB44.9 million.

#### 5. Projects financed by other than fundraising proceeds

Unit: RMB Million

<u>Project name</u>	<u>Project amount</u>	<u>Project progress</u>
1,580mm hot rolling project at No.4 steel & rolling plant	224.8	Equipment assembling and debugging stage
Hot-rolled pickling plate project at No.4 steel & rolling plant	60.5	Equipment assembling stage
Silicon steel project phase 2	48.0	Equipment debugging stage
Total	333.3	/

During the reporting period, the Group spent a total of RMB2,804 million on projects under construction, a decrease of 4.82% year-on-year.

### (5) THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

#### Formulation, Implementation and Adjustment of a Cash Dividend Policy during the reporting period

The Company's profit distribution plan for 2013 was considered and approved at the Annual General Meeting on 27 June 2014: the Company will not make any profit distribution including cash dividends or carry out any share capital increase from capital reserve fund. Relevant details have been disclosed in the Shanghai Securities News and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange in accordance with regulations.

The formulation and implementation of the plan was in compliance with the provisions of the Articles of Association and the requirements in the resolution made at the Annual General Meeting. The decision making process and mechanism were sound and complete, and the independent directors fulfilled their responsibilities and played their proper roles.

## IV. Report of the Directors (Continued)

### (6) OTHER INFORMATION DISCLOSURE MATTERS

- 1. A significant changes of profit alert and explanation from the Company who expects a loss in accumulative net profit from the beginning of the year to the end of the third quarter when compared with the same period of last year.**

The Company expects a loss in accumulative net profit from the beginning of the year to the end of the third quarter. This is mainly because although the production operation of the Company has improved since July and realised a turnaround during the month, the aggregate net loss of the Company for the first half of the year is still significant.

- 2. The Board and the Supervisory Committee's Explanation for the Accounting Firm's "Non-Standard Audit Report"**

✓ Not applicable

- 3. Purchase, sales and repurchase of listed shares of the Company**

During the first half year of 2014, the Company did not repurchase its listed shares. Meanwhile, neither the Company nor its affiliated companies purchased or sold any listed shares of the Company.

- 4. Preemptive right**

In accordance with the articles of corporation of the Company and Chinese laws, there is no regulation on preemptive right by the existent shareholders to purchase the shares proportionately when new shares are issued.

## (V) Significant Matters

### (1) MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

Major Litigation and Arbitration Cases and Media Controversies already disclosed in the Temporary Announcements and without New Development

**Summary of the case and type of controversy**

Adjudication of bankruptcy of Logistics Company

**Information source**

<http://www.sse.com.cn>;  
<http://www.hkex.com.hk>

### (2) INSOLVENCY OR RESTRUCTURING RELATED MATTERS

No insolvency or restructuring related matters during the reporting period but for above-mentioned item in (1).

### (3) ASSET TRANSACTIONS AND MERGER OF COMPANIES

**Summary and type of the case**

Acquisition of Valdunes' assets

**Information source**

<http://www.sse.com.cn>;  
<http://www.hkex.com.hk>

### (4) THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

✓ Not applicable

### (5) SIGNIFICANT CONNECTED TRANSACTIONS IN THE REPORTING PERIOD

**Connected transactions related to normal operations**

*Normal businesses between the Company and Holding*

The normal business transactions between the Company and Holding were carried out in the normal course of business and were settled in cash or bills. The details of which are as follows:

1. To ensure that the Company has sufficient ore to meet the production demands, Holding agreed to continuously provide the Company with ore on a first priority basis. During the reporting period, the payment made by the Group to Holding in respect of the Sale and Purchase of Ore Agreement, which was signed in 2012, was as follows (RMB'000):

	Amount	Proportion accounted for similar transactions (%)
Purchase of iron ore, limestone and dolomite	1,621,426	15

## (V) Significant Matters (Continued)

2. During the reporting period, businesses between Masteel Financial and the Holding under the Financial Services Agreement

Type of business		Deposit and loan amount	Interest income/expense
		<i>RMB'000</i>	<i>RMB'000</i>
Deposit	Maximum daily deposit	1,171,605	6,887
	Monthly average maximum daily deposit	927,755	
Loan	Maximum daily loan	460,000	12,667
	Monthly average maximum daily loan	460,000	
Other income			
Net income from handling fee and commission (RMB'000)			236
Income from discount interest (RMB'000)			7,256

3. Business between the Group and Environmental Co.

During the reporting period, the transactions took place under the Energy Saving and Environmental Protection Agreement signed in 2012, was as follow (in RMB'000):

	Amount	Proportion accounted for similar transactions (%)
Purchase of energy saving and environmental protection engineering and other services by the Group from Environmental Co.	181,075	2
Purchase of wastes and other services by Environmental Co. from the Group	51,122	23
Total	232,197	–

4. During the reporting period, except for the connected transactions made pursuant to the aforementioned Sale and Purchase of Ore Agreement, Financial Services Agreement, and Energy Saving and Environmental Protection Agreement, amounts of other connected transactions in the normal course of business with Holding are as follows (RMB'000):

	<b>Amount</b>	<b>Proportion accounted for similar transactions (%)</b>
Steel products and other products purchased by the Holding from the Company	320,420	1
Water, electricity, telephone and other services acquired by Holding from the Company	147,602	65
Purchased by the Company for fixed assets and construction services	170,292	3
Purchased by the Company to the Holding for other services and products	1,216,848	100
Total	1,855,162	–

## (6) MATERIAL CONTRACTS AND PERFORMANCE THEREOF

### 1. Trusts, contracts and lease arrangements

✓ Not applicable

### 2. Guarantees

✓ Not applicable

### 3 Other significant events

During the reporting period, the Company had no other material contract except the aforementioned.

## (V) Significant Matters (Continued)

### (7) PERFORMANCE OF UNDERTAKINGS

✓ Not applicable

### (8) APPOINTMENT AND REMOVAL OF AUDITOR

The Company re-appointed Ernst & Young Hua Ming as the auditor of the Company. In accordance with the requirement of Article 2.1 of Appendix 16 to the Listing Rules of the Hong Kong Stock Exchange, the Company is not required to appoint an overseas auditor.

### (9) PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% OF SHAREHOLDING, DE FACTO CONTROLLER AND ACQUIRER

During the year, none of the Company and its directors, supervisors, senior management, the Company's shareholders with more than 5% of shareholding, the de facto controller, acquirer were investigated by the CSRC, subjected to administrative punishment, published reprimand or publicly reprimanded by securities exchanges.

### (10) CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clear and unambiguous.

The Company has, to the best knowledge of the Board of Directors, complied with the requirements of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on Hong Kong Stock Exchange during the reporting period, and no deviation from the code provisions was found.

### (11) OTHER SIGNIFICANT EVENTS

Analysis and Explanation of the Board's Discussions on the Reasons for and the Impact of the Changes to Accounting Policies, Accounting Estimates and Accounting Methods

On 8 May 2014, the "Resolution on the Adjustment of Depreciation Period of Fixed Assets" was considered and approved at the fortieth meeting of the seventh session of the Board of the Company. On 27 June 2014, the resolution was considered and approved in the 2013 Annual General Meeting of the Company.

## 1. Overview of Changes of Accounting Estimate

According to the provisions of the “Accounting Standards for Business Enterprises” and the actual use of the Company’s fixed assets, the Company re-verified the actual depreciation period of various fixed assets and decided to adjust the depreciation period of certain fixed assets with effect from 1 July 2014 as per the specific schedule below:

<b>Class of Fixed Assets</b>	<b>Depreciation Period (Year) Before Adjustment</b>	<b>Depreciation Period (Year) After Adjustment</b>
Buildings and Structures	20	30
Equipment	13	15

## 2. Explanation on Changes of Accounting Estimate

The cost of the Company’s existing fixed assets is RMB61 billion, including RMB41.2 billion for fixed assets under the equipment category, RMB15.5 billion for fixed assets under the buildings and structures category and RMB4.3 billion for fixed assets under other category. The cost of fixed assets beyond the due dates of their respective depreciation periods but still in use is RMB7.3 billion. These are basically assets under the online equipment category and buildings and structures still in use, with their asset status and production capacity maintaining at a normal level. The RMB22.6 billion fixed assets investment already made and to be made by the Company during the “Twelfth Five-Year Plan” period has boosted the overall technology advancement of the Company’s fixed assets. Meanwhile, by intensifying its efforts to maintenance and relevant technological transformation programs in recent years, the Company has relatively restored the equipment accuracy, improved the equipment performance and extended the service life of equipment, buildings and structures. From the perspective of the re-verified actual service life of the Company’s fixed assets, their actual service life is generally longer than the previously identified accounting estimate period. According to the provisions of the “Accounting Standards for Business Enterprises”, the Company shall review the service life, expected residual value and depreciation method of fixed assets at least once at the end of each year, and if there is a difference between the expected service life and the previously estimated service life of fixed assets, the service life of fixed assets shall be adjusted. Given the overall status of the Company’s fixed assets and the depreciation level within the industry, the Company believes that, by adjusting the service life of fixed assets under the equipment category from 13 years to 15 years and adjusting the service life of those under the buildings and structures category from 20 years to 30 years, the Company will be able to provide more objective financial information.



## (V) Significant Matters (Continued)

### 3. Impact of Changes of Accounting Estimate on the Company

The adjustment of depreciation period on fixed assets is expected to reduce the Company's annual depreciation expenses of fixed assets by RMB900.58 million and to increase owners' equities and net profits by RMB675.44 million. With the new depreciation period being effective since July 2014, the depreciation expenses of fixed assets for 2014 will reduce by RMB450.29 million, while owners' equities and net profits will increase by RMB337.72 million.

For details, please refer to "Shanghai Securities News" issued on 9 May 2014 and 28 June 2014 respectively and the respective websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange of Hong Kong ([www.hkexnews.hk](http://www.hkexnews.hk)).

# (VI) Movements in Share Capital and Shareholders

## (1) SHARE MOVEMENTS

Table on Share Movements

*Unit: Share*

	Prior to the current movements		Increase/(decrease) of current movements (+, -)				After current movements		
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Number of shares
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares including:	-	-	-	-	-	-	-	-	-
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Foreign owned shares including:	-	-	-	-	-	-	-	-	-
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB-denominated ordinary shares	5,967,751,186	77.50	-	-	-	-	-	5,967,751,186	77.50
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	22.50	-	-	-	-	-	1,732,930,000	22.50
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	<u>7,700,681,186</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,700,681,186</u>	<u>100</u>

## (VI) Movements in Share Capital and Shareholders (Continued)

### (2) SHAREHOLDER AND ACTUAL HOLDERS

#### The number of shareholders and shareholding structure

*Unit: Shares*

**Total number of shareholders at the end of the reporting period** 328,797

**Shareholding of the top ten shareholders**

Name of shareholder	Type of shareholders	As a Percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,423,927	0	0
HKSCC (Nominees) Limited	Foreign shareholder	22.18	1,707,732,898	0	Unknown
Zhang Mucheng (張沐城)	Others	0.36	27,379,500	0	Unknown
Wang Yong (王勇)	Others	0.26	20,250,000	0	Unknown
Xiao Guouen (肖國文)	Others	0.16	12,063,862	0	Unknown
He Wenhua (何文華)	Others	0.16	11,983,587	0	Unknown
Zhang Wu (張武)	Others	0.14	10,600,000	0	Unknown
Hu Lixin (胡立新)	Others	0.11	8,366,484	0	Unknown
Bai Jiping (白計平)	Others	0.11	8,209,900	0	Unknown
Zhang Junying (張俊英)	Others	0.10	7,520,000	0	Unknown

## The number of shareholders and shareholding structure (Continued)

Shareholding of top ten shareholders without selling restrictions		
Name of shareholder	Number of shares held without selling restrictions	Type and number of shares
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,707,732,898	Overseas-listed foreign shares
Zhang Mucheng (張沐城)	27,379,500	RMB-denominated ordinary shares
Wang Yong (王勇)	20,250,000	RMB-denominated ordinary shares
Xiao Guouen (肖國文)	12,063,862	RMB-denominated ordinary shares
He Wenhua (何文華)	11,983,587	RMB-denominated ordinary shares
Zhang Wu (張武)	10,600,000	RMB-denominated ordinary shares
Hu Lixin (胡立新)	8,366,484	RMB-denominated ordinary shares
Bai Jiping (白計平)	8,209,900	RMB-denominated ordinary shares
Zhang Junying (張俊英)	7,520,000	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the abovementioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies. The Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerned parties.

## (VI) Movements in Share Capital and Shareholders (Continued)

### **The number of shareholders and shareholding structure (Continued)**

During the reporting period, no shares held by Holding were pledged, held in lien or placed in custody, but the Company is not aware whether or not shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody during the reporting period.

HKSCC (Nominees) Limited held 1,706,703,898 H shares of the Company on behalf of multiple clients.

### **(3) SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS**

No substantial shareholders and actual holders changes during the reporting period.

### **(4) SHAREHOLDING BY THE PUBLIC**

Based on the documents publicly accessible to the Company and what the directors of the Company are aware of, as at the date of announcement (19 August 2014) of the interim financial statements, the Company is in compliance with the requirements on shareholding by the public according to the Hong Kong Stock Exchange Listing Rules.

## (VII) Directors, Supervisors and Senior Management

### (1) CHANGES IN SHAREHOLDING

No changes in Shareholding held by Existing Directors, Supervisors and Senior Management in reporting period

### (2) MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Position</u>	<u>Movement</u>	<u>Reasons of movement</u>
Ren Qiang	Senior Management	Removal	The Board removed his position according to the proposal of the General Manager

### (3) OTHER NOTES

During the reporting period, none of the directors, supervisors and senior management of the Company held any share of the Company.

To the best knowledge of the Company, as at 30 June 2014, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

During the reporting period, none of the Company's directors, supervisors, senior management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

The Articles of Association of the Company has set out clearly the code of behaviour for the Company's directors, supervisors and senior management in dealing with the securities of the Company. All directors of the Company have confirmed in writing that during the reporting period, directors of the Company complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

# VIII. Financial Statements

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Note: The notes to the financial statements with “\*” are disclosed in accordance with the rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Companies Ordinance.

# Consolidated Balance Sheet

30 June 2014

Renminbi Yuan

<b>ASSETS</b>	Note V	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
<b>CURRENT ASSETS:</b>			
Cash and bank balances	1	7,067,349,627	5,106,718,069
Financial assets measured at fair value through profit or loss		489,600	509,330
Bills receivable	2	8,676,114,795	8,629,108,926
Trade receivables	3	677,162,983	800,946,475
Dividends receivable		–	44,787,460
Interest receivable		11,346,317	3,540,453
Prepayments	4	706,374,243	1,022,394,879
Other receivables	5	438,905,075	1,948,145,123
Inventories	6	10,422,523,572	10,049,721,134
Loans and advances to customers	7	578,702,049	486,511,748
Other current assets	8	598,362,342	504,406,279
<b>Total current assets</b>		<b>29,177,330,603</b>	<b>28,596,789,876</b>
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets	9	126,772,160	126,772,160
Long term equity investments	10,11	974,207,929	950,065,445
Investment properties		63,593,287	64,412,476
Fixed assets	12	36,164,440,923	30,668,420,630
Construction materials		61,617,734	29,788,206
Construction in progress	13	4,165,684,829	8,729,815,208
Intangible assets	14	1,774,235,401	1,900,179,245
Deferred tax assets		791,295,414	755,374,754
<b>Total non-current assets</b>		<b>44,121,847,677</b>	<b>43,224,828,124</b>
<b>TOTAL ASSETS</b>		<b>73,299,178,280</b>	<b>71,821,618,000</b>



# Consolidated Balance Sheet (Continued)

30 June 2014

Renminbi Yuan

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Note V	30 June 2014 Unaudited	31 December 2013 Audited
<b>CURRENT LIABILITIES:</b>			
Borrowing funds		500,000,000	–
Customer deposits	16	1,333,475,291	1,390,609,858
Repurchase agreements	17	179,480,250	344,732,675
Short term loans	18	8,292,159,355	8,553,509,860
Bills payable	19	5,354,867,166	5,542,646,513
Accounts payable	20	8,382,863,793	6,524,149,751
Deposits received		4,725,819,028	5,125,265,201
Payroll and benefits payable		271,742,432	208,890,914
Taxes payable	21	166,614,369	233,964,348
Interest payable		439,087,786	165,365,086
Dividends payable	22	80,753,711	80,642,412
Other payables	23	1,344,615,143	962,699,474
Non-current liabilities due within one year	24	8,684,685,695	7,951,717,780
Accrued liabilities	25	4,140,000	4,140,000
<b>Total current liabilities</b>		<b>39,760,304,019</b>	<b>37,088,333,872</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans	26	5,466,884,000	6,059,444,300
Bonds payable	27	2,330,466,188	2,328,266,077
Deferred income	28	776,720,278	609,637,532
Deferred tax liabilities		35,046,101	36,900,781
<b>Total non-current liabilities</b>		<b>8,609,116,567</b>	<b>9,034,248,690</b>
<b>Total liabilities</b>		<b>48,369,420,586</b>	<b>46,122,582,562</b>

# Consolidated Balance Sheet (Continued)

30 June 2014

Renminbi Yuan

<b>LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)</b>		<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
	Note V		
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	29	7,700,681,186	7,700,681,186
Capital reserve	30	8,329,067,663	8,329,067,663
Special reserve		16,251,680	13,055,678
Surplus reserve		3,789,735,764	3,789,735,764
General reserve		98,706,649	98,706,649
Retained profits		2,542,140,562	3,272,406,740
Exchange fluctuation reserve		(64,780,684)	(72,208,059)
		<hr/>	<hr/>
Equity attributable to owners of the parent		22,411,802,820	23,131,445,621
		<hr/>	<hr/>
Minority interests		2,517,954,874	2,567,589,817
		<hr/>	<hr/>
Total shareholders' equity		24,929,757,694	25,699,035,438
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>73,299,178,280</b>	<b>71,821,618,000</b>

The financial statements are signed by the following persons

Company Representative:

Ding Yi

19 August 2014

Chief Accountant:

Qian Haifan

19 August 2014

Head of Accounting:

Xing Qunli

19 August 2014

# Consolidated Income Statement

For the six months ended 30 June 2014

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
	Note V	<b>2014 Unaudited</b>	2013 Unaudited
Revenue	31	<b>28,864,351,998</b>	36,952,562,339
Less: Cost of sales	31	<b>27,822,934,411</b>	35,243,795,361
Business taxes and surcharges		<b>92,669,574</b>	134,915,427
Selling expenses	32	<b>231,264,336</b>	183,696,105
Administrative expenses	33	<b>598,280,425</b>	683,662,180
Financial expenses	34	<b>693,487,627</b>	625,836,335
Assets impairment losses	35	<b>344,320,395</b>	477,830,557
Loss on fair value changes		<b>19,730</b>	97,570
Add: Investment income	36	<b>74,343,808</b>	69,382,866
including: share of profits of associates and jointly-controlled entities		<b>67,142,483</b>	49,520,681
Operating loss		<b>(844,280,692)</b>	(327,888,330)
Add: Non-operating income		<b>101,415,452</b>	84,830,273
Less: Non-operating expenses		<b>1,960,924</b>	3,055,983
including: loss from disposal of non-current assets		<b>520,880</b>	1,702,335
Loss before tax		<b>(744,826,164)</b>	(246,114,040)
Less: Income tax	37	<b>18,669,331</b>	77,113,128
Net loss		<b>(763,495,495)</b>	(323,227,168)
Less: Minority interests		<b>(33,229,317)</b>	9,595,910
Net loss attributable to the equity holders of the parent		<b>(730,266,178)</b>	(332,823,078)
<b>EARNINGS PER SHARE:</b>			
Basic	38	<b>(9.48) cents</b>	(4.32) cents
Diluted		<b>(9.48) cents</b>	(4.32) cents
Other comprehensive income/(loss)	39	<b>8,216,051</b>	(91,343,384)
Total comprehensive income		<b>(755,279,444)</b>	(414,570,552)
Including:			
Total comprehensive income attributable to owners of the parent		<b>(722,838,803)</b>	(424,166,462)
Total comprehensive income attributable to minority shareholders		<b>(32,440,641)</b>	9,595,910

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

Renminbi Yuan

## 30 June 2014 (Unaudited)

	Attributable to owners of parent									
	Share capital	Capital reserve	Special reserves	Surplus reserves	General reserve	Retained profits	Exchange fluctuation reserve	Minority interests	Total shareholders' equity	
	(Note V 29)	(Note V 30)					Sub-total			
1. At 1 January 2014	7,700,681,186	8,329,067,663	13,055,678	3,789,735,764	98,706,649	3,272,406,740	(72,208,059)	23,131,445,621	2,567,589,817	25,699,035,438
2. Increase/(decrease) during the period										
(1) Net loss	-	-	-	-	-	(730,266,178)	-	(730,266,178)	(33,229,317)	(763,495,495)
(2) Other comprehensive income	-	-	-	-	-	-	7,427,375	7,427,375	788,676	8,216,051
Total comprehensive income	-	-	-	-	-	(730,266,178)	7,427,375	(722,838,803)	(32,440,641)	(755,279,444)
(3) Capital contribution and withdrawal by shareholders										
(i) Capital withdrawal by minority shareholders	-	-	-	-	-	-	-	-	(17,044,732)	(17,044,732)
(4) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	(149,570)	(149,570)
(5) Special reserve										
(i) Additions	-	-	36,880,367	-	-	-	-	36,880,367	-	36,880,367
(ii) Used	-	-	(33,684,365)	-	-	-	-	(33,684,365)	-	(33,684,365)
3. At 30 June 2014	7,700,681,186	8,329,067,663	16,251,680	3,789,735,764	98,706,649	2,542,140,562	(64,780,684)	22,411,802,820	2,517,954,874	24,929,757,694

# Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2014

Renminbi Yuan

30 June 2013 (Unaudited)

	Attributable to owners of parent								Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Special reserves	Surplus reserves	General reserve	Retained profits	Exchange fluctuation reserve	Sub-total		
	(Note V 29)	(Note V 30)	reserves	reserves	reserve	profits	reserve			
1. At 1 January 2013	7,700,681,186	8,329,067,663	14,768,610	3,750,928,170	55,650,161	3,245,037,973	30,510,424	23,126,644,187	2,385,412,385	25,512,056,572
2. Increase/(decrease) during the period										
(1) Net (loss)/income	-	-	-	-	-	(332,823,078)	-	(332,823,078)	9,595,910	(323,227,168)
(2) Other comprehensive income	-	-	-	-	-	-	(91,343,384)	(91,343,384)	-	(91,343,384)
Total comprehensive income	-	-	-	-	-	(332,823,078)	(91,343,384)	(424,166,462)	9,595,910	(414,570,552)
(3) Capital contribution and withdrawal by shareholders										
(i) Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	49,000,000	49,000,000
(4) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	(8,098,096)	(8,098,096)
(5) Special reserve										
(i) Additions	-	-	34,535,364	-	-	-	-	34,535,364	-	34,535,364
(ii) Used	-	-	(38,110,541)	-	-	-	-	(38,110,541)	-	(38,110,541)
3. At 30 June 2013	7,700,681,186	8,329,067,663	11,193,433	3,750,928,170	55,650,161	2,912,214,895	(60,832,960)	22,698,902,548	2,435,910,199	25,134,812,747

# Consolidated Cash Flow Statement

For the six months ended 30 June 2014

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2014 Unaudited</b>	2013 Unaudited
	Note V		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	<b>35,464,305,325</b>	43,267,584,026
	Refunds of taxes	<b>31,444,100</b>	30,700,900
	Net decrease in loans and advances to customers	–	57,196,897
	Net increase in repurchase agreements	–	45,366,814
	Net increase in customer deposits	<b>442,865,433</b>	645,730,999
	Cash received for interest charges, fees and commissions	<b>57,343,968</b>	93,092,742
	Cash received relating to other operating activities	<b>21,385,601</b>	8,342,396
		<hr/>	<hr/>
	Sub-total of cash inflows	<b>36,017,344,427</b>	44,148,014,774
		<hr/>	<hr/>
	Cash paid for goods and services	<b>(30,965,465,209)</b>	(36,484,040,595)
	Net increase in loans and advances to customers	<b>(94,111,239)</b>	–
	Net decrease in repurchase agreements	<b>(165,252,425)</b>	–
	Cash paid to and on behalf of employees	<b>(2,087,424,094)</b>	(2,356,167,479)
	Cash paid for all taxes	<b>(937,536,383)</b>	(1,141,528,277)
	Cash paid for interest charges, fees and commissions	<b>(13,041,281)</b>	(11,313,510)
	Cash paid relating to other operating activities	<b>(366,470,195)</b>	(396,436,092)
		<hr/>	<hr/>
	Sub-total of cash outflows	<b>(34,629,300,826)</b>	(40,389,485,953)
		<hr/>	<hr/>
	Net cash flows from operating activities	<b>1,388,043,601</b>	3,758,528,821
		<hr/>	<hr/>
2.	Cash flows from investing activities:		
	Cash received from investment income	<b>172,430,953</b>	130,955,833
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	<b>1,914,418,028</b>	2,431,799
	Net cash received from disposal of subsidiaries and other entities	–	7,098,066
	Cash received due to decrease in pledged deposits, net	<b>758,227,076</b>	332,362,593
	Cash received relating to other investing activities	<b>3,280,763</b>	12,212,013
		<hr/>	<hr/>
	Sub-total of cash inflows	<b>2,848,356,820</b>	485,060,304
		<hr/>	<hr/>
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	<b>(869,020,371)</b>	(3,318,419,052)
	Cash paid for acquisitions of investments	<b>(62,044,732)</b>	(58,480,000)
	Cash paid for acquisitions of subsidiaries	<b>(109,097,300)</b>	–
		<hr/>	<hr/>
	Sub-total of cash outflows	<b>(1,040,162,403)</b>	(3,376,899,052)
		<hr/>	<hr/>
	Net cash flows from/(used in) investing activities	<b>1,808,194,417</b>	(2,891,838,748)
		<hr/>	<hr/>

# Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June 2014

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2014 Unaudited	2013 Unaudited
3. Cash flows from financing activities:			
Cash received from borrowings		4,390,247,153	11,572,038,827
Cash received from capital contribution		–	49,000,000
Including: capital contribution by minority shareholders		–	49,000,000
Sub-total of cash inflows		4,390,247,153	11,621,038,827
Cash repayments of borrowings		(4,572,526,941)	(13,067,699,636)
Cash paid for distribution of dividend or profits and for interest expenses		(384,698,835)	(372,855,673)
Including: dividend paid to minority shareholders by subsidiaries		(149,570)	(8,098,096)
Sub-total of cash outflows		(4,957,225,776)	(13,440,555,309)
Net cash flows from/(used in) financing activities		(566,978,623)	(1,819,516,482)
4. Effect of foreign exchange rate changes on cash		89,599,239	(187,842,013)
5. Net increase/(decrease) in cash and cash equivalents		2,718,858,634	(1,140,668,422)
Add: Balance of cash and cash equivalents at the beginning of the period	42	1,814,518,125	7,577,117,817
6. Balance of cash and cash equivalents at the end of the period	42	4,533,376,759	6,436,449,395

# Balance Sheet

30 June 2014

Renminbi Yuan

## ASSETS

		<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
	Note XI		
<b>CURRENT ASSETS:</b>			
Cash and bank balances		7,644,245,547	4,232,355,957
Financial assets measured at fair value through profit or loss		489,600	509,330
Bills receivable		3,939,449,556	4,924,057,882
Trade receivables	1	1,737,519,624	1,292,033,185
Dividends receivable		–	44,787,460
Prepayments		366,985,511	837,535,356
Other receivables	2	255,560,136	1,766,161,692
Inventories		7,070,152,099	7,151,763,970
Other current assets		294,632,327	294,632,327
<b>Total current assets</b>		<b>21,309,034,400</b>	<b>20,543,837,159</b>
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets		126,772,160	126,772,160
Long term equity investments		6,020,507,374	5,907,348,550
Investment properties		78,945,347	79,758,318
Fixed assets		27,105,979,197	24,560,421,961
Construction in progress		3,810,515,429	6,477,395,016
Intangible assets		1,018,316,540	1,033,117,375
Deferred tax assets		725,692,115	723,967,462
<b>Total non-current assets</b>		<b>38,886,728,162</b>	<b>38,908,780,842</b>
<b>TOTAL ASSETS</b>		<b>60,195,762,562</b>	<b>59,452,618,001</b>



# Balance Sheet (Continued)

30 June 2014

Renminbi Yuan

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES:

	30 June 2014 Unaudited	31 December 2013 Audited
Short term loans	1,760,000,000	2,009,536,713
Bills payable	2,884,215,326	2,380,386,149
Accounts payable	10,205,199,476	8,843,343,090
Deposits received	3,633,699,521	4,325,598,569
Payroll and benefits payable	227,401,492	136,411,098
Taxes payable	112,542,787	115,217,039
Interest payable	433,605,153	160,616,364
Dividends payable	6,407,961	6,296,662
Other payables	1,009,345,497	623,463,137
Non-current liabilities due within one year	8,684,685,695	7,951,717,780
Accrued liabilities	4,140,000	4,140,000

### Total current liabilities

28,961,242,908

26,556,726,601

### NON-CURRENT LIABILITIES

Long term loans	7,397,648,000	8,289,928,800
Bonds payable	2,330,466,188	2,328,266,077
Deferred income	536,302,301	583,338,640

### Total non-current liabilities

10,264,416,489

11,201,533,517

### Total liabilities

39,225,659,397

37,758,260,118

### SHAREHOLDERS' EQUITY

Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,338,358,399	8,338,358,399
Special reserve	-	-
Surplus reserve	2,991,017,140	2,991,017,140
Retained profits	1,940,046,440	2,664,301,158

### Total shareholders' equity

20,970,103,165

21,694,357,883

### TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

60,195,762,562

59,452,618,001

# Income Statement

For the six months ended 30 June 2014

Renminbi Yuan

	Note XI	For the six months ended 30 June	
		2014 Unaudited	2013 Unaudited
Revenue	4	24,747,723,089	28,406,184,227
Less: Cost of sales	4	24,135,823,168	27,397,270,636
Business taxes and surcharges		67,497,312	108,379,714
Selling expenses		116,254,118	108,402,129
Administrative expenses		435,644,904	442,659,437
Financial expenses		495,215,864	540,654,229
Asset impairment losses		343,864,457	478,376,386
Loss on fair value changes		19,730	97,570
Add: Investment income	5	74,769,282	78,815,095
Including: share of profits of associates and jointly-controlled entities		67,409,827	51,466,354
Operating loss		(771,827,182)	(590,840,779)
Add: Non-operating income		46,898,578	44,958,231
Less: Non-operating expenses		1,050,767	1,857,411
Including: net loss on disposal of non-current assets		329,534	1,412,016
Loss before tax		(725,979,371)	(547,739,959)
Less: Income tax		(1,724,653)	17,346,955
Net loss		(724,254,718)	(565,086,914)
Other comprehensive income		—	—
Total comprehensive income		(724,254,718)	(565,086,914)

# Statement of Changes in Equity

For the six months ended 30 June 2014

Renminbi Yuan

## 30 June 2014 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2014	7,700,681,186	8,338,358,399	-	2,991,017,140	2,664,301,158	21,694,357,883
2. Increase/(decrease) during the period						
(1) Net loss	-	-	-	-	(724,254,718)	(724,254,718)
(2) Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(724,254,718)	(724,254,718)
(3) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
(4) Profits appropriation						
(i) Transfer to surplus reserves	-	-	-	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	-
(5) Special reserve						
(i) Additions	-	-	26,851,260	-	-	26,851,260
(ii) Used	-	-	(26,851,260)	-	-	(26,851,260)
3. At 30 June 2014	7,700,681,186	8,338,358,399	-	2,991,017,140	1,940,046,440	20,970,103,165

# Statement of Changes in Equity (Continued)

For the six months ended 30 June 2014

Renminbi Yuan

30 June 2013 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2013	7,700,681,186	8,338,358,399	-	2,964,168,101	2,422,659,814	21,425,867,500
2. Increase/(decrease) during the period						
(1) Net loss	-	-	-	-	(565,086,914)	(565,086,914)
(2) Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(565,086,914)	(565,086,914)
(3) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
(ii) Others	-	-	-	-	-	-
(4) Profits appropriation						
(i) Transfer to surplus reserves	-	-	-	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
(5) Special reserve						
(i) Additions	-	-	28,353,092	-	-	28,353,092
(ii) Used	-	-	(28,353,092)	-	-	(28,353,092)
3. At 30 June 2013	7,700,681,186	8,338,358,399	-	2,964,168,101	1,857,572,900	20,860,780,586

# Cash Flow Statement

For the six months ended 30 June 2014

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2014 Unaudited</b>	2013 Unaudited
	Note XI		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	<b>29,142,163,861</b>	32,418,203,649
	Cash received relating to other operating activities	<b>511,477</b>	5,426,696
	Sub-total of cash inflows	<b>29,142,675,338</b>	32,423,630,345
	Cash paid for goods and services	<b>(23,231,543,492)</b>	(22,687,329,255)
	Cash paid to and on behalf of employees	<b>(1,656,556,785)</b>	(1,877,402,240)
	Cash paid for all taxes	<b>(669,199,599)</b>	(899,453,250)
	Cash paid relating to other operating activities	<b>(128,844,543)</b>	(374,525,794)
	Sub-total of cash outflows	<b>(25,686,144,419)</b>	(25,838,710,539)
	Net cash flows from operating activities	<b>3,456,530,919</b>	6,584,919,806
2.	Cash flows from investing activities:		
	Cash received from investment income	<b>190,185,487</b>	163,593,339
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	<b>1,554,581,357</b>	1,288,925
	Cash received from decrease of pledged deposits	<b>157,753</b>	348,738,000
	Cash received relating to other investing activities	<b>317,000</b>	11,560,000
	Sub-total of cash inflows	<b>1,745,241,597</b>	525,180,264
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	<b>(1,003,584,479)</b>	(1,658,613,425)
	Cash paid for acquisitions of investments	<b>(133,748,997)</b>	(53,000,000)
	Sub-total of cash outflows	<b>(1,137,333,476)</b>	(1,711,613,425)
	Net cash flows from/(used in) investing activities	<b>607,908,121</b>	(1,186,433,161)

# Cash Flow Statement (Continued)

For the six months ended 30 June 2014

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2014 Unaudited</b>	2013 Unaudited
	Note XI		
3.	Cash flows from financing activities:		
	Cash received from borrowings	<b>3,627,874,000</b>	6,865,902,630
	Sub-total of cash inflows	<b>3,627,874,000</b>	6,865,902,630
	Cash paid for repayments of borrowings	<b>(3,912,098,014)</b>	(11,981,155,790)
	Cash paid for distribution of dividend or profits and for interest expenses	<b>(213,309,203)</b>	(298,828,892)
	Sub-total of cash outflows	<b>(4,125,407,217)</b>	(12,279,984,682)
	Net cash flows used in financing activities	<b>(497,533,217)</b>	(5,414,082,052)
4.	Effect of foreign exchange rate changes on cash	<b>(154,858,480)</b>	(3,316,538)
5.	Net increase/(decrease) in cash and cash equivalents	<b>3,412,047,343</b>	(18,911,945)
	Add: Balance of cash and cash equivalents at the beginning of the period	<b>4,232,198,204</b>	5,559,785,755
6.	Balance of cash and cash equivalents at the end of the period	<b>7,644,245,547</b>	5,540,873,810

# Notes to Interim Financial Statements

30 June 2014

Renminbi Yuan

## I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganization of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People’s Republic of China (the “PRC”) on 1 September 1993. The registration number of the Company’s business license is Qi Gu Wan Zong Zi No. 340000400002545. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. The Company’s A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The Company together with its subsidiaries (collectively known as the “Group”) is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company was RMB6,455,300,000, and the number of shares was 6,455,300,000, which included state-owned shares with selling restrictions of 3,830,560,000 shares, domestic legal person shares of 87,810,000 shares, domestic natural person shares of 10,000 shares, ordinary A shares of 803,990,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

From the years 2007 to 2009, among the total number of warrants of 1,265,000,000 attached to the Company’s bonds with warrants, 1,245,381,186 were exercised by certain holders in exchange for the Company’s ordinary A shares. After the exercise of the warrants, the Company’s registered capital increased to RMB7,700,681,186.

As at 30 June 2014, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,750,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.29 to the financial statements.

The Company’s principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron and steel related business; extended processing of iron and steel products, production and sale of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycling and processing of discarded vehicles (limited to the internally discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificates); and rendering of technological services and consultancy services.

The parent company of the Group is Magang (Group) Holding Company Limited (the “Holding”), which is incorporated in the PRC.

The financial statements were approved by the board of directors on 19 August 2014.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Basis of preparation

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principles” and 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, application guidance, interpretations and other related regulations issued later (collectively known as the “CAS”).

As at 30 June 2014, the net current liabilities of the Group were RMB10,582,973,416. The directors of the Company have considered the availability of funding sources, including but not limited to an unused bank credit quota of RMB28.6 billion. After assessment, the Company’s board of directors believes that the Group has sufficient resources to continue as a going concern for no less than 12 months after the approval of the financial statements. Therefore, the Company’s board of directors continue to prepare the Group’s financial statements for six months ended 30 June 2014 on the basis of continuous operations.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets are noted.

### 2. Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 30 June 2014, and the results of their operations and their cash flows for the six months ended 30 June 2014.

### 3. Early adoption of several revised/new accounting standards

During January to March 2014, the MOF formulated CAS No.39 – Fair Value Measurement and CAS No.40 – Joint Arrangements and CAS No.41 – Disclosure of interests in other entities, revised and issued the CAS No.2 – Long Term Investment, CAS No.9 – Employee Benefits, CAS No.30 – Presentation of Financial Statements, and CAS No.33 – Consolidated Financial Statements. The above seven CASs will be effective starting from 1 July 2014, but the MOF encourages the early adoption for overseas listed companies. As listed both domestically and overseas, the Company prepared the 2013 financial statements in accordance with the above seven CASs, and continues to prepare 2014 interim financial statements in accordance with the above seven CASs.



# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 3. Early adoption of several revised/new accounting standards (continued)

In July 2014, the MOF revised CAS-Basic Standard and CAS No.37-Presentation of Financial Instruments, which requires the companies to apply revised CASs to prepare financial statement and present financial instruments in accordance with revised standards. The Company has prepared the 2014 interim financial statements in accordance with the revised CASs. The adoption of the above CASs has no effect on the Group's financial position and operating result.

The new Hong Kong Companies Ordinance (Cap. 622) comes into operation since 3 March 2014, and it will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2014. The Group is in the process of making an assessment of the impact of these changes.

### 4. Accounting period

The accounting year of the Group is from 1 January to 31 December of each calendar year.

### 5. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies for recording purposes in accordance with their own operating environments, which are translated to Renminbi when preparing financial statements.

### 6. Business combination

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 6. Business combination (continued)

#### *Business combination involving entities under common control*

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under a business combination involving entities under common control, the combining entity obtains control of another involving entity on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being combined.

The assets and liabilities obtained under common control are measured at the carrying amounts as recorded by the combined entity at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium, which is included in capital reserve. If the balance of share premium reserve is insufficient, any excess is adjusted to retained profits.

#### *Business combination involving entities not under common control*

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date of acquisition.

Any excess of the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 7. Consolidated financial statements

The scope of the consolidated financial statements is determined on the control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 30 June 2014. A subsidiary is a company or entity that is controlled by the Company (including separable parts of the enterprise and the invested entity, as well as the structural body controlled by the Company).

The financial year of subsidiaries is coterminous and the accounting policies of subsidiaries are applied consistently with those of the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the opening minority interests, the balance offsets minority interests.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing the consolidated financial statements, adjustments are made to the subsidiaries' financial statements based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of the combination period. In preparing consolidated financial statements, adjustments are made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

If the relevant facts and circumstances change, which lead to the change of one or more control factors, the Group reassesses whether the subsidiary is control by the investor.

Any change in the minority interests without losing control is recognized as an equity transaction.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 8. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

### 9. Foreign operations and foreign currency translation

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognized in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined, and the exchange differences are recognized in other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognized as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents is presented separately in the cash flow statement.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognized, which means writing off from the account and the balance sheet:

- (1) The contractual rights to the cash flows from the financial asset expire; or
- (2) It transfers the contractual rights to receive the cash flows of the financial asset, or assumes a contractual obligation to pay the cash flows to one or more recipients in a “transfer arrangement” and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognized when, and only when, the current obligation is discharged or cancelled or expired. If an existing financial liability is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from those of the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognize the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognized in the income statement.

All financial assets purchased or sold in regular way are recognized or derecognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

#### Classification and measurement of financial assets

The Group classifies its financial assets into four categories at initial recognition, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognized as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise financial assets held for trading and those that are designated as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under the fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement.

Financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria is satisfied:

- (1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of the relevant gains or losses arising from the different measurement bases of financial instruments.
- (2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.
- (3) Hybrid instruments which contain one or more embedded derivatives, unless the embedded derivatives does not have a substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from the relevant hybrid instruments.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

#### Classification and measurement of financial assets (continued)

- (4) Hybrid instruments which contain embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

For the equity investment where there is a quoted market price from an active market or the fair value cannot be reliably measured, such equity investment shall not be designated as financial assets at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset at fair value through profit or loss at initial recognition, it shall not be reclassified to other categories of financial assets. Also, assets from other categories of financial assets shall not be reclassified to financial assets at fair value through profit or loss.

In accordance with the above conditions, the financial assets of this kind designated by the Group are mainly financial assets held for trading.

All the Group's financial assets held for trading are equity instruments traded in Shanghai Stock Exchange or Shenzhen Stock Exchange. There were no significant restrictions on the realization of the investments.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the held-to-maturity investments are derecognized, impaired, or amortized.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the loans and receivables are derecognized, impaired, or amortized.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

Classification and measurement of financial assets (continued)

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortized using the effective interest method, with interest recognized as interest income or expense. The fair value changes of available-for-sale financial assets are recognized as other comprehensive income in capital reserve except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognized or impaired, the accumulated gains or losses recognized in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognized in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The Group classifies its financial liabilities, when they are recognized initially as financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, transaction costs are charged to the income statement; whereas for other financial liabilities, transaction costs are recognized as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise financial liabilities held for trading and those that are designated as at fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed collectively and for which there is evidence of a recent actual pattern of short-term profit-taking; or 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under the fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement.



# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

#### Classification and measurement of financial liabilities (continued)

##### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

##### Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognized at fair value, but they do not belong to financial liabilities that are designated as at fair value through profit or loss. They are subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognized less, where appropriate, cumulative amortization.

##### Impairment of financial assets

The Group assesses the carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events that occurred after the initial recognition of the financial asset and could impact the estimated future cash flows of the financial asset, and such impacts can be reliably measured.

##### *Financial assets carried at amortized cost*

When an impairment loss has incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognized in the income statement when objective evidence of impairment exists. Assets that are individually insignificant are assessed for impairment individually. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, they are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized cannot be subject to a collective impairment assessment.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

#### Classification and measurement of financial liabilities (continued)

##### *Financial assets carried at amortized cost (continued)*

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 recognized, the previously recognized impairment loss is reversed and recognized in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would be had the impairment not been recognized at the reversal date.

##### *Available-for-sale financial assets*

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income due to a decline in the fair value shall be removed and recognized in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortization, current fair value, and any impairment loss on that financial asset previously recognized in the income statement.

The objective evidence that an available-for-sale equity investment is impaired includes a dramatic or non-temporal decrease in fair value. Professional judgment is involved as to whether the decrease is “dramatic” or “non-temporal”. “Dramatic” is measured by the extent of fair value under the cost, “Non-temporal” is measured by the length of duration when fair value was under the cost. Impairment losses for an investment in an equity investment classified as available for sale shall not be reversed through the income statement. Increases in fair value after impairment are recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in the income statement.

##### *Financial assets carried at cost*

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognized in the income statement. Impairment losses on these assets are not reversed.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. Financial instruments (continued)

#### Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the asset; it shall derecognize the financial assets. Whereas, if it retains substantially all the risks and rewards of ownership of the asset, it should not derecognize the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, the following treatment shall be used: if the control over the financial asset is lost, the Group should derecognize the financial asset and recognize the related assets and liabilities incurred; if the control over the financial asset has not been lost, the Group recognizes the financial asset to the extent of its continuing involvement of the financial asset and recognizes an associated liability.

### 11. Receivables, loans and advances to customers

- (1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the income statement.
- (2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognized as an impairment loss and charged to the income statement.
- (3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at 1.9% of the balance as at the period end.

### 12. Inventories

Inventories include raw materials, work in progress, finished goods, and spare parts.

Inventories are initially recognized at cost, which comprises purchase cost, processing cost, and other costs. Costs of delivered inventories, other than construction contracts and spare parts, are determined on the weighted average basis. Costs of spare parts, lower valued consumables and packing materials are charged to the income statement when issued.

Inventories are accounted for using the perpetual inventory system.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. Inventories (continued)

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value. If the cost is in excess of amounts expected to be realized from their sale or use, provision for inventories is recognized in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realizable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realizable value is the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on category basis for raw materials, and on an individual basis for finished goods. And for the inventories sold, the carrying amount of the inventory should be recognized as an expense in the period in which revenue was recognized, and the inventory provision should be written back accordingly, and reverse the current period's cost of sales.

### 13. Long term equity investments

Long term equity investments consist of investments in subsidiaries, jointly-controlled entities and associates.

Long term investments shall be recognized at initial investment cost upon acquisition. For the long term investments that acquired under common control, the initial investment cost shall be the share in the carrying amount of the acquiree's equity. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for those who complete business combination involving entities not under common control by means of numerous transactions, the initial investment cost is the sum of the carrying amount of the acquiree's equity investments held before the acquisition date and the new investment cost on the acquisition date), which is the sum of the fair value of assets paid, liabilities incurred or assumed and equity securities issued. If the acquiree's equity investments involve other comprehensive income prior to the acquisition date, when disposing the investments, the relevant other comprehensive income will be transferred into the current investment income. For a long term investment not acquired through business combination: for the transaction paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses; for the transaction paid by issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities; for the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in the investment contract or agreement is not at fair value.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 13. Long term equity investments (continued)

The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the company.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognized as investment income in the current period, except for the profits or cash dividends that are declared and already included in the consideration paid to acquire the investment. Also, the Group should consider whether there is impairment for the long term investments in accordance with the related asset provision policy.

The equity method is applied for long term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). 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.

When the equity method is adopted, the initial cost of an investment in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognizes its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's results should be based on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. The gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, they should be entirely recognized). The recognition should be based on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly-controlled entities acquired before the first-time adoption date, the remaining equity investment difference arising from the amortization using the straight-line method (if exists) should be recognized as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognizes net losses incurred by the investee to the extent that the carrying amount of the investment and other long term equity interests that are investment in the investee in substance is reduced to zero, except for which the investor has an extra obligation to assume loss of it. For the changes of equity in an investee other than profit or loss, the investor adjusts the carrying amount of the investment and recorded it in shareholders' equity.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 13. Long term equity investments (continued)

When long term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under the equity method, the amount recognized in the equity previously shall be transferred to the income statement upon its disposal.

In preparation of the single financial statements, equity method shall be adopted for the interest in entities, over which control were lost due to partial disposal of the equities, whereas joint control or significant influence can still be exerted. Adjustment shall be made under the equity method for the residual interests, deeming that the equity method was adopted from the beginning when the equity investment is made.

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in Note II.25.

### 14. Investment properties

Investment properties are interests in land and buildings (including land use rights and properties lent out under operating leases) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalized when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to the income statement.

The Group accounts for investment properties using the cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over their estimated useful lives, which is the period over which future economic benefits will flow into the Group. The useful lives of the Group's investment properties are 10 to 20 years, with an expected net residual value rate of 3%.

For investment properties accounted for using the cost method, please refer to Note II.25 for the details of their impairment assessment and measurement.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 15. Fixed assets

Fixed assets are recognized in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognized; otherwise, is charged to the income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Depreciation is provided on fixed assets using the straight-line method, except for fix assets generated by consuming safety production reserves. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	<b>Estimated useful life</b>	<b>Estimated residual value</b>	<b>Annual depreciation rate</b>
Buildings and structures	10 – 20 years	3%	4.9 – 9.7%
Machine equipment	10 – 13 years	3%	7.5 – 9.7%
Office equipment	10 years	3%	9.7%
Transportation vehicles and equipment	5 years	3%	19.4%

Components of fixed assets which have different useful lives and generate different kinds of benefits to the enterprise have different depreciation rates.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts them if appropriate, at least at each balance sheet date.

Further details of the impairment assessment and measurement of provision for impairment of fixed assets are stated in Note II.25.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 16. Construction in progress

Construction in progress is recognized based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalized borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Further details of the impairment assessment and measurement of provision for impairment of the construction in progress are stated in Note II.25.

### 17. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including borrowing interest, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs that are directly attributable to construction or production of all qualifying assets are capitalized and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs commences when:

- (1) Expenditures for the assets are being incurred;
- (2) Borrowing costs are incurred; or
- (3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale had commenced.

The capitalization of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are treated as an expense.



# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 17. Borrowing costs (continued)

Within the capitalization period, the amounts of capitalized borrowing costs for each accounting period are determined by the following methods:

- (1) For specific borrowings, the borrowing costs eligible for capitalization are the actual borrowing costs incurred during the current period deducted by any temporary interest or investment income.
- (2) For general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the weighted average of capital expenditure that exceeds the specific borrowings.

Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than three months, until the acquisition or construction is resumed.

### 18. Intangible assets

Intangible assets are recognized if and only if it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for an intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognized and is measured at its fair value.

The useful lives of intangible assets are assessed based on estimated economic benefit periods. Those intangible assets without foreseeable economic benefit periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	<b>Useful life</b>
Land use rights	50 years
Mining rights	25 years
Concession contract	25 years

For internally generated plants and other buildings, the land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets if it is difficult to allocate reasonably.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 18. Intangible assets (continued)

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives, and adjusts them if appropriate, at least at each balance sheet date.

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. “Research” refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. “Development” refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Details of the impairment assessment and measurement of provision for impairment of intangible assets are stated in Note II.25.

### 19. Provisions

Except for contingent considerations or contingent liabilities assumed under a business combination, a provision is recognized if:

- (1) the obligation is a present obligation assumed by the Group; and
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 19. Provisions (continued)

For the provision acquired from business combination, it should be initially measured at fair value. After initial recognition, the amount of provision should be subsequently measured at the higher of the amount being recognized and the initially recognized amount after deducting the accumulated amortization in accordance with the policy for revenue recognition principal.

### 20. Repurchase agreements

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

### 21. Revenue

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

#### Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by the deferred method and it contains the nature of financing, the revenue should be determined by the fair value of the amount receivable as stated in the contract or agreement.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 21. Revenue (continued)

#### Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized by reference to the percentage of completion method; otherwise, revenue is recognized only to the extent of the expenses recognized that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion of costs incurred to date to the estimated total costs of the transaction. For the revenue from the rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters into a contract or agreement with other parties which contains both sale of goods and rendering of services, if the portion of sale of goods and rendering of services can be separately measured, the portions of sale of goods and rendering of services are measured individually. If the portions of sale of goods and rendering of services cannot be separately measured or even if they could be separately measured but cannot be measured individually, it is deemed to be sale of goods.

#### Interest income

Interest income is recognized based on the time horizon of the use of the Group's cash by others and the effective interest rate.

#### Lease income

Lease income from operating leases is recognized over the lease terms on the straight-line basis. Contingent lease income is recognized when incurred.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 22. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount.

Asset-related government grants are recognised when the government document designates that the government grants are used for constructing or forming long-term assets. If the government document is inexplicit, the Company should make a judgement based on the basic conditions to obtain the government grants, and recognises them as asset related government grants if the conditions are constructing or forming long-term assets. Otherwise, the government grants should be income-related.

If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period. A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

### 23. Income tax

Income tax comprises current tax and deferred tax, and is normally recognized as income or expense in the income statement, except for goodwill generated in a business combination or items that have been recognized directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and the differences between the carrying amounts of some items that have a tax base but are not recognized as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 23. Income tax (continued)

A deferred tax liability is recognized in respect of all taxable temporary differences except those arising from:

- (1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to temporary differences associated with subsidiaries, jointly-controlled entities and associates: the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilized except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to deductible temporary differences associated with subsidiaries, jointly-controlled entities and associates: a deferred tax asset is recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilized.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 24. Leases

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as a finance lease. All the other leases are termed as operating leases.

#### As lessee in operating leases

Rentals payable under operating leases are charged to the income statement or capitalized on the straight-line basis over the lease terms, and contingent rental payment is charged to the income statement when it incurs.

#### As lessor in operating leases

Rentals receivable under operating leases are credited to the income statement over the lease terms on the straight-line basis.

### 25. Impairment of assets

The Group determines the impairment of assets according to the following method, except for inventories, deferred tax assets, financial assets, and long term equity investments measured at cost method which do not have a quoted market price in an active market and their fair value cannot be reliably measured.

The Group assesses whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case the recoverable amount is determined for the asset groups to which the asset belongs. An asset group is recognized based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 25. Impairment of assets (continued)

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to an associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting segments determined.

When making an impairment test on the relevant asset groups or combinations of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which is apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Impairment losses cannot be reversed in subsequent accounting periods.

### 26. Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or the termination of employment, including short-term compensation, benefits after resignation, termination benefits and other long-term employee benefits. The benefits that the Group provides to the spouses, children and dependents of employees, the late employees' family and other beneficiaries also shall be deemed as employee benefits.

#### Benefits after resignation (Defined contribution plans)

Expenditures for employees' endowment insurance managed by the local government are capitalized in related assets or charged to the income statement.

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contributions into the Annuity Plan and the contributions are charged to the income statement.



# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 26. Employee benefits (continued)

#### Termination benefits

Employee compensation liabilities, arising from the termination benefits that the Group provides to employees, shall be recognized at an earlier date of the following two time-points, with a corresponding charge to profit or loss for the current period:

When enterprise is unable to unilaterally withdraw the termination benefits due to terminating the labor relationship or the layoff proposal, or when enterprise confirms the relevant restructuring costs or expenses involving paying the termination benefits.

### 27. Profit distribution

The cash dividend of the Company is recognized as a liability upon the approval at the annual general meeting.

### 28. Safety production reserve

Safety production reserve set aside in compliance with relevant regulations, is included in the cost of relevant products or recognized in profit or loss for the period, and credited to the special reserve at the same time. When safety production reserve is utilized, it is accounted for based on whether a fixed asset is generated or not: if the costs incurred can be categorized as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up fixed assets, the costs should be charged to construction in progress, and reclassified to fixed assets when the projects reach the status ready for intended use. Meantime, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognized at the same amount.

### 29. General reserve

According to the relevant policy of the MOF, the financial company accrues the general reserve from after-tax net profit as profit distribution. After 1 July 2012, the balance of the general reserve should not be less than 1.5% of the balance of risk assets.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Fair value measurement

The Group measures listed equity investment instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other supporting information are available to measure fair value, giving priority to the use of relevant observable inputs, and using unobservable inputs only when observable inputs are unavailable or not feasible to obtain.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- |         |   |  |
|---------|---|--|
| Level 1 | – | Quoted (unadjusted) market prices in active markets for identical assets or liabilities  |
| Level 2 | – | Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable |
| Level 3 | – | Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable                      |

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 31. Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have significant effect on the amounts recognized in the financial statements:

#### *Operating lease – as lessor*

The Group has entered into operating leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to the lease contracts.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgment is made on individual basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 31. Significant accounting judgments and estimates (continued)

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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 of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When the carrying amount of an asset or assets group is higher than its recoverable amount, that is the higher of fair value less costs to sell and the present value of estimated future cash flows, the related asset or assets group is impaired. The fair value less costs to sell of an asset is determined as the contractual price of similar assets in an arm's length transaction, or the observable market price of similar assets, after deducting the additional costs directly attributable to the disposal of this asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Deferred tax assets*

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with tax planning strategies.

#### *Estimation of useful lives of fixed assets*

The Group's management determines the estimated useful lives of its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions.

#### *Impairment of receivables*

The provision for impairment of receivables is according to the Group's management's estimation of the recoverability. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each balance sheet date.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 31. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

*Estimation of inventories under net realizable value*

Management reviews the condition of inventories (including spare parts) of the Group and their net realizable values and makes provision accordingly. The Group carries out an inventory review at each balance sheet date and makes provision accordingly.

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. Management reassesses the estimation on each balance sheet date.

## III. TAX

### 1. The principal kinds of taxes and the related rates are as follows:

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refund rates of 9% to 17%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.
Business tax	Payable based on 3% to 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their assessable profits.
Land value increment tax	Levied based on added value of the transference of the land use right and real estate, with an extra progressive tax rate of 30% to 60%.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.

# Notes to Interim Financial Statements (Continued)

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## III. TAX (CONTINUED)

### 1. The principal kinds of taxes and the related rates are as follows:

Real estate tax Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.

Other taxes In accordance with tax laws and other relevant regulations.

### 2. Tax benefits and approval documents

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax at rates ranging from 22% to 25% and enjoy the “Two years exempted and subsequent three years with a 50% reduction” tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax at the rate of 15%. Taxes for other subsidiaries located elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions, ranging from 16.5% to 33.3%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

During current period, the corporate income tax rate and preferential policies had no significant change from a year earlier.

### 3. Others

The State Administration of Taxation (“SAT”) issued a tax circular “Enterprise Income Tax Issues relating to Nine Companies Listed Overseas” (“Circular No. 664”) in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorized by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax arising from the expired preferential rate and the applicable rate should be settled according to the provisions of the “Law on the Administration of Tax Collection”.

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company should have applied the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT differences in respect of any prior years.

In response to the notice issued by the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

### 1. Subsidiaries (including subsidiaries indirectly held by subsidiaries)

The details of subsidiaries are as follows:

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment</b>															
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Sino-foreign joint venture	Anhui, PRC	Zhou Haofeng	Manufacturing	USD 8,389,000	Production, sale and transportation of slag products and provision of related consultation services	743065676	USD 5,872,300	-	70	70	Y	39,038,693	1,053,467	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino-HK joint venture	Anhui, PRC	Sun Long	Manufacturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	746769078	RMB 35,000,000	-	97.3	100	Y	-	-	
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Limited liability	Anhui, PRC	Sun Long	Manufacturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	764791762	RMB 27,600,000	-	89.516	92	Y	4,219,089	-	
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino-foreign joint venture	Guangdong, PRC	Sun Long	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	751955545	RMB 80,000,000	-	66.7	66.7	Y	59,767,494	-	
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Holding subsidiary	Hong Kong, PRC	N/A	Manufacturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,368,000	-	91	91	Y	21,373,945	10,420,443	
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Wang Hua-xin	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macro molecular compound materials; processing and sale of metallic products	754878645	RMB 30,000,000	-	97.39	100	Y	-	-	
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 900,000	-	90	90	Y	874,626	139,410	

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held by subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture services	Zhejiang, PRC	Sun Long	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	773136073	RMB 90,000,000	-	75	75	Y	36,042,962	-	
MG Trading and Development GmbH ("MG Trading")	Wholly-owned subsidiary	Germany	N/A	Trading	EUR 153,388	Trading of equipment, iron and steel products and provision of technology services	N/A	EUR 153,388	-	100	100	Y	-	-	
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)")	Limited liability and sale	Australia	N/A	Mine production venture	AUD 21,737,900	Production and sale of iron ores through an unincorporated joint	N/A	AUD 21,737,900	-	100	100	Y	-	-	
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Limited liability	Anhui, PRC	Qin Chang-rong	Manufacturing	RMB 2,500,000,000	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services, materials and electronic equipment	788567175	RMB 1,775,000,000	-	71	71	Y	934,420,749	26,228,543	(i)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Limited liability	Anhui, PRC	Sun Long	Manufacturing	RMB 120,000,000	Processing and sale of hot rolled and cold rolled steel thin plates for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	793567946	RMB 106,800,000	-	86.48	89	Y	22,074,077	-	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Sun Long	Manufacturing	RMB 150,000,000	Provision of storage and transportation services of automobile related metal components, trading and processing of steel products, provision of related consultancy services	670909619	RMB 106,500,000	-	71	71	Y	44,299,620	209,997	



# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held by subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap Steel")	Limited liability	Anhui, PRC	Yang Zhen	Manufacturing	RMB 100,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 100,000,000	-	100	100	Y	-	-	
Maanshan (Shanghai) Industrial Trading Co., Ltd. ("Shanghai Trading")	Limited liability	Shanghai, PRC	Sun Long	Trading	RMB 60,000,000	Trading of metal materials, construction materials, tools and iron ores; storage service and trading information consultation	57273921-4	RMB 60,000,000	-	100	100	Y	-	-	
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Limited liability	Chongqing, PRC	Sun Long	Manufacturing	RMB 250,000,000	Simple processing and delivery of steel products, and provision of related services, storage and sale of metal products	57797482-X	RMB 175,000,000	-	70	70	Y	75,251,530	380,117	
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 50,000,000	Industrial water production and sale	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	One person limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 1,200,000,000	Smelting and processing of ferrous metals and sale of the products, by-products and semi-products; processing of iron and steel products and production and sale of metallic products; storage of iron and steel products and metallic products	59428146-X	RMB 1,200,000,000	-	100	100	Y	-	-	
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Other limited liability	Anhui, PRC	Zhang Jian	Manufacturing	RMB 200,000,000	Materials of automobile, home appliances, mechanical or related industry research; Laser welding plate, stamping parts and products research and development, production and sale; steel and product processing, storage and services	5149916-3	RMB 140,000,000	-	70	70	Y	29,964,318	-	(i)
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	One person Limited liability	Anhui, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08033492-3	RMB 30,000,000	-	100	100	Y	-	-	(ii)

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held by subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Limited liability	Jiangsu, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08026922-8	RMB 30,000,000	-	100	100	Y	-	-	(ii)
Anhui Chang Jiang Iron and Steel Metal Co., Ltd. ("Chang Jiang Iron and Steel Metal")	Limited liability	Jiangsu, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08033163-4	RMB 30,000,000	-	100	100	Y	-	-	(ii)
MG-VALDUNES S.A.S. ("Masteel . Valdunes")	Limited	France	N/A	Manufacturing	EUR 200,000	Rail transportation, urban transport; design, manufacturing, processing, marketing, maintenance and repairing of mechanical products and equipments; sale, import and export of various types of steel products.	N/A	EUR 200,000	-	100	100	Y	-	-	(iv)
<b>Subsidiaries acquired not under common control</b>															
Me Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Sun Long	Manufacturing	USD 20,000,000	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except dangerous chemical products)	75732471X	USD 14,200,000	-	71	71	Y	56,619,493	-	
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Limited liability	Anhui, PRC	Li Jianshe	Manufacturing	RMB 1,200,000,000	Production and sale of iron and steel products, trading of iron ore and scrap steel, import and export business	71993429-3	RMB 660,000,000	-	55	55	Y	1,077,097,869	6,391,611	
<b>Subsidiaries acquired under common control</b>															
Masteel Group Financial Co., Ltd. ("Masteel Financial")	Limited liability	Anhui, PRC	Su Jiang-gang	Financial services	RMB 1,000,000,000	Rendering of financing related consultation services, guarantee and bank acceptance bill discounting services, and entrusted loan services to member entities; providing borrowings to member entities and absorbing deposits from entities	583045103 910,000,000	RMB 910,000,000	-	91	91	Y	116,910,409	-	

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held by subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

- (i) As at 10 December 2013, the registered capital of Ma Steel (Hefei) was increased by RMB0.8 billion, including capital injection of RMB0.568 billion paid in by the Company, and capital injection of RMB0.232 billion paid in by Hefei Industrial Investment Holding Co., Ltd. Upon the completion of the capital injection, the registered capital of Ma Steel (Hefei) reached RMB2.5 billion, with the Company's shareholding unchanged.
- (ii) As at 29 May 2014, the registered capital of Hefei Materials was increased by RMB100,000,000, among which the Company contributed by RMB70,000,000 and Anhui Jianghuai Automobile Co.,Ltd. contributed the rest RMB30,000,000. After the capital increment, the registered capital of Hefei Materials is RMB200,000,000 and the shareholding keeps unchanged.
- (iii) The above subsidiaries were established by Anhui Chang Jiang Iron and Steel Co., Ltd. during 2013.
- (iv) On 16 May 2014, MG-VALDUNES S.A.S was founded by the Company with the registered capital of EUR200,000 in France. On 11 July 2014, the paid-in capital was increased to EUR40,200,000 due to capital injection by the Company.
- (v) Since 12 October 2012, the Company lost control of Yuyuan Logistics. Therefore, Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation. On 31 July 2014, the Company received from the custodian of Yuyuan Logistics the civil judgment ([2012] MaPoZi No.00001-5) issued on 31 July 2014 by Ma'anshan City Intermediate People's Court, Anhui Province. The judgment states that: "As the draft restructuring proposal was not approved and that the custodian of Yuyuan Logistics cannot reach agreement on a new draft restructuring proposal with the creditors after negotiation, in accordance with Section 88 of the Enterprise Bankruptcy Law of the People's Republic of China, it is decided that the restructuring procedure of Yuyuan Logistics shall be terminated and Yuyuan Logistics is declared bankrupt". Such judgment took effect on 31 July 2014.

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 2. Change in the scope of consolidation

Except for the newly established subsidiaries during the current period and the statement in Note IV.3, the scope of financial statement consolidation is consistent with that in the previous year.

### 3. Entities newly included in the consolidation scope and entities no longer included in the current period

In the current period, the subsidiaries newly included in the consolidation scope are as follows:

	Net assets at 30 June 2014	Net profit/(loss) from the date of incorporation to period end
MG-VALDUNES S.A.S.	1,540,242	138,880

### 4. Exchange rates used to translate the financial statements of foreign operations

	Average rates		Closing rates	
	Six months ended 30 June 2014	Six months ended 30 June 2013	30 June 2014	31 December 2013
EUR	8.4068	8.1856	8.3946	8.4189
HKD	0.7900	0.8037	0.7938	0.7862
AUD	5.6183	6.1212	5.8064	5.4301
USD	6.1249	6.2321	6.1528	6.0969
JPY	0.0593	0.0680	0.0608	0.0578

The exchange rate comes from the RMB middle rate announced by the State Administration of Foreign Exchange.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank balances

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
Cash on hand						
– RMB	252,009	1	252,009	267,684	1	267,684
Balances with financial institutions						
– RMB	3,351,062,967	1	3,351,062,967	1,476,344,711	1	1,476,344,711
– HKD	350,378,170	0.7938	278,130,191	2,494,831	0.7862	1,961,436
– USD	127,969,054	6.1528	787,367,994	58,028,519	6.0969	353,794,078
– EUR	11,611,226	8.3946	97,471,596	3,560,168	8.4189	29,972,698
– JPY	16,044,918	0.0608	975,531	1,101,401	0.0578	63,661
– AUD	17,840,521	5.8064	103,589,201	18,237,447	5.4301	99,031,161
			4,618,597,480			1,961,167,745
Others						
– RMB	1,198,048,825	1	1,198,048,825	2,220,222,410	1	2,220,222,410
– USD	86	6.1528	527	-	-	-
Mandatory reserves with central bank						
– RMB	1,250,450,786	1	1,250,450,786	925,060,230	1	925,060,230
			7,067,349,627			5,106,718,069

As at 30 June 2014, the Group's cash and bank balances amounting to RMB2,533,972,868 have been pledged to banks as security (31 December 2013: RMB3,292,199,944), including other monetary assets amounting to RMB1,198,049,352 (31 December 2013: RMB2,220,222,410) pledged as security for trade facilities and performance bonds, and time deposits of HKD7,800,000, equivalent to RMB6,191,640, as well as time deposits amounting to RMB79,281,090, which add up to RMB85,472,730 (31 December 2013: USD1,000,000, equivalent to RMB6,324,240, as well as time deposits amounting to RMB140,784,944, which add up to RMB146,917,304) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB1,250,450,786 (31 December 2013: RMB925,060,230).

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1. Cash and bank balances (continued)

As at 30 June 2014, the Group had cash and bank balances amounting to RMB401,005,164 that have been deposited outside the PRC (31 December 2013: RMB215,403,536).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months to one year, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

### 2. Bills receivable

	30 June 2014 Unaudited	31 December 2013 Audited
Bank acceptance bills	8,608,970,775	8,623,990,738
Commercial acceptance bill	67,144,020	5,118,188
	<u>8,676,114,795</u>	<u>8,629,108,926</u>

As at 30 June 2014, all hosting bills of the Company in Ma'anshan Branch of Industrial and Commercial Bank of China were pledged as security to obtain bank loans of RMB1,000,000,000 (31 December 2013: RMB1,000,000,000), which includes short-term loans amounting to RMB10,000,000, long term loans due within one year amounting to RMB10,000,000 and long-term loans amounting to RMB980,000,000, which are disclosed in Note V.18 and Note V.26. According to the loan contract, the Company needs to ensure that no less than RMB1,120,000,000 bills receivable be hosted in Ma'anshan Branch of Industrial and Commercial Bank of China, as at 30 June 2014, the balance of which was RMB2,529,000,000. Besides, certain of the Group's bank acceptance bills amounting to RMB51,744,074 were pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2013: RMB163,734,443), which are disclosed in Note V.19.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Bills receivable (continued)

As at 30 June 2014 and 31 December 2013, there were no trade receivables transferred from bills receivable because of the drawers' inability to pay, and the top five largest endorsed undue bills receivable were as follows:

#### 30 June 2014

Issue entity	Issue date	Maturity date	Amount
Company 1	2014-01-14	2014-07-07	30,000,000
Company 2	2014-01-27	2014-07-17	30,000,000
Company 3	2014-01-29	2014-07-21	30,000,000
Company 4	2014-02-20	2014-08-12	30,000,000
Company 5	2014-04-11	2014-10-08	30,000,000
			<hr/>
			150,000,000
			<hr/> <hr/>

#### 31 December 2013

Issue entity	Issue date	Maturity date	Amount
Company 1	2013-10-14	2014-01-08	70,000,000
Company 2	2013-12-09	2014-03-03	50,000,000
Company 3	2013-12-24	2014-01-19	35,000,000
Company 4	2013-10-17	2014-01-17	31,996,500
Company 5	2013-12-04	2014-06-03	30,000,000
			<hr/>
			216,996,500
			<hr/> <hr/>

As at 30 June 2014, certain of the Group's bills receivable amounting to RMB225,300,000 were discounted to obtain short-term loans (31 December 2013: RMB81,720,000).

# Notes to Interim Financial Statements (Continued)

30 June 2014  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Trade receivables

The Group's trade receivables were interest-free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analyzed below:

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Within one year	<b>649,893,362</b>	776,614,818
One to two years	<b>32,176,458</b>	28,600,288
Two to three years	<b>502,362</b>	1,184,316
Over three years	<b>8,800,601</b>	8,756,853
	<b>691,372,783</b>	815,156,275
Less: Provisions for bad debts	<b>14,209,800</b>	14,209,800
	<b>677,162,983</b>	800,946,475

The balances of trade receivables are analysed as follows:

	30 June 2014 (Unaudited)				31 December 2013 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	640,150,595	93	(6,927,040)	1	761,681,928	93	(6,927,040)	1
Other insignificant but assessed for impairment individually	51,222,188	7	(7,282,760)	14	53,474,347	7	(7,282,760)	14
	<b>691,372,783</b>	<b>100</b>	<b>(14,209,800)</b>		<b>815,156,275</b>	<b>100</b>	<b>(14,209,800)</b>	

The movements of provision for bad debts against trade receivables for the period are disclosed in Note V.15.



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Trade receivables (continued)

An analysis of the amount of provision for bad debts being written off in the current period:

Reason	30 June 2014 Unaudited	31 December 2013 Audited
Bankruptcy or liquidation of debtors	—	547,527

As at 30 June 2014, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	51,627,170	Within one year	7
Company 2	Independent third party	47,782,229	Within one year	7
Company 3	Independent third party	25,996,634	Within one year	4
Company 4	Independent third party	40,965,418	Within one year	6
Company 5	Independent third party	76,063,447	Within one year	11
		<u>242,434,898</u>		<u>35</u>

As at 31 December 2013, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	51,715,171	Within one year	6
Company 2	Independent third party	39,430,051	Within one year	5
Company 3	Independent third party	37,125,254	Within one year	5
Company 4	Independent third party	32,938,920	Within one year	4
Company 5	Independent third party	30,928,596	Within one year	4
		<u>192,137,992</u>		<u>24</u>

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Trade receivables (continued)

The following balances of trade receivables are denominated in foreign currencies:

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	16,315,870	6.1528	100,388,287	27,334,580	6.0969	166,656,201
AUD	5,165,822	5.8064	29,994,831	1,266,480	5.4301	6,877,113
EUR	729,712	8.3946	6,125,644	1,202,950	8.4189	10,127,516
			<u>136,508,762</u>			<u>183,660,830</u>

As at 30 June 2014 and 31 December 2013, there were no trade receivables being derecognized due to the transfer of financial assets.

Trade receivables due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 30 June 2014 and 31 December 2013 are stated in Note VI.6 to the financial statements.

### 4. Prepayments

An aged analysis of the prepayments is as follows:

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Balance	Ratio (%)	Balance	Ratio (%)
Within one year	678,010,011	96	1,000,361,657	98
One to two years	10,325,578	2	12,157,694	1
Two to three years	8,826,560	1	1,265,699	–
Over three years	9,212,094	1	8,609,829	1
	<u>706,374,243</u>	<u>100</u>	<u>1,022,394,879</u>	<u>100</u>

Prepayments aged over one year were mainly unsettled prepayments for construction projects and equipment purchase. The final inspection of certain of the Group's construction projects was not yet completed which resulted in the corresponding prepayments not being settled.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Prepayments (continued)

As at 30 June 2014, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for non-settlement
Company 1	Independent third party	129,953,772	2014	(i)
Company 2	Independent third party	127,742,931	2014	(i)
Company 3	Independent third party	110,931,500	2014	(i)
Company 4	Independent third party	91,386,400	2014	(i)
Company 5	Independent third party	59,599,926	2014	(i)
		<u>519,614,529</u>		

As at 31 December 2013, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for non-settlement
Company 1	Independent third party	247,593,178	2013	(i)
Company 2	Independent third party	211,895,000	2013	(i)
Company 3	Independent third party	208,858,274	2013	(i)
Company 4	Independent third party	131,671,594	2013	(i)
Company 5	Independent third party	73,972,498	2013	(i)
		<u>873,990,544</u>		

- (i) As at the balance sheet date, the non-settlement of the Group's top five largest prepayments was mainly attributable to the delay in the supply of raw materials.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Prepayments (continued)

The following balances are denominated in foreign currencies:

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	4,892,996	6.1528	30,105,623	9,055,883	6.0969	55,212,813
EUR	3,221,873	8.3946	27,046,338	6,552,761	8.4189	55,167,040
JPY	175,085,236	0.0608	10,645,182	113,366,230	0.0578	6,552,568
			67,797,143			116,932,421

Prepayments due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 30 June 2014 and 31 December 2013 are stated in Note VI.6 to the financial statements.

### 5. Other receivables

An aged analysis of other receivables is as follows:

	30 June 2014 Unaudited	31 December 2013 Audited
Within one year	400,246,894	1,669,432,037
One to two years	521,351,898	729,907,083
Two to three years	3,803,357	38,183,949
Over three years	7,875,355	6,459,483
	933,277,504	2,443,982,552
Less: Provisions for bad debts	494,372,429	495,837,429
	438,905,075	1,948,145,123

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables (continued)

An analysis of the reversed bad debt provision in the period is as follows:

	Reason for reversal	Basis of provision for bad debts	Cumulated provision of bad debts before reversal	The reversed amount
Company 1	Received	Unreceived for a long time	9,159,443	975,000
Company 2	Received	Unreceived for a long time	17,028,058	490,000
			26,187,501	1,465,000

The movements of provision for bad debts against other receivables for the period are disclosed in Note V.15.

Other receivables balance is analyzed as follows:

	30 June 2014 (Unaudited)				31 December 2013 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	905,196,981	97	(492,644,989)	54	2,414,505,218	99	(490,250,853)	20
Other insignificant but assessed for impairment individually	28,080,523	3	(1,727,440)	6	29,477,334	1	(5,586,576)	19
	933,277,504	100	(494,372,429)		2,443,982,552	100	(495,837,429)	

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables (continued)

As at 30 June 2014, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	Independent third party	147,612,266	Within one year	16
Company 2	Independent third party	132,186,434	One to two years	14
Company 3	Independent third party	127,685,368	One to two years	14
Company 4	Independent third party	100,416,130	Within one year	11
Company 5	Independent third party	76,821,224	One to two years	8
		584,721,422		63

As at 31 December 2013, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	The Holding	1,569,539,285	Within one year	64
Company 2	Independent third party	132,186,434	One to two years	5
Company 3	Independent third party	127,685,368	One to two years	5
Company 4	Independent third party	93,073,811	Within one year	4
Company 5	Independent third party	92,302,582	One to two years	4
		2,014,787,480		82

As at 31 December 2013, the balance of the Company's other receivables amounting to RMB1,553,219,745 was mainly the consideration of disposing of the non-steel business due from the Group. The Company received it during current period.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables (continued)

As at 30 June 2014, the government subsidy funds receivable were as follows:

	Subsidy project	Balance	Payment date	Expected receiving time, amount and basis
Other receivable due from Taibai Township Government	Preferential refund from 2004 to 2009	26,637,911	More than three years	Note

As at 31 December 2013, the government subsidy funds receivable were as follows:

	Subsidy project	Balance	Payment date	Expected receiving time, amount and basis
Other receivable due from Taibai Township Government	Preferential refund from 2004 to 2009	29,637,911	More than three years	Note

Note: The balance refers to the preferential policy refund granted to Chang Jiang Iron and Steel in 2009 by the county government of Taibai Town, Dangtu in Anhui Province because of its timely and fully tax payments from 2004 to 2009. This government subsidy was recorded as non-operating income in 2009, and is expected to be received in 2014.

The balances of other receivables as at 30 June 2014 and 31 December 2013 did not contain any amount derecognized due to transfer of financial assets.

The amounts due from either shareholders who held 5% or above of the Company's equity interests or other related parties among the balances of other receivables as at 30 June 2014 and 31 December 2013 are stated in Note VI.6.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. Inventories

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	5,766,354,079	(115,851,213)	5,650,502,866	5,705,360,415	(522,727,311)	5,182,633,104
Spare parts	1,599,447,503	(60,235,225)	1,539,212,278	1,634,079,930	(63,220,701)	1,570,859,229
Finished goods	1,610,516,748	(8,401,087)	1,602,115,661	2,250,722,070	(25,170,409)	2,225,551,661
Work in progress	1,675,236,144	(44,543,377)	1,630,692,767	1,084,278,582	(13,601,442)	1,070,677,140
	<b>10,651,554,474</b>	<b>(229,030,902)</b>	<b>10,422,523,572</b>	<b>10,674,440,997</b>	<b>(624,719,863)</b>	<b>10,049,721,134</b>

The movements of impairment provision against inventories for the period are disclosed in Note V.15.

During current period, the Group had no reversed impairment provision against inventories (for the year ended 31 December 2013: RMB588,948).

### 7. Loans and advances to customers

	30 June 2014 Unaudited	31 December 2013 Audited
Loans	464,900,000	460,000,000
Discounted bills	125,185,598	35,974,359
	<b>590,085,598</b>	<b>495,974,359</b>
Less: Bad debt provision for loans and advances	11,383,549	9,462,611
	<b>578,702,049</b>	<b>486,511,748</b>

The movement of the provision for bad debts against loans and advances to customers for the current period is disclosed in Note V.15.

The customers of loans and advances are the Group and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 1.9% of its closing balance. As at 30 June 2014, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 30 June 2014 and 31 December 2013 are stated in Note VI.6 to the financial statements.



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. Other current assets

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited (Restated)
Advance payment of income tax	<b>322,396,742</b>	311,405,513
Deductible VAT input tax	<b>275,965,600</b>	193,000,766
Total	<b>598,362,342</b>	504,406,279

As at 30 June 2014, the advance payment of income tax and the deductible VAT input tax has been reclassified as other current assets and the comparative data for the previous year has been restated.

### 9. Available-for-sale financial assets

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Available-for-sale equity instruments	<b>126,772,160</b>	126,772,160

	<b>30 June 2014 (Unaudited)</b>		31 December 2013 (Audited)	
	<b>Available- for-sale equity instruments</b>	<b>Total</b>	Available- for-sale equity instruments	Total
Cost of equity instruments	<b>126,772,160</b>	<b>126,772,160</b>	126,772,160	126,772,160
Provision for impairment	-	-	-	-
	<b>126,772,160</b>	<b>126,772,160</b>	126,772,160	126,772,160

As at 30 June 2014, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment value at each balance sheet date, and their fair values would not be disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group has no intention to dispose of the investments.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates

30 June 2014

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Jointly-controlled entities</b>						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Yan Hua	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Hu Xiayu	Service industry	RMB1,000,000	67890875X
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	Limited liability	Anhui, PRC	Zhao Zhiqun	Service industry	RMB100,000,000	581537534
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking")	Limited liability	Anhui, PRC	Zhou Zhuang	Manufacturing	RMB20,699,299	75854512-7

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

31 December 2013

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Jointly-controlled entities</b>						
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Yan Hua	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Hu Xiayu	Service industry	RMB1,000,000	67890875X
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource") (ii)	Limited liability	Anhui, PRC	Zhao Zhiqun	Service industry	RMB100,000,000	581537534
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking") (i)	Limited liability	Anhui, PRC	Zhou Zhuang	Manufacturing	RMB20,699,299	75854512-7

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

- (i) Masteel Auto-parking was an indirectly held subsidiary of the Company. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party, which accounted for 75%. According to Masteel Auto-parking's new Articles of Association, its board of directors contains three directors, one of which was appointed by Ma Steel (HK), and the other two were appointed by the transferee ("the transferee"), as a result the transferee had obtained control over Masteel Auto-parking. Therefore, Masteel Auto-parking was changed into an associate of the Group since 9 April 2013.
- (ii) According to the selling agreement signed between the Company and the Holding, the Company transferred the ownership of Masteel Engineering to the Holding, and the transfer was completed on 31 October 2013. Since 31 October 2013, the Company had not included Masteel Engineering into the scope, and then a 15% equity interest in Xinchuang Economize Resource, which were indirectly held through Masteel Engineering. On 30 June 2014, the Group owns a 20% equity interest in Xinchuang Economize Resource.

BOC-Ma Steel, one of the Group's important jointly-controlled entities, was used the equity method of accounting.

The financial information of BOC-Ma Steel is as follows, which has already been adjusted all the accounting policy differences and adjusted to the carrying amount of the financial statements.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

	30 June 2014	31 December 2013
Total current assets	187,833,447	248,272,758
Total non-current assets	411,497,833	438,865,413
Total current liabilities	57,005,745	60,600,587
Total non-current liabilities	—	—
Net assets	<u>542,325,535</u>	<u>626,537,584</u>
Net assets, excluding goodwill	542,325,535	626,537,584
Adjusted to the Group's interest in the joint ventures:		
Proportion of the Group's shareholding	50%	50%
The Group's share of net assets of the joint ventures, excluding goodwill	271,162,768	313,268,792
Goodwill arising on acquisition (net of accumulated impairment)	—	—
The carrying value of the investment	<u>271,162,768</u>	<u>313,268,792</u>
	<b>For the six months ended 30 June 2014</b>	<b>For the six months ended 30 June 2013</b>
Revenue	267,526,763	274,385,475
Depreciation and amortization	27,436,762	27,380,464
Income tax expense	26,024,357	23,592,621
Net profit	67,787,953	70,777,863
Total comprehensive income	67,787,953	70,777,863
Net profit from discontinued operations	—	—
Other comprehensive income	—	—
Dividends received	<u>76,000,000</u>	<u>—</u>

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

The financial information of the joint ventures individually not significant to the Group is as follows:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
The Group's share of net loss of joint ventures	(1,087)	(496,134)
The Group's share of net income from discontinued operations	—	—
The Group's share of other comprehensive income of joint ventures	—	—
The Group's share in the total comprehensive income of joint ventures	(1,087)	(496,134)
	<b>30 June 2014</b>	<b>31 December 2013</b>
The carrying value of the Group's investments in joint ventures	<b>550,857</b>	<b>551,944</b>

Jiyuan JinMa Coke, Shenglong Chemical and Jinxi Traffic are the Group's significant associates and use the equity method of accounting.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

The financial information of significant associates is as follows, which has already been adjusted to all the accounting policies differences and adjusted to the carrying amount of the financial statements:

	Jiyuan JinMa Coke	Shenglong Chemical	Jinxi Traffic
<b>30 June 2014</b>			
Total current assets	857,306,926	1,534,148,032	195,359,543
Total non-current assets	778,318,658	2,069,144,582	184,386,906
Total current liabilities	1,076,388,309	2,894,021,430	36,079,297
Total non-current liabilities	–	–	600,000
Net assets	<u>559,237,275</u>	<u>709,271,184</u>	<u>343,067,152</u>
Net assets, excluding goodwill	559,237,275	709,271,184	343,067,152
Adjusted to the Group's interest in the associates:			
Proportion of the Group's shareholding	36%	32%	50%
The Group's share of net assets of the associates, excluding goodwill	201,325,419	226,966,779	171,533,576
Goodwill arising on acquisition (net of accumulated impairment)	–	–	–
The carrying value of the investment	<u>201,325,419</u>	<u>226,966,779</u>	<u>171,533,576</u>
<b>For the six months ended 30 June, 2014</b>			
Revenue	1,278,020,642	2,729,647,945	58,931,174
Net profit from discontinued operations	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	37,553,178	44,920,970	402,230
Dividends received	27,100,000	–	–

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

	Jiyuan JinMa Coke	Shenglong Chemical	Jinxi Traffic
31 December 2013			
Total current assets	863,090,891	950,394,762	123,351,156
Total non-current assets	786,954,452	1,554,912,725	148,593,724
Total current liabilities	1,128,361,249	1,679,404,611	18,414,223
Total non-current liabilities	–	160,000,000	–
Net assets	<u>521,684,094</u>	<u>665,902,876</u>	<u>253,530,657</u>
Net assets, excluding goodwill	521,684,094	665,902,876	253,530,657
Adjusted to the Group's interest in the associates:			
Proportion of the Group's shareholding	36%	32%	50%
The Group's share of net assets of the associates, excluding goodwill	187,806,274	213,088,920	126,765,329
Goodwill arising on acquisition (net of accumulated impairment)	–	–	–
The carrying value of the investment	<u>187,806,274</u>	<u>213,088,920</u>	<u>126,765,329</u>
For the six months ended 30 June, 2013			
Revenue	1,620,555,048	2,540,383,866	55,046,513
Net profit from discontinued operations	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	34,598,703	17,264,319	11,463
Dividends received	<u>–</u>	<u>–</u>	<u>–</u>



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Investments in jointly-controlled entities and associates (continued)

The financial information of the associates individually not significant to the Group is as follows:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
The Group's share of net profit of the Associates	6,084,344	2,297,483
The Group's share of net income from discontinued operations of the associates	-	-
The Group's share of other comprehensive income of the associates	-	-
The Group's share in the total comprehensive income of the associates	6,084,344	2,297,483
	30 June 2014	31 December 2013
The carrying value of the Group's investments in associates	<u>102,668,530</u>	<u>108,584,186</u>

### 11. Long term equity investments

#### 30 June 2014

	Initial investment cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the period	Cash dividend received during the period
Equity method:										
<b>Jointly-controlled entities</b>										
BOC-Ma Steel	234,000,000	313,268,792	33,893,976	76,000,000	271,162,768	50	50	-	-	76,000,000
MASTEEL-CMI	500,000	551,944	-	1,087	550,857	50	50	-	-	-
<b>Associates</b>										
Jiyuan JinMa Coke	80,000,000	187,806,274	13,519,145	-	201,325,419	36	36	-	-	-
Shenglong Chemical	66,776,000	213,088,920	13,877,859	-	226,966,779	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	37,966,695	270,405	12,000,000	26,237,100	20	20	-	-	12,000,000
Xinchuang Economize Resource	20,000,000	25,530,298	2,872,212	-	28,402,510	20	20	-	-	-
Ma Steel Jinxi Rail	105,000,000	126,765,329	45,000,000	231,753	171,533,576	50	50	-	-	-
Jiyuan Jinyuan Chemical	36,000,000	41,555,808	3,209,071	-	44,764,879	36	36	-	-	-
Masteel Auto-parking	4,595,467	3,531,385	-	267,344	3,264,041	25	33	-	-	-
	<u>550,871,467</u>	<u>950,065,445</u>	<u>112,642,668</u>	<u>88,500,184</u>	<u>974,207,929</u>			<u>-</u>	<u>-</u>	<u>88,000,000</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Long term equity investments (continued)

31 December 2013

	Initial investment cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the period	Cash dividend received during the period
Equity method:										
<b>Jointly-controlled entities</b>										
BOC-Ma Steel	234,000,000	315,052,064	76,216,728	78,000,000	313,268,792	50	50	-	-	78,000,000
MASTEEL-CMI	500,000	551,193	751	-	551,944	50	50	-	-	-
Sino-Japan Resource Regeneration (i)	-	509,792	208,681	718,473	-	-	-	-	-	-
<b>Associates</b>										
Jiyuan JinMa Coke	80,000,000	162,150,444	44,735,830	19,080,000	187,806,274	36	36	-	-	19,080,000
Shenglong Chemical	66,776,000	181,852,159	31,236,761	-	213,088,920	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	37,949,164	17,531	-	37,966,695	20	20	-	-	-
Maanshan Harbour (ii)	-	193,936,508	3,435,271	197,371,779	-	-	-	-	-	2,025,000
Zhengpu Harbor (ii)	-	34,994,723	35,000,000	69,994,723	-	-	-	-	-	-
Xinchuang Economize Resource	20,000,000	38,345,660	5,577,027	18,392,389	25,530,298	20	20	-	-	-
Ma Steel Jinxi Rail (iii)	105,000,000	84,357,542	42,407,787	-	126,765,329	50	50	-	-	-
Jiyuan Jinyuan Chemical (iii)	36,000,000	18,000,000	23,555,808	-	41,555,808	36	36	-	-	-
Masteel Auto-parking (iv)	4,595,467	-	4,595,467	1,064,082	3,531,385	25	25	-	-	-
	<u>550,871,467</u>	<u>1,067,699,249</u>	<u>266,987,642</u>	<u>384,621,446</u>	<u>950,065,445</u>			<u>-</u>	<u>-</u>	<u>99,105,000</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Long term equity investments (continued)

There was no material restriction on the realization of long term investments as at the balance sheet date.

- (i) Since 31 October 2013, Sino-Japan Resource Regeneration was no longer accounted as a jointly-controlled entity of the Group. Please refer to Note V.10 for more information.
  - (ii) According to the disposal agreement signed between the Company and the Holding, the Company transferred its equity of Maanshan Harbor and Zhengpu Harbor to the Holding, which completed on 31 October 2013. Since 31 October 2013, the Company neither held the above entities' equity, nor entitled the interests.
  - (iii) In 2013, the Company increased capital to Ma Steel Jinxi Rail and Jiyuan Jinma Coke by RMB30,000,000 and RMB18,000,000 respectively.
  - (iv) Masteel Auto-parking was an indirectly held subsidiary of the Company. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party. According to its revised Articles of Association, the board of directors is comprised of three directors, out of which one shall be appointed by Ma Steel (HK), and the other two shall be appointed by the acquiree, as a result of acquiree gaining control over Masteel Auto-parking. Therefore, Masteel Auto-parking has been changed into an associate of the Group since 9 April 2013.
- \* All investments in jointly-controlled entities and associates accounted for under the equity method are unlisted companies.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Fixed assets

#### 30 June 2014 (Unaudited)

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2014	23,070,622,467	45,333,690,035	364,494,161	224,633,111	68,993,439,774
Acquisition	28,022,268	46,617,809	2,571,886	1,436,236	78,648,199
Transfer from construction in progress (Note V.13)	2,227,225,510	5,105,497,843	3,512,229	-	7,336,235,582
Reclassifications (i)	(83,523,566)	83,523,566	-	-	-
Disposal	(691,035)	(12,373,266)	(1,012,844)	6,186	(14,070,959)
At 30 June 2014	25,241,655,644	50,556,955,987	369,565,432	226,075,533	76,394,252,596
Accumulated depreciation:					
At 1 January 2014	10,395,896,878	27,434,503,182	293,373,650	201,245,434	38,325,019,144
Provided during the period	546,343,434	1,346,884,031	10,580,011	13,332,063	1,917,139,539
Reclassifications	(36,211,560)	46,633,068	3,267,334	(13,688,842)	-
Disposal	(619,135)	(10,784,741)	(947,843)	4,709	(12,347,010)
At 30 June 2014	10,905,409,617	28,817,235,540	306,273,152	200,893,364	40,229,811,673
Impairment:					
At 1 January 2014	-	-	-	-	-
Write-back	-	-	-	-	-
30 June 2014	-	-	-	-	-
Net carrying amount:					
At 30 June 2014	14,336,246,027	21,739,720,447	63,292,280	25,182,169	36,164,440,923
At 1 January 2014	12,674,725,589	17,899,186,853	71,120,511	23,387,677	30,668,420,630

- (i) The reclassification adjustment of fixed assets mainly involves reclassification between the buildings and machinery and equipment. When pre-transferring the projects under construction to fixed assets, they can be put into two categories, buildings and machinery and equipment, according to their first provisional estimate value. After the transferring procedure is completed and the detailed amount of fixed assets can be determined, the reclassification adjustment is made.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Fixed assets (continued)

31 December 2013

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2013	22,078,823,006	45,627,111,276	476,865,160	256,050,073	68,438,849,515
Acquisition	9,786,474	62,611,932	6,495,010	2,412,851	81,306,267
Transfer from construction in progress (Note V.13)	1,459,752,414	1,787,336,595	15,916,521	712,393	3,263,717,923
Reclassifications	511,783,499	(520,855,656)	32,141,408	(23,069,251)	-
Disposal (ii)	(594,430,535)	(1,040,015,565)	(154,687,851)	(3,128,366)	(1,792,262,317)
Transferred from investment real estate	(513,978)	-	-	-	(513,978)
Disposal of subsidiaries (ii)	(309,133,580)	(532,129,706)	(11,132,453)	(8,344,589)	(860,740,328)
Other transfer out	(85,444,833)	(50,368,841)	(1,103,634)	-	(136,917,308)
At 31 December 2013	23,070,622,467	45,333,690,035	364,494,161	224,633,111	68,993,439,774
Accumulated depreciation:					
At 1 January 2013	9,772,176,608	25,627,960,183	405,533,948	154,380,380	35,960,051,119
Provided during the year	1,034,621,940	2,690,223,381	21,391,235	41,985,016	3,788,221,572
Reclassifications	(12,077,788)	(2,741,342)	1,468,824	13,350,306	-
Disposal (ii)	(299,662,374)	(623,870,307)	(125,784,380)	(1,887,108)	(1,051,204,169)
Transferred from investment real estate	(109,517)	-	-	-	(109,517)
Disposal of subsidiaries (ii)	(97,365,042)	(255,074,965)	(8,807,259)	(6,583,160)	(367,830,426)
Other transfer out	(1,686,949)	(1,993,768)	(428,718)	-	(4,109,435)
At 31 December 2013	10,395,896,878	27,434,503,182	293,373,650	201,245,434	38,325,019,144
Impairment:					
At 1 January 2013	-	-	-	-	-
Write-back	-	-	-	-	-
31 December 2013	-	-	-	-	-
Net carrying amount:					
At 31 December 2013	12,674,725,589	17,899,186,853	71,120,511	23,387,677	30,668,420,630
At 1 January 2013	12,306,646,398	19,999,151,093	71,331,212	101,669,693	32,478,798,396

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Fixed assets (continued)

- (ii) The decrease of fixed assets in 2013 was mainly due to the Company's transfer of the equity and assets of the non-steel business subsidiaries to the Holding.

As at 30 June 2014, there were buildings and structures within the Group at the cost of RMB1,358,249,279 without ownership certificates, as the formalities were in process (31 December 2013: RMB1,340,707,113 at cost).

As at 30 June 2014, the Group has pledged fixed assets for acquiring loans, which were RMB45,662,645 at book value and RMB75,768,430 at cost (31 December 2013: RMB47,037,778 at book value and RMB75,768,430 at cost).

The movement of the provision in current period shall be referred to Note V.15.

### 13. Construction in progress

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Product quality projects	2,134,327,598	-	2,134,327,598	6,709,561,002	-	6,709,561,002
Energy-saving and environment protection projects	418,344,021	-	418,344,021	356,021,360	-	356,021,360
Equipment advancement and other modification projects	1,384,662,072	-	1,384,662,072	1,188,835,449	-	1,188,835,449
Other projects	228,351,138	-	228,351,138	475,397,397	-	475,397,397
	<b>4,165,684,829</b>	<b>-</b>	<b>4,165,684,829</b>	<b>8,729,815,208</b>	<b>-</b>	<b>8,729,815,208</b>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Construction in progress (continued)

30 June 2014 (Unaudited)

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the period RMB	Transferred to fixed assets (Note V.12) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	10,138,156	6,709,561,002	2,320,891,637	(6,896,125,041)	2,134,327,598	Internally generated funds	81
2. Energy-saving and environment protection projects	600,709	356,021,360	69,892,668	(7,570,007)	418,344,021	Internally generated funds	72
3. Equipment advancement and other modification projects	3,397,719	1,188,835,449	283,521,913	(87,695,290)	1,384,662,072	Internally generated funds	83
4. Other projects	N/A	475,397,397	97,798,985	(344,845,244)	228,351,138	Internally generated funds	N/A
		8,729,815,208	2,772,105,203	(7,336,235,582)	4,165,684,829		
Less: Impairment		-	-	-	-		
		<u>8,729,815,208</u>	<u>2,772,105,203</u>	<u>(7,336,235,582)</u>	<u>4,165,684,829</u>		

The opening balance of product quality projects includes amount of RMB1,777,022,795 reclassified from other projects.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Construction in progress (continued)

31 December 2013 (Audited)

Name of projects	Opening Budget cost RMB'000	Additions during balance RMB	Transferred to fixed assets the year RMB	Closing (Note V.12) RMB	balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	10,559,524	3,708,314,376	4,235,232,994	(1,233,986,368)	6,709,561,002	Internally generated funds	70
2. Energy-saving and environment protection projects	839,896	277,581,357	132,483,353	(54,043,350)	356,021,360	Internally generated funds	76
3. Equipment advancement and other modification projects	3,375,774	1,219,449,377	356,092,064	(386,705,992)	1,188,835,449	Internally generated funds	87
4. Other projects	N/A	492,324,566	1,572,055,044	(1,588,982,213)	475,397,397	Internally generated funds	N/A
		5,697,669,676	6,295,863,455	(3,263,717,923)	8,729,815,208		
Less: Impairment		-	-	-	-		
		<u>5,697,669,676</u>	<u>6,295,863,455</u>	<u>(3,263,717,923)</u>	<u>8,729,815,208</u>		

The opening balance of product quality projects includes amount of RMB1,090,333,483 reclassified from other projects.



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Intangible assets

#### 30 June 2014 (Unaudited)

	Concession assets (i)	Land use rights	Mining rights	Total
Cost:				
At 1 January 2014	136,781,479	2,178,895,586	159,256,154	2,474,933,219
Additions	–	42,314,265	1,005,459	43,319,724
Disposal (ii)	–	(199,776,000)	–	(199,776,000)
Exchange realignment	–	–	11,069,941	11,069,941
At 30 June 2014	136,781,479	2,021,433,851	171,331,554	2,329,546,884
Accumulated depreciation:				
At 1 January 2014	8,672,433	532,398,636	33,682,905	574,753,974
Provided during the period	4,275,729	23,831,298	2,206,165	30,313,192
Disposal (ii)	–	(52,163,734)	–	(52,163,734)
Exchange realignment	–	–	2,408,051	2,408,051
At 30 June 2014	12,948,162	504,066,200	38,297,121	555,311,483
Impairment:				
At 1 January 2014 and At 30 June 2014	–	–	–	–
Net carrying amount:				
At 30 June 2014	123,833,317	1,517,367,651	133,034,433	1,774,235,401
At 1 January 2014	128,109,046	1,646,496,950	125,573,249	1,900,179,245

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Intangible assets (continued)

- (i) The concession assets are owned by the subsidiary, Hefei Water Supply. On 18 May 2011, Hefei Water Supply obtained a concession right by signing “Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply” (the “Arrangement”) with the Administrative Committee of Hefei Circle Economy Park (the “Park”) through open tender. According to the Arrangement, Hefei Water Supply has the right to receive a water fee from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.
  
- (ii) The decrease of intangible assets is mainly attributed to the disposal of the land use right of Ma Steel (Hefei). Ma Steel (Hefei) plans to transit and develop the existing production lines. On February 28, 2014, Ma Steel (Hefei) entered into an agreement themed with the purchasing and storage of the land with Hefei Land Reserve Center. In the first half of 2014, the transfer of land use rights has been completed.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Intangible assets (continued)

31 December 2013 (Audited)

	Concession assets (i)	Back-up roll technology	Land use rights	Mining rights	Total
Cost:					
At 1 January 2013	-	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Additions	136,781,479	-	111,065	19,118,468	156,011,012
Disposal of subsidiaries	-	(45,082,836)	(8,766,493)	-	(53,849,329)
Disposal	-	-	(120,359,561)	-	(120,359,561)
Exchange realignment	-	-	-	(30,675,725)	(30,675,725)
At 31 December 2013	136,781,479	-	2,178,895,586	159,256,154	2,474,933,219
Accumulated depreciation:					
At 1 January 2013	-	9,767,947	515,457,568	35,160,126	560,385,641
Provided during the year	8,672,433	3,756,903	53,673,727	4,928,899	71,031,962
Disposal of subsidiaries	-	(13,524,850)	(824,098)	-	(14,348,948)
Disposal	-	-	(35,908,561)	-	(35,908,561)
Exchange realignment	-	-	-	(6,406,120)	(6,406,120)
At 31 December 2013	8,672,433	-	532,398,636	33,682,905	574,753,974
Impairment:					
At 1 January 2013 and At 31 December 2013	-	-	-	-	-
Net carrying amount:					
At 31 December 2013	128,109,046	-	1,646,496,950	125,573,249	1,900,179,245
At 1 January 2013	-	35,314,889	1,792,453,007	135,653,285	1,963,421,181

All land use rights belong to the Group and the land is located in Mainland China and is held under medium term leases.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. Asset impairment provisions

30 June 2014 (Unaudited)

	Opening Balance	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	519,509,840	1,920,938	1,465,000	-	-	519,965,778
Including: Trade receivables	14,209,800	-	-	-	-	14,209,800
Other receivables	495,837,429	-	1,465,000	-	-	494,372,429
Loans and advances to customers	9,462,611	1,920,938	-	-	-	11,383,549
Provisions for inventories (i)	624,719,863	343,864,457	-	739,553,418	-	229,030,902
Including: Raw materials	522,727,311	244,629,339	-	651,505,437	-	115,851,213
Work in progress	13,601,442	69,928,055	-	38,986,120	-	44,543,377
Finished products	25,170,409	29,307,063	-	46,076,385	-	8,401,087
Spare parts	63,220,701	-	-	2,985,476	-	60,235,225
Impairment of long term equity investments	-	-	-	-	-	-
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>1,144,229,703</u>	<u>345,785,395</u>	<u>1,465,000</u>	<u>739,553,418</u>	<u>-</u>	<u>748,996,680</u>

- (i) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. Asset impairment provisions (continued)

31 December 2013 (Audited)

	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	570,863,066	9,134,584	59,019,529	671,709	796,572	519,509,840
Including: Trade receivables	15,076,606	121,936	-	547,527	441,215	14,209,800
Other receivables	553,609,057	1,727,440	59,019,529	124,182	355,357	495,837,429
Loans and advances to customers	2,177,403	7,285,208	-	-	-	9,462,611
Provisions for inventories (i)	350,099,012	1,214,973,022	588,948	939,311,546	451,677	624,719,863
Including: Raw materials	221,378,174	970,471,965	500,563	668,170,588	451,677	522,727,311
Work in progress	49,634,401	67,653,767	-	103,686,726	-	13,601,442
Finished products	18,434,509	173,960,270	88,385	167,135,985	-	25,170,409
Spare parts	60,651,928	2,887,020	-	318,247	-	63,220,701
Impairment of long term equity investments	-	-	-	-	-	-
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>920,962,078</u>	<u>1,224,107,606</u>	<u>59,608,477</u>	<u>939,983,255</u>	<u>1,248,249</u>	<u>1,144,229,703</u>

- (ii) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Customer deposits

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Demand deposits	1,125,195,291	1,096,029,858
Notice deposit	30,000,000	28,500,000
Time deposits	178,280,000	266,080,000
	<u>1,333,475,291</u>	<u>1,390,609,858</u>

The information of customer deposits for shareholders who held 5% or more of voting shares and the related parties at 30 June 2014 and 31 December 2013 are disclosed in Note VI.6.

### 17. Repurchase agreements

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Bills	179,480,250	344,732,675

According to the repurchase agreements, Masteel Financial discounted bills to the People's Bank of China.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. Short term loans

Types of loans	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Period end exchange rate	RMB equivalents	Original currency	Year end exchange rate	RMB equivalents
Entrust loans						
– RMB	81,000,000	1	81,000,000	–	–	–
Unsecured loans						
– RMB	2,064,923,370	1	2,064,923,370	2,325,373,369	1	2,325,373,369
– USD	–	–	–	26,166,857	6.0969	159,536,713
– EUR	19,930,000	8.3946	167,304,378	–	–	–
Short-term financing bonds						
– RMB (i)	1,500,000,000	1	1,500,000,000	1,500,000,000	1	1,500,000,000
Guaranteed loans						
– RMB (ii)	13,000,000	1	13,000,000	15,000,000	1	15,000,000
Pledged loans						
– RMB (iii)	10,000,000	1	10,000,000	10,000,000	1	10,000,000
Trust receipt loans (iv)						
– USD	724,212,002	6.1528	4,455,931,607	745,231,147	6.0969	4,543,599,778
			<u>8,292,159,355</u>			<u>8,553,509,860</u>

- (i) As at 23 August 2012, the Group signed the contract with CITIC Securities, and Industrial and Commercial Bank of China which arranged to issue short-term financing bonds of RMB10,000,000,000 in the next three years and could be issued at intervals. The first bond (12 馬鋼 CP001) was issued on 25 October 2012, amounting to RMB3,500,000,000 with the interest rate of 4.71% per annum and a maturity of one year. The second bond (13 馬鋼 CP001) was issued on 16 September 2013, amounting to RMB1,500,000,000 with the interest rate of 6% per annum and a maturity of one year.
- (ii) As at 30 June 2014, the Group's short-term guaranteed loans amounting to RMB13,000,000 were secured by production equipment (31 December 2013: RMB15,000,000). Details are disclosed in Note V.12.
- (iii) As at 30 June 2014, the Group's pledged loans amounting to RMB10,000,000 were secured by bills receivable which were hosted by Ma'anshan Branch of Industrial and Commercial Bank of China (31 December 2013: RMB10,000,000). Details are disclosed in Note V.2.
- (iv) As at 30 June 2014, the trust receipt loans of the Group not settled yet was amounted to RMB4.46 billion (31 December 2013: RMB4.54 billion).

As at 30 June 2014, the interest rates of the above short-term loans ranged from 1.660% – 6.000% (31 December 2013: 1.591% to 6.560%).

As at 30 June 2014, the Group had no expired outstanding short term loans.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19. Bills payable

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Bank acceptance bills	<b>5,354,867,166</b>	5,542,646,513

As at 30 June 2014 and 31 December 2013, the ageing of the Group's bills payable was all within six months.

The bills payable amounting to RMB5,354,867,166 (31 December 2013: RMB5,542,646,513) are due in the next accounting period. As at the balance sheet date, certain amounts of the Group's bills payable were secured by certain amounts of the other balances with financial institutions. Please refer to Notes V.1 and V.2.

The balance of bills payable as at 30 June 2014 and 31 December 2013 did not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or related parties.

### 20. Accounts payable

\* The ageing analysis of accounts payable is as follows:

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Within one year	<b>8,082,841,197</b>	6,396,013,395
One to two years	<b>226,239,046</b>	53,967,042
Two to three years	<b>15,839,736</b>	21,827,472
Over three years	<b>57,943,814</b>	52,341,842
	<b>8,382,863,793</b>	6,524,149,751



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 20. Accounts payable (continued)

The following balances were denominated in foreign currencies:

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Year end rate	RMB equivalent	Original currency	Year end rate	RMB equivalent
EUR	412,851	8.3946	3,465,719	467,892	8.4189	3,939,139
AUD	55,224	5.8064	320,653	50,166	5.4301	272,404
HKD	161,173,729	0.7938	127,939,706	-	-	-
			131,726,078			4,211,543

The accounts payable are interest-free and are normally settled within three months.

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balances of accounts payable as at 30 June 2014 and 31 December 2013 are stated in Note VI.6 to the financial statements.

At 30 June 2014, the accounts payable with material amounts aged more than one year (over RMB2 million) are as follows:

Name of the company	Amount due	Reason for non-settlement
Company 1	19,000,000	Note
Company 2	12,087,000	Note
Company 3	10,933,200	Note
Company 4	7,917,184	Note
Company 5	5,190,000	Note

Note: The Group's accounts payable aged over one year are mainly attributable to the balances of purchasing equipment and construction projects with settlement periods beyond one year.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 21. Taxes payable

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Value-added tax	57,456,197	79,765,926
Corporate income tax	32,746,894	77,733,077
City construction and maintenance tax	20,264,950	17,027,679
Other taxes	56,146,328	59,437,666
	<b>166,614,369</b>	<b>233,964,348</b>

As at 30 June 2014, the advance payment of income tax and the deductible VAT input tax has been reclassified as other current assets and the comparative data for the previous year has been restated.

The basis of calculation and the applicable tax rates are disclosed in Note III to the financial statements.

### 22. Dividends payable

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited	Reason for unpayment over on year
Holding	–	–	N/A
Other shareholders	80,753,711	80,642,412	Unpaid dividend
	<b>80,753,711</b>	<b>80,642,412</b>	

As at 30 June 2014 and 31 December 2013, no such amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 23. Other payables

	30 June 2014 Unaudited	31 December 2013 Audited
Sales incentive	431,088,895	126,999,923
Payable to construction, maintenance and inspection fee	278,184,508	215,132,392
Service fees payable	90,313,782	86,641,685
Technology project fees received	34,261,796	33,831,049
Withholding social welfare and housing fund	36,803,225	37,449,339
Accrued interest expense for letter of credit	131,728,606	159,767,083
Others	342,234,331	302,878,003
	<b>1,344,615,143</b>	<b>962,699,474</b>

The balances of other payables as at 30 June 2014 and 31 December 2013 did not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

As at 30 June 2014, certain of the Group's other payables amounting to RMB36,207,976 (31 December 2013: RMB158,740,053) were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amounts aged over one year, there was no payment made after the balance sheet date.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24. Non-current liabilities due within one year

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Long term loans due within one year (Note V.26)	<b>2,727,504,000</b>	2,000,887,700
Medium-term Note due within one year (Note V.27)	<b>2,798,832,300</b>	2,797,432,500
Bonds payable due within one year (Note V.27)	<b>3,158,349,395</b>	3,153,397,580
	<b>8,684,685,695</b>	7,951,717,780

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Long term loans due within one year:		
Guaranteed loans (i)	<b>2,717,504,000</b>	1,390,887,700
Unsecured loans	–	610,000,000
Pledged loans (ii)	<b>10,000,000</b>	–
	<b>2,727,504,000</b>	2,000,887,700

(i) As at the balance sheet date, the guaranteed loans were all guaranteed by the Holding.

(ii) As at the balance sheet date, the Group's outstanding borrowings of RMB10,000,000 was pledged by the Note receivable held by Maanshan Branch of the Industrial and Commercial Bank of China. Please refer to Note V.2 for details.

As at 30 June 2014, the Group had no expired outstanding long term loans.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24. Non-current liabilities due within one year (continued)

As at 30 June 2014, the non-current liabilities due within one year are as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2014 RMB equivalent	31 December 2013 RMB equivalent
Export-Import Bank of China	2012/09/12	2014/09/10	USD	Note 1	553,752,000	548,721,000
Export-Import Bank of China	2013/01/09	2015/01/08	RMB	Note 2	490,000,000	490,000,000
Export-Import Bank of China	2013/03/04	2015/03/01	RMB	Note 2	480,000,000	480,000,000
Export-Import Bank of China	2013/06/17	2015/06/17	USD	Note 3	301,487,200	298,748,100
Export-Import Bank of China	2012/10/29	2014/10/24	USD	Note 1	246,112,000	243,876,000
					<b>2,071,351,200</b>	<b>2,061,345,100</b>

Note 1: The above borrowing rates of long term loans due within six months were 250 basis points above the London Inter-Bank Offered Rate, which is adjusted semiannually.

Note 2: The above borrowing rates of long term loans were subject to annual floating rate 10% below the benchmark rate offered by the central bank, which is adjusted quarterly.

Note 3: The above borrowing rates of long term loans due within six months were 180 basis points above the London Inter-Bank Offered Rate, which is adjusted semiannually.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 25. Accrued liabilities

#### 30 June 2014 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance	
Pending litigation or arbitration	4,140,000	–	–	4,140,000	(i)

- (i) Pending litigation was caused by the bills with endorsement. Since the remote holder of the bills, who was also the third party drawer, applied for reporting the loss and could not pay in time, the Company was sued as one of the bill holders. The first trial sentenced that the Company should make compensation of RMB4,140,000. At present, the Company has appealed to a second trial.

### 26. Long term loans

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Guaranteed loans (i)	<b>1,114,502,400</b>	2,366,244,300
Unsecured loans	<b>3,372,381,600</b>	2,703,200,000
Pledged loans (ii)	<b>980,000,000</b>	990,000,000
	<b><u>5,466,884,000</u></b>	<b><u>6,059,444,300</u></b>

- (i) As at the balance sheet date, the guaranteed loans were all guaranteed by the Holding.
- (ii) As at the balance sheet date, the Group's outstanding borrowings RMB980,000,000 was pledged by the Note receivable held by Maanshan Branch of the Industrial and Commercial Bank of China. Please refer to Note V.2 for details.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. Long term loans (continued)

As at 30 June 2014, the top five long term loans are as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2014 balance RMB equivalent	31 December 2013 balance RMB equivalent
Industrial and Commercial						
Bank of China	2013/03/08	2016/03/07	RMB	Note 1	470,000,000	470,000,000
Export-Import Bank of China	2014/03/26	2016/03/18	RMB	Note 2	400,000,000	–
Export-Import Bank of China	2013/08/02	2015/08/01	USD	Note 3	363,015,200	359,717,100
Industrial and Commercial						
Bank of China	2013/10/01	2016/03/07	RMB	Note 4	300,000,000	300,000,000
Export-Import Bank of China	2013/11/26	2015/11/22	USD	Note 3	239,959,200	237,779,100
					<b>1,772,974,400</b>	<b>1,367,496,200</b>

Note 1: The above borrowing rates of long term loans were subject to annual floating rate 5% below the benchmark rate offered by the central bank, which is adjusted annually.

Note 2: The above borrowing rates of long term loans were subject to the benchmark interest rate of the central bank, which is adjusted quarterly.

Note 3: The above borrowing rates of long term loans due within six months were 200 basis points above the London Inter-Bank Offered Rate, which is adjusted semiannually.

Note 4: The above borrowing rates of long term loans were subject to the benchmark interest rate of the central bank, which is adjusted annually.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. Long term loans (continued)

As at 30 June 2014, the Group had no expired outstanding long term loans.

\*Analysis on the expiry date of long term loans is as follows:

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Within one year	2,727,504,000	2,000,887,700
One to two years (including two years)	3,372,381,600	4,069,444,300
Three to five years (including five years)	2,094,502,400	1,990,000,000
	<u>8,194,388,000</u>	<u>8,060,332,000</u>

### 27. Bonds payable

<b>30 June 2014 (Unaudited)</b>	Opening balance	Increase	Decrease	Closing balance
Medium-term Note payable				
– 2011 second issue	2,797,432,500	81,619,800	80,220,000	2,798,832,300
Corporate bond – 3 Years	3,153,397,580	93,174,687	88,222,872	3,158,349,395
Corporate bond – 5 Years	2,328,266,077	68,806,127	66,606,016	2,330,466,188
	<u>8,279,096,157</u>	<u>243,600,614</u>	<u>235,048,888</u>	<u>8,287,647,883</u>
Less: Transfer into non-current liabilities due within one year (Note V.24)				
Including:				
Medium-term Note	2,797,432,500			2,798,832,300
Corporate bond	3,153,397,580			3,158,349,395
	<u>2,328,266,077</u>			<u>2,330,466,188</u>



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. Bonds payable (continued)

31 December 2013 (Audited)	Opening balance	Increase	Decrease	Closing balance
Medium-term Note payable				
– 2010 first issue	999,832,400	44,667,600	1,044,500,000	–
Medium-term Note payable				
– 2011 second issue	2,794,632,900	163,239,600	160,440,000	2,797,432,500
Corporate bond – 3 Years	3,143,493,948	187,811,632	177,908,000	3,153,397,580
Corporate bond – 5 Years	2,323,865,856	138,716,221	134,316,000	2,328,266,077
	<u>9,261,825,104</u>	<u>534,435,053</u>	<u>1,517,164,000</u>	<u>8,279,096,157</u>
Less: Transfer into non-current liabilities due within one year (Note V.24)				
Including:				
Medium-term Note	999,832,400	2,797,432,500	999,832,400	2,797,432,500
Corporate bond	–	3,153,397,580	–	3,153,397,580
	<u>8,261,992,704</u>			<u>2,328,266,077</u>

As at 30 June 2014, the bonds payable balance is as follows:

Issuing date	Amount on offer	Opening interest payable	Current period accrued interest	Current period interest paid	Closing interest payable	Closing balance
Medium-term Note payable						
– 2011 second issue	2011/11 2,800,000,000	14,707,000	80,220,000	–	94,927,000	2,798,832,300
Corporate bond – 3 Years	2011/8 3,160,000,000	62,705,279	88,222,871	–	150,928,150	3,158,349,395
Corporate bond – 5 Years	2011/8 2,340,000,000	47,340,885	66,606,016	–	113,946,901	2,330,466,188
	<u>8,300,000,000</u>	<u>124,753,164</u>	<u>235,048,887</u>	<u>–</u>	<u>359,802,051</u>	<u>8,287,647,883</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. Bonds payable (continued)

As at 31 December 2013, the bonds payable balance is as follows:

	Issuing date	Amount on offer	Opening interest payable	Current period accrued interest	Current period interest paid	Closing interest payable	Closing balance
Medium-term Note payable							
- 2010 first issue	2010/2	1,000,000,000	40,354,795	4,145,205	44,500,000	-	-
Medium-term Note payable							
- 2011 second issue	2011/11	2,800,000,000	14,707,000	160,440,000	160,440,000	14,707,000	2,797,432,500
Corporate bond - 3 Years	2011/8	3,160,000,000	62,705,279	177,908,000	177,908,000	62,705,279	3,153,397,580
Corporate bond - 5 Years	2011/8	2,340,000,000	47,340,885	134,316,000	134,316,000	47,340,885	2,328,266,077
		<u>9,300,000,000</u>	<u>165,107,959</u>	<u>476,809,205</u>	<u>517,164,000</u>	<u>124,753,164</u>	<u>8,279,096,157</u>

#### Medium-term Note payable

In November 2009, the Company obtained the approval of the National Association of Financial Market Institutional Investors regarding the issuance of a medium-term Note with a registration amount of RMB3.8 billion, which will expire within two years. The medium-term Note is allowed to be issued by stages in its registration period of validity.

As at 4 February 2010, the Company issued the first stage medium-term Note of RMB1 billion (abbreviated as 10 馬鋼 MTN1). The issuance price is RMB100/Note, and has a fixed rate of interest at 4.45% per annum. As at 4 November 2011, the Company issued the second stage medium-term Note of RMB2.8 billion (abbreviated as 11 馬鋼 MTN1). The issuance price is RMB100/Note, and has a fixed rate of interest at 5.73% per annum. The RMB3.8 billion medium-term Note is circulating in the Chinese Inter-bank Bond Market. This medium-term Note is repayable in three years.

#### Corporate bonds

Upon the approval of the China Securities Supervision and Management Committee, [2011] no. 1177, the Company issued corporate bonds amounting to RMB5.5 billion with an issue price of RMB100/Note in August 2011, including RMB3.16 billion (abbreviated as 11 馬鋼 01) due within three years with an interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11 馬鋼 02) due within five years with an interest rate of 5.74%. These corporate bonds were secured by the Holding. The net amount the Company received from these corporate bonds were RMB5,453,788,000.

The interest for the period of the above bonds with warrants, medium-term Note and corporate bonds was included in interest payable.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 28. Deferred income

Deferred income refers to the government grants received for designated projects and the movement for current period is as follows.

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
At 1 January 2014	609,637,532	618,997,012
Additions	215,668,497	84,076,474
Included in non-operating income	(48,585,751)	(93,435,954)
	<hr/>	<hr/>
At 30 June 2014	<b>776,720,278</b>	<b>609,637,532</b>

### 29. Share capital

30 June 2014 (Unaudited)

Registration issued and fully paid

A. Shares with selling restriction

1. State-owned shares
2. State-owned legal person shares
3. Other domestically owned shares

Including:

Shares owned by domestic natural persons

Sub-total

B. Shares without selling restriction

1. A shares
2. H shares

Sub-total

C. Total

	At 1 January 2014		Increase/(decrease) during the period			At 30 June 2014	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. Share capital (continued)

31 December 2013 (Audited)	At 1 January 2013		Increase/(decrease) during the year			At 31 December 2013	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
Registration issued and fully paid							
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

\* Other than H share dividends, which are paid in Hong Kong dollars, all shares, including A shares and H shares, have the same right to the Company's operating results and voting rights. The par value for each A share or H share is RMB1.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 30. Capital reserve

#### 30 June 2014 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,338,358,399	–	–	8,338,358,399
Business combination involving entities under common control	(9,290,736)	–	–	(9,290,736)
	<u>8,329,067,663</u>	<u>–</u>	<u>–</u>	<u>8,329,067,663</u>

#### 31 December 2013 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	–	–	8,338,358,399
Business combination involving entities under common control	(9,290,736)	–	–	(9,290,736)
	<u>8,329,067,663</u>	<u>–</u>	<u>–</u>	<u>8,329,067,663</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 31. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Principal operating income	27,968,590,418	31,902,024,533
Other operating income	895,761,580	5,050,537,806
	<u>28,864,351,998</u>	<u>36,952,562,339</u>

\* Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Principal cost of sales	26,967,044,526	30,242,742,825
Other cost of sales	855,889,885	5,001,052,536
	<u>27,822,934,411</u>	<u>35,243,795,361</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 31. Revenue and cost of sales (continued)

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Sale of steel products	26,505,766,957	29,680,878,570
Sale of steel billets and pig iron	447,844,013	364,639,204
Sale of coke by-products	500,456,377	468,415,809
Others	514,523,071	1,388,090,950
	<u>27,968,590,418</u>	<u>31,902,024,533</u>

During the first half of 2014, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	747,957,368	3
Company 2	706,593,321	2
Company 3	686,861,242	2
Company 4	681,266,804	2
Company 5	523,380,564	2
	<u>3,346,059,299</u>	<u>11</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 31. Revenue and cost of sales (continued)

During the first half of 2013, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	1,004,511,114	3
Company 2	927,593,649	3
Company 3	856,413,470	2
Company 4	763,372,962	2
Company 5	696,126,820	2
	<u>4,248,018,015</u>	<u>12</u>

### 32 Selling expenses

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Employee benefits	17,972,704	16,770,334
Transportation fees	185,308,727	144,503,501
Insurance premium	6,515,338	7,572,804
Others	21,467,567	14,849,466
	<u>231,264,336</u>	<u>183,696,105</u>



# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. Administrative expenses

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Depreciation	251,526,452	287,203,064
Employee benefits	24,732,073	29,435,142
Office expenses	104,791,871	184,982,115
*Auditors' remuneration	4,710,050	2,348,330
Other taxes	80,146,437	93,278,485
Others	132,373,542	86,415,044
	<hr/>	<hr/>
	598,280,425	683,662,180
	<hr/> <hr/>	<hr/> <hr/>

### 34. Financial expenses

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Interest expenses (i)	666,498,311	650,833,648
Less: Interest income	32,442,168	19,143,879
Exchange loss/(gain), net	2,685,647	(24,205,762)
Others	56,745,837	18,352,328
	<hr/>	<hr/>
	693,487,627	625,836,335
	<hr/> <hr/>	<hr/> <hr/>

\*(i) The Group's interest expenses include interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. Asset impairment loss

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Provision/(reversal of provision) for bad debts	455,938	(545,829)
Including: Other receivables	(1,465,000)	26,141
Loans and advances	1,920,938	(571,970)
Provision for inventories	343,864,457	478,376,386
	<b>344,320,395</b>	<b>477,830,557</b>

### 36. Investment income

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Long term equity investment income under the equity method	67,142,483	49,520,681
Long term equity investment income from available for sale financial assets	7,194,839	12,583,740
Long term equity investment income from financial assets measured at fair value through profit or loss	6,486	2,520
Other investment income	–	7,275,925
	<b>74,343,808</b>	<b>69,382,866</b>

\* During the current period, the Group's investment income from listed companies and unlisted companies were RMB6,486 and RMB74,337,322, respectively (30 June 2013: the investment income from listed companies and unlisted companies were RMB2,520 and RMB69,380,346, respectively).

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 36. Investment income (continued)

Among the long term equity investment income under the equity method, the top five largest items are as follows:

	For the six months ended 30 June		Reason for variation
	2014 Unaudited	2013 Unaudited	
BOC-Ma Steel	33,893,976	35,388,932	(i)
Shenglong Chemical	13,877,859	–	(ii)
Jiyuan Jinma Coke	13,519,144	13,106,433	(ii)
Jiyuan Jinyuan Chemical	3,209,071	–	(ii)
Xinchuang Economize Resource	2,872,212	3,455,384	(ii)
	<u>67,372,262</u>	<u>51,950,749</u>	

(i) In the current period, the decrease of investment income from the above entities under the equity method was mainly due to the decrease in net profits of the above invested entities.

(ii) In the current period, the increase of investment income from the above entities under the equity method was mainly due to the increase in net profits of the above invested entities.

As at 30 June 2014, there was no significant restriction imposed upon the realization of the Group's investment income.

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. Income tax

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
*Mainland China:		
Current income tax expense	41,987,993	43,247,408
Adjustments in respect of current tax of previous periods	(2,885,448)	(6,317,977)
Deferred tax income	(37,775,340)	7,576,012
*Hong Kong current income tax expense (ii)	–	7,873,632
*Overseas current income tax expense	17,342,126	24,734,053
	<u>18,669,331</u>	<u>77,113,128</u>

Relationship between income tax and loss before tax:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Loss before tax	(744,826,164)	(246,114,040)
Tax at the applicable tax rate of 25% (i)	(186,206,539)	(61,528,510)
Effect of different tax rates of subsidiaries	1,852,952	81,084
Expenses not deductible for tax	31,254,470	10,892,403
Adjustments in respect of current tax of previous periods	(2,885,448)	(6,317,977)
Other tax concessions	(2,578,954)	(5,000,852)
Income not subject to tax	(1,839,864)	(6,759,401)
Unrecognised deductible temporality difference and tax losses	195,925,171	167,819,165
Tax losses utilised	–	(9,206,195)
Profits and losses attributable to jointly-controlled entities and associates	(16,852,457)	(12,866,589)
	<u>18,669,331</u>	<u>77,113,128</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. Income tax (continued)

- (i) The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.
- (ii) Income tax for a subsidiary operating in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the period.

### 38. Earnings per share

Basic earnings per share shall be calculated by dividing profit attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

The calculations of basic and diluted earnings per share amounts are based on:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Unaudited</b>	Unaudited
(Loss)		
(Loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<b>(730,266,178)</b>	(332,823,078)
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<b>7,700,681,186</b>	7,700,681,186

During the first half of 2014 and 2013, there was no dilutive item to adjust the Group's basic earnings per share.

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 39. Other comprehensive income

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Exchange fluctuation reserve		
Included in other comprehensive (loss)/income	<u>8,216,051</u>	<u>(91,343,384)</u>

### 40. Note to the cash flow statement

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Cash received relating to other operating activities:		
Specific subsidies granted by the government	6,516,240	2,873,710
Others	14,869,361	5,468,686
	<u>21,385,601</u>	<u>8,342,396</u>

Cash paid relating to other operating activities:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Supporting services	105,028,723	160,976,467
Security expenses	35,133,908	36,388,501
Packing fee	10,400,007	10,723,343
Flood prevention fund	13,635,017	14,073,064
Environmental improvement fee	15,151,800	14,456,485
Research and development fee	12,169,048	9,472,829
Others	174,951,692	150,345,403
	<u>366,470,195</u>	<u>396,436,092</u>

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 40. Note to the cash flow statement (continued)

Cash received relating to other investing activities:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Unaudited</b>	Unaudited
Government special project funding	<b>3,280,763</b>	12,212,013

### 41. Supplements to cash flows

(1) Cash flows from operating activities:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Unaudited</b>	Unaudited
Net loss	<b>(730,266,178)</b>	(332,823,078)
Add: Minority interest	<b>(33,229,317)</b>	9,595,910
(Reserval of provision)/provision for bad debts	<b>(1,465,000)</b>	26,141
Provision/(reversal of provision) for inventories	<b>343,864,457</b>	(88,476,559)
Provision/(reversal of provision) for loans and advances to customers	<b>1,920,938</b>	(571,970)
Depreciation of fixed assets	<b>1,917,139,539</b>	1,888,314,417
Amortisation of investment properties	<b>869,950</b>	34,453
Amortisation of intangible assets	<b>30,313,192</b>	36,611,543
Amortisation of deferred income	<b>(48,585,751)</b>	(45,786,977)
Loss on disposal of non-current assets	<b>520,880</b>	1,702,335
Decrease/(increase) in special reserves	<b>3,196,002</b>	(3,575,177)
Financial expenses	<b>634,056,143</b>	607,484,007
Investment income	<b>(74,343,808)</b>	(69,382,866)
Loss on fair value changes	<b>19,730</b>	97,570
(Increase)/decrease in deferred tax assets	<b>(35,920,660)</b>	9,433,064
Decrease in deferred tax liabilities	<b>(1,854,680)</b>	(1,857,051)
Decrease/(increase) in inventories	<b>22,886,523</b>	(1,053,652,792)
Decrease/(increase) in receivables from operating activities	<b>(420,907,144)</b>	149,754,728
(Decrease)/increase in payables from operating activities	<b>(220,171,215)</b>	2,651,601,123
Net cash flows from operating activities	<b>1,388,043,601</b>	3,758,528,821

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 42. Cash and cash equivalents

Net movement of cash and cash equivalents:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Cash equivalents closing balance	4,533,376,759	6,436,449,395
Less: Cash equivalents opening balance	1,814,518,125	7,577,117,817
Add: Closing balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
Net increase/(decrease) of cash and cash equivalents	<u>2,718,858,634</u>	<u>(1,140,668,422)</u>

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Cash		
Including: Cash on hand	252,009	564,410
Balances with financial institutions without restriction	4,533,124,750	6,435,884,985
Other balances without restriction	–	–
Cash equivalents	<u>4,533,376,759</u>	<u>6,436,449,395</u>

### 43. Dividend\*

The board of directors does not recommend the payment of any dividends for the six months ended 30 June 2014 (30 June 2013: nil).



# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

### 1. Parent company

Name of parent	Business type	Registered place	Legal representative	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)	Organisation code
Magang (Group) Holding Company Limited	Limited liability	Anhui, PRC	Gao Haijian	Manufacturing	6,298,290,000	50.47	50.47	150509144

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

### 2. Subsidiaries

The details of the subsidiaries are stated in Note IV to the financial statements.

### 3. Associates and jointly-controlled entities of the Group

Further details on balances with associates and jointly-controlled entities of the Group are stated in Note V.10 to the financial statements.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 4. Other related parties who carried out transactions with the Group

Name	Relationship with the Company	Organisation code
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding	72850552x
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding	150518286
Masteel Group Mapping Co., Ltd.	Controlled by Holding	677570144
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding	850512838
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by Holding	777366319
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding	750993301
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding	573045716
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding	70492034x
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding	150509160
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by Holding	754875970
Masteel Green Energy Technology Development	Controlled by Holding	731674797
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding	192443796
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding	711716304
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding	750960780
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by Holding	783071808
Anhui Metal Technology Institute	Controlled by Holding	F10441773
Anhui Masteel Advanced Technician Institute	Controlled by Holding	485409479
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding	55781951-5
Anhui Xinchuang Economize Resource Co., Ltd.	Controlled by Holding	581537534
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding	728509803
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by Holding	080333234
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by Holding	080320353
Masteel Equipment Maintenance Engineering Co., Ltd.	Controlled by Holding	080337083
Masteel Automobile Transportation Service Co., Ltd.	Controlled by Holding	080335037
Maanshan Used Vehicle Trading Centre Co. Ltd.	Controlled by Holding	664226184
Masteel Refractory Materials Co., Ltd.	Controlled by Holding	080342405
Ma Steel International Trade and Economic Corporation	Controlled by Holding	150509582
Tongling Yuanda Co., Ltd.	Controlled by Holding	769020473
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by Holding	69570971X
Masteel Automation and Information Technology Co., Ltd.	Controlled by Holding	738900283
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding	575718435
Maanshan Masteel Steel Structure Technology Co., Ltd.	Controlled by Holding	575715234
Maanshan Masteel Surface engineering Technology Co., Ltd.	Controlled by Holding	575719905
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by Holding	575719550
Anhui Masteel Engineering Technology Company Limited	Controlled by Holding	732997248

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 4. Other related parties who carried out transactions with the Group (continued)

Name	Relationship with the Company	Organisation code
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by Holding	580630331
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding	055756542
Maanshan Harbour Group Co., Ltd	Controlled by Holding	150502057
Maanshan Yangtze River Logistics	Controlled by Holding	150523560
Maanshan Changjiang Shipping Agency	Controlled by Holding	150523552
Maanshan China Ocean Shipping Tally	Controlled by Holding	150516504
Ma Steel United Electric Steel Roller Co. Ltd.	Controlled by Holding	667902117
Anhui Zhengpu Harbor Co., Ltd.	Controlled by Holding	564958863
Masteel Group Power and Machinery Installation Co., Ltd.	Controlled by Holding	150510858
Masteel Group Steel Scrap Integrated Utilization Co., Ltd. (i)	Controlled by Holding	733020252

(i) This company entered into liquidation during 2012. As at 30 June 2014, the liquidation was completed.

### 5. Significant transactions carried out between the Group and its related parties during the period

#### (1) Purchases of iron ore from related parties

	Note	For the six months ended 30 June			
		2014 Unaudited		2013 Unaudited	
		Amount RMB	Percentage of similar transactions %	Amount RMB	Percentage of similar transactions %
Holding	(i)	1,621,425,669	15	1,643,467,810	14
Tongling Yuanda Co., Ltd. ("Tongling Yuanda")	(i)	20,827,419	1	–	–
		<b>1,642,253,088</b>	<b>16</b>	<b>1,643,467,810</b>	<b>14</b>

(i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 7 February 2013 entered into between the Company and the Holding. The agreement stipulated that the price should be determined basing on the Platts Index. The Group purchase iron ore from Tongling Yuanda, and the price terms of which are negotiated.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (2) Fees paid for labor, support services and other services

For the six months ended 30 June					
	Note	2014 Unaudited		2013 Unaudited	
		Amount RMB	Percentage of similar transactions %	Amount RMB	Percentage of similar transactions %
Holding	(ii)	22,864,656	2	58,893,580	29
Masteel Refractory Materials Co., Ltd.	(ii)	297,724,994	23	–	–
Anhui Xinchuang Economize Resource Co., Ltd.	(ii)	152,431,537	12	104,138,925	52
Masteel Equipment Maintenance Engineering Co., Ltd.	(ii)	122,225,241	9	–	–
Masteel Automobile Transportation Service Co., Ltd.	(ii)	118,424,531	9	–	–
Ma Steel Powder Metallurgy Co., Ltd.	(ii)	108,590,185	8	–	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	95,290,367	7	–	–
Masteel Automation and Information Technology Co., Ltd.	(ii)	81,621,286	6	–	–
Maanshan Harbour Group Co., Ltd	(ii)	83,465,113	6	–	–
Maanshan Masteel Surface engineering Technology Co., Ltd.	(ii)	83,339,755	6	–	–
Maanshan Gang Chen Industry Co., Ltd.	(ii)	–	–	9,010,863	5
Others	(ii)	148,996,287	12	28,269,312	14
		<b>1,314,973,952</b>	<b>100</b>	<b>200,312,680</b>	<b>100</b>

- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services, telecommunication service, contract of carriage service, equipment repair and maintenance services, engineering design services, were determined in accordance with a service agreement between the Company and the Holding.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (3) Agency fees paid to related parties

		For the six months ended 30 June				
		2014		2013		
		Unaudited		Unaudited		
		Amount	Percentage	Amount	Percentage	
		RMB	of similar	RMB	of similar	
Note			transactions		transactions	
			%		%	
	Holding	(iii)	-	-	148,285	1
	Masteel Shen Ma Metal Co., Ltd.	(iii)	35,397	1	9,226,065	60
	Maanshan Gang Chen Industry Co., Ltd.	(iii)	9,178,051	99	6,044,513	39
			<u>9,213,448</u>	<u>100</u>	<u>15,418,863</u>	<u>100</u>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (4) Rental expenses

		For the six months ended 30 June				
		2014		2013		
		Unaudited		Unaudited		
		Amount	Percentage	Amount	Percentage	
		RMB	of similar	RMB	of similar	
Note			transactions		transactions	
			%		%	
	Holding	(iv)	24,264,900	100	24,264,900	100
			<u>24,264,900</u>	<u>100</u>	<u>24,264,900</u>	<u>100</u>

(iv) The Holding leased a building to the Group in the current period and the rental expenses are mutually agreed between the Company and the related parties.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (5) Purchases of fixed assets and construction services

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Holding (iii)	-	-	5,024,087	-
	Ma Steel Powder Metallurgy Co., Ltd. (iii)	121,308,744	2	-	-
	Anhui Xinchuang Economize Resource Co., Ltd. (iii)	28,643,866	-	21,767,907	1
	Anhui Masteel Engineering Technology Company Limited (iii)	16,799,600	-	-	-
	Ma Steel United Electric Steel Roller Co. Ltd. (iii)	8,436,488	-	-	-
	Masteel Equipment Maintenance Engineering Co., Ltd. (iii)	5,852,800	-	9,331,957	-
	Maanshan Masteel Surface engineering Technology Co., Ltd. (iii)	5,790,660	-	-	-
	Ma Steel International Trade and Economic Corporation (iii)	3,366,700	-	-	-
	Maanshan Jia Hua Commodity Concrete Co., Ltd. (iii)	608,375	-	-	-
	Masteel Group Kang Cheng Building and Installing Co., Ltd. (iii)	418,400	-	2,091,000	-
	Others (iii)	7,710,290	1	638,038	-
		<b>198,935,923</b>	<b>3</b>	<b>38,852,989</b>	<b>1</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

(6) Fees received for the supply of utilities, services and other consumable goods

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage	Amount	Percentage
		RMB	of similar	RMB	of similar
Note			transactions		transactions
			%		%
Holding	(iii)	15,656,810	7	14,572,712	2
Masteel Heavy Machinery					
Manufacturing Co., Ltd.	(iii)	64,888,355	29	–	–
Anhui Xinchuang Economize					
Resource Co., Ltd.	(iii)	51,122,276	23	2,276,507	–
Ma Steel Powder					
Metallurgy Co., Ltd.	(iii)	27,794,492	12	–	–
Ma Steel Powder					
Metallurgy Co., Ltd.	(iii)	8,329,832	4	–	–
Masteel Refractory					
Materials Co., Ltd.	(iii)	6,206,203	3	–	–
Masteel Transportation					
Equipment Manufacturing					
Co., Ltd.	(iii)	5,652,182	2	–	–
Masteel Equipment					
Maintenance Engineering					
Co., Ltd.	(iii)	5,398,715	2	–	–
Maanshan Masteel Surface					
Engineering Technology					
Co., Ltd.	(iii)	3,453,744	2	–	–
Masteel Automation and					
Information Technology					
Co., Ltd.	(iii)	3,131,914	1	–	–
Maanshan Gang Chen					
Industry Co., Ltd.	(iii)	1,159,281	1	5,934,598	1
Anhui BRC & Masteel					
Weldmesh Co., Ltd.	(iii)	–	–	7,547,155	1
Others	(iii)	5,930,644	2	5,334,479	2
		<b>198,724,448</b>	<b>88</b>	<b>35,665,451</b>	<b>6</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (7) Sale of steel products and related by products

		For the six months ended 30 June				
		2014		2013		
		Unaudited		Unaudited		
		Amount	Percentage	Amount	Percentage	
		RMB	of similar	RMB	of similar	
Note			transactions		transactions	
			%		%	
	Ma Steel Powder Metallurgy Co., Ltd.	(iii)	160,787,768	1	–	–
	Maanshan Masteel Steel Structure Technology Co., Ltd.	(iii)	75,674,770	–	–	–
	Ma Steel International Trade and Economic Corporation	(iii)	48,893,911	–	–	–
	Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	31,689,393	–	–	–
	Maanshan Gang Chen Industry Co., Ltd.	(iii)	–	–	14,057,575	–
	Others	(iii)	3,374,501	–	–	–
			<b>320,420,343</b>	<b>1</b>	<b>14,057,575</b>	<b>–</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.



# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (8) Financial service costs paid to related parties

		For the six months ended 30 June				
		2014		2013		
		Unaudited		Unaudited		
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions	
Note		RMB	%	RMB	%	
	Holding	(iv)	3,251,481	47	4,370,536	72
	Anhui Masteel Engineering Technology Company Limited	(iv)	808,532	12	-	-
	Maanshan Gang Chen Industry Co., Ltd.	(iv)	548,273	8	744,258	12
	Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iv)	421,947	6	-	-
	Ma Steel International Trade and Economic Corporation	(iv)	410,474	6	-	-
	Anhui Xinchuang Economize Resource Co., Ltd.	(iv)	7,759	-	397,360	7
	Others	(iv)	1,438,919	21	572,307	9
			<b>6,887,385</b>	<b>100</b>	<b>6,084,461</b>	<b>100</b>

(iv) Masteel Financial took deposit from the Holding and its subsidiaries, and paid interests to them at rates that were not higher than the benchmark interest rates issued by People's Bank of China.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (9) Financial service income received from related parties

		For the six months ended 30 June				
		2014		2013		
		Unaudited		Unaudited		
		Amount	Percentage	Amount	Percentage	
		RMB	of similar	RMB	of similar	
			transactions		transactions	
Note			%		%	
	Holding	(v)	10,844,250	54	3,960,248	37
	Maanshan Gang Chen Industry Co., Ltd.	(v)	6,510,308	32	4,541,829	43
	Anhui Masteel Luo He Mining Co., Ltd.	(v)	2,011,942	10	1,445,747	14
	Anhui BRC & Masteel Weldmesh Co., Ltd.	(v)	633,278	3	683,585	6
	Others	(v)	160,122	1	-	-
			<b>20,159,900</b>	<b>100</b>	<b>10,631,409</b>	<b>100</b>

- (v) Masteel Financial obtained financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance bill discounting and entrusted loan. The lending rate were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (10) Rental income from associates

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
Masteel Auto-parking	(vi)	81,421	1	-	-

(vi) These transactions were made between the Group and Masteel Auto-parking and were conducted in accordance with the terms mutually agreed between the parties.

#### (11) Rental expenses paid to associates

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
Masteel Auto-parking	(vi)	7,476	-	-	-

(vi) These transactions were made between the Group and Masteel Auto-parking and were conducted in accordance with the terms mutually agreed between the parties.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (12) Purchases of coke from associates

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
Shenglong Chemical	(vii)	-	-	28,000,000	3

(vii) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms mutually agreed between the parties.

#### (13) Sales of coke from associates

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
Shenglong Chemical	(vii)	606,317	-	-	-

(vii) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms mutually agreed between the parties.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (14) Rental income from a jointly-controlled entity

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
BOC-Ma Steel	(viii)	625,000	100	625,000	100

(viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (15) Fee received for the supply of electricity from a jointly-controlled entity

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
BOC-Ma Steel	(viii)	129,987,870	46	132,866,813	91

(viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (16) Fee received for utilities and facilities from a jointly-controlled entity

		For the six months ended 30 June			
		2014 Unaudited		2013 Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
BOC-Ma Steel	(viii)	2,675,174	100	2,847,260	100

(viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (17) Fee received for supply of steam from jointly-controlled entity

		For the six months ended 30 June			
		2014 Unaudited		2013 Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
BOC-Ma Steel	(viii)	2,049,322	100	-	-

(viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (18) Purchase of gas products from a jointly-controlled entity

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	BOC-Ma Steel (viii)	267,025,095	100	270,235,956	100

(viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (19) Sale of wheel products to a jointly-controlled entity

		For the six months ended 30 June			
		2014		2013	
		Unaudited		Unaudited	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Maanshan Jinxi Rail Transit Equipment Co., Ltd. (ix)	45,377,173	7	-	-

(ix) These transactions were made between the Group and Ma Steel Jinxi Rail and were conducted in accordance with the terms mutually agreed between them.

The transactions (i) to (ix) above are the transactions carried out between the Group and its related parties during the period.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Significant transactions carried out between the Group and its related parties during the period (continued)

#### (20) Guarantee from a related party

2014	Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding	(x)	The Company	0.512 billion	2012.8	2016.8	No as at the signing date of the report

  

2013	Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding	(x)	The Company	1.885 billion	2012.8	2016.8	No as at the signing date of the report

(x) During the six months ended 30 June 2014, the Holding has guaranteed certain bank loans of the Group amounting approximately to RMB0.512 billion (2013: approximately RMB1.885 billion). The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB7.848 billion as at 30 June 2014 (December 31 2013: part of the Group's bank loans and bonds with warrants amounting approximately to RMB9.257 billion).

(21) Further details on balances with the Holding and its subsidiaries, and the Group's jointly-controlled entities and associates are set out in note VI.6 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.



# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Trade receivables:</b>		
Holding and its subsidiaries		
Holding	–	784,528
Masteel Heavy Machinery Manufacturing Co., Ltd.	11,256,542	16,083,336
Ma Steel Powder Metallurgy Co., Ltd.	7,608,692	5,282,816
Maanshan Masteel Steel Structure Technology Co., Ltd.	6,436,107	12,399,476
Anhui Xinchuang Economize Resource Co., Ltd.	2,746,422	–
Masteel Transportation Equipment Manufacturing Co., Ltd.	1,458,634	199,184
Masteel Equipment Maintenance Engineering Co., Ltd.	577,523	1,611,318
Masteel Automation and Information Technology Co., Ltd.	415,207	1,120,377
Masteel Automobile Transportation Service Co., Ltd.	130,167	818,666
Maanshan Harbour Group Co., Ltd	104,920	–
Ma Steel Powder Metallurgy Co., Ltd.	–	39,823,899
Others entities controlled by Holding	13,000	5,212,396
	<u>30,747,214</u>	<u>83,335,996</u>
Associate of the Group		
Masteel Auto-parking	486,619	–
	<u>486,619</u>	<u>–</u>

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Prepayments:</b>		
Holding and its subsidiaries		
Holding	–	1,408,389
Ma Steel United Electric Steel Roller Co. Ltd.	26,796,882	21,734,918
Masteel International Trade Corp.	6,330,742	10,472,460
Masteel Engineering Technology Co., Ltd.	–	15,426
	<u>33,127,624</u>	<u>33,631,193</u>
<b>Other receivables:</b>		
Holding and its subsidiaries		
Holding	–	1,569,539,285
	<u>–</u>	<u>1,569,539,285</u>
<b>Dividends receivable:</b>		
Holding and its subsidiaries		
Masteel Engineering Technology Co., Ltd.	–	17,687,460
	<u>–</u>	<u>17,687,460</u>
Associate of the Group		
Jiyuan JinMa Coke	–	27,100,000
	<u>–</u>	<u>27,100,000</u>

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Accounts payable:</b>		
Holding and its subsidiaries		
Holding	147,842,199	–
Masteel International Trade Corp.	164,768,947	–
Ma Steel Powder Metallurgy Co., Ltd.	133,729,786	96,570,736
Masteel Engineering Technology Co., Ltd.	72,210,845	108,927,470
Masteel Shen Ma Metal Co., Ltd.	59,290,019	17,256,514
Anhui Xinchuang Economize Resource Co., Ltd.	43,499,674	100,378,632
Masteel Automation and Information Technology Co., Ltd.	27,935,511	19,446,257
Masteel Equipment Maintenance Engineering Co., Ltd.	23,455,024	21,428,275
Maanshan Masteel Surface engineering Technology Co., Ltd.	20,378,626	24,976,530
Masteel Automobile Transportation Service Co., Ltd.	20,194,073	17,969,410
Maanshan Harbour Group Co., Ltd	11,599,849	14,544,157
Others entities controlled by Holding	32,098,215	16,691,985
	<u>757,002,768</u>	<u>438,189,966</u>
Jointly-controlled entities of the Group		
BOC-Ma Steel	27,747,092	19,775,394
	<u>27,747,092</u>	<u>19,775,394</u>
Associate of the Group		
Shenglong Chemical	207,497	2,861,804
Masteel Auto-parking	7,476	–
	<u>214,973</u>	<u>2,861,804</u>

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Deposits received:</b>		
Holding and its subsidiaries		
Holding	3,101,910	325,464
Maanshan Gang Chen Industry Co., Ltd.	209,428,663	252,843,752
Maanshan Masteel Surface engineering Technology Co., Ltd.	52,888,096	53,177,931
Ma Steel Powder Metallurgy Co., Ltd.	25,174,226	–
Anhui BRC & Masteel Weldmesh Co., Ltd.	14,962,804	11,463,556
Others entities controlled by Holding	6,259,139	6,657,640
	<u>311,814,838</u>	<u>324,468,343</u>
Associate of the Group		
Jiyuan JinMa Coke	–	56,992
Shenglong Chemical	–	176,142
	<u>–</u>	<u>233,134</u>
Jointly-controlled entities of the Group		
Jinxi Traffic	–	97,995
	<u>–</u>	<u>97,995</u>

\* As at 30 June 2014, among the current assets and current liabilities, the company's trade receivables from, account payables to subsidiaries are RMB1,239,544,764 (2013: RMB759,322,537) and RMB4,837,126,491 (2013: RMB4,474,831,616) respectively. All these receivables and payables have no interest, no pledge and will be paid in the future.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Other payables:</b>		
Holding and its subsidiaries		
Holding	50,000	50,000
Masteel Automobile Transportation Service Co., Ltd.	7,027,327	7,564,881
Masteel Equipment Maintenance Engineering Co., Ltd.	6,578,228	1,711,559
Anhui Xinchuang Economize Resource Co., Ltd.	4,187,498	10,103,233
Ma Steel Powder Metallurgy Co., Ltd.	2,853,933	1,896,133
Maanshan Harbour Group Co., Ltd.	2,795,041	–
Maanshan Masteel Electric Repair Co., Ltd.	846,119	1,472,522
Others entities controlled by Holding	2,250,714	2,251,020
	<u>26,588,860</u>	<u>25,049,348</u>
Jointly-controlled entities of the Group		
Ma'anshan BOC-Ma Steel Gases Company Limited	70,000	70,000
	<u>70,000</u>	<u>70,000</u>

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Bills Receivable:</b>		
Holding and its subsidiaries		
Ma Steel Powder Metallurgy Co., Ltd.	46,571,053	22,000,000
Maanshan Gang Chen Industry Co., Ltd.	13,303,287	104,508,880
Anhui BRC & Masteel Weldmesh Co., Ltd.	9,500,000	–
Anhui Xinchuang Economize Resource Co., Ltd.	4,000,000	–
Maanshan Masteel Steel Structure Technology Co., Ltd.	3,000,000	6,900,000
Masteel Heavy Machinery Manufacturing Co., Ltd.	100,000	–
	<u>76,474,340</u>	<u>133,408,880</u>
Jointly-controlled entities of the Group		
Jiyuan JinMa Coke	10,000,000	3,700,000
	<u>10,000,000</u>	<u>3,700,000</u>
Associate of the Group		
Jinxi Traffic	28,064,588	1,800,000
	<u>28,064,588</u>	<u>1,800,000</u>

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivable from/payable to related parties (continued)

	30 June 2014 Unaudited	31 December 2013 Audited
<b>Loans and advances to customers:</b>		
Holding and its subsidiaries		
Holding	382,476,373	390,000,000
Anhui Masteel Luo He Mining Co., Ltd.	145,530,056	50,000,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	19,614,173	19,854,500
Anhui Xinchuang Economize Resource Co., Ltd.	13,457,202	–
Ma Steel International Trade and Economic Corporation	–	35,393,015
Others	11,281,279	726,844
	<u>572,359,083</u>	<u>495,974,359</u>
<b>Customer deposits:</b>		
Holding and its subsidiaries		
Holding	779,050,287	727,097,584
Maanshan Gang Chen Industry Co., Ltd.	69,341,533	79,141,617
Anhui Masteel Engineering Technology Company Limited	43,629,264	91,822,260
Ma Steel Powder Metallurgy Co., Ltd.	22,040,371	88,964,413
Others	181,953,748	403,583,984
	<u>1,096,015,203</u>	<u>1,390,609,858</u>
Jointly-controlled entities of the Group		
Jinxi Traffic	1,005,579	5,568
	<u>1,005,579</u>	<u>5,568</u>

The fee charged by Masteel Financial for the financing services and deposit transactions is determined based on mutual negotiation between Masteel Financial and the Group and its subsidiaries.

# Notes to Interim Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 7. The commitment of the Group with related parties

As at 30 June 2014 and 31 December 2013, the Group did not have significant commitment in relation to related parties.

## VII. CONTINGENT LIABILITIES

### Difference of corporate income tax

As detailed in Note III.3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalties and interest (if applicable).

### Pending litigation

As of 30 June 2014, the significant pending litigation of the Group and the Company was as follows:

Chongqing Jianghe Coalification (Group) Co., Ltd. sued the Company regarding the dispute of the right of bill recourse, relating to the claim amount of RMB4,140,000. By the Guang'an City Intermediate People's Court of first instance judgment, the Company shall bear joint and several liabilities. The Company has appealed and has been waiting for the decision of the Sichuan Province Higher People's Court.

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Shanghai Trading regarding dispute over steel trading, and the relevant claim amounts were RMB10,219,694 and RMB30,571,458, respectively. The lawsuits are currently pending for judicial decision by the court.

A natural person sub-contractor of Qiu Guo launched litigation against Ma Steel (Hefei) regarding dispute over an engineering service payment, and the relevant claim amount was RMB8,173,579. The project was sub-contracted by China MMC 17 Group Co., Ltd., and was executed finally by the natural person sub-contractor of Qiu Guo. Ma Steel (Hefei) has settled all the liabilities relevant to the project. The lawsuit is currently entering conciliation proceeding, but without reconciliation agreement.

Management made judgment to estimate the possible outcome of matters under disputes. The Group believes that there is an adequate disclosure in the consolidated financial statements based on available information.

In addition to the matters mentioned above, the Group believes no other things are expected to have a material effect on the consolidated financial statements.



# Notes to Interim Financial Statements (Continued)

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## VIII. COMMITMENTS

### 1. The commitments of the Group are as follows:

	<b>30 June 2013 Unaudited RMB'000</b>	31 December 2012 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	2,559,246	1,858,618
Contracted, but not provided for	5,208,735	5,119,014
	<u>7,767,981</u>	<u>6,977,632</u>
Investment commitments		
Authorised, but not contracted for	70,000	–
Contracted, but not fully contributed	350,784	60,000
	<u>350,784</u>	<u>60,000</u>

### 2. The Group's share in the commitments of a jointly-controlled entity (not included in Note 1 above) is as follows:

	<b>30 June 2013 Unaudited RMB'000</b>	31 December 2012 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	–	–
	<u>–</u>	<u>–</u>

# Notes to Interim Financial Statements (Continued)

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## IX. POST BALANCE SHEET EVENTS

### Disposal of Land Use Right by Ma Steel (Hefei)

On 7 January 2014, Ma Steel (Hefei) was informed to suspend its production and to take curtailment measures with regard to its emission of dust and other atmospheric pollutants requested by the Environmental Protection Department and Supervision Department of Anhui Province. On 9 January 2014, the Holding submitted the proposal themed with shutting down the existent iron and steel production lines and switching to more environmentally friendly production on behalf of Ma Steel (Hefei) to the Hefei Municipal Party Committee and the Hefei Municipal Government. On 16 January 2014, the Hefei Municipal Government reached an oral agreement with the Holding that Hefei City Land Reserve Center will purchase back the land-use rights over 556.47 acres of industrial land with book value of RMB148,722,133 which Ma Steel (Hefei) possessed at a consideration of no less than RMB1,200,000,000. The consideration was aimed at compensating the downsized employees and production switching expenditure, as well as loss of the land-use rights and production lines. The disposal was deemed as a set of interlinked transaction.

On 28 February 2014, the Board of Directors of the Company resolved to approve the sale of land-use rights to Hefei Municipal Land Reserve Center by Ma Steel (Hefei).

On 28 February 2014, based on the preliminary asset evaluation report, Hefei Municipal Land Reserve Center entered into the agreement with Ma Steel (Hefei) and consented that the consideration would be no less than RMB1,200,000,000. The final consideration would be subject to approval by the Hefei Municipal Bureau of Land Resources, Hefei Municipal Management Bureau of Real Estate and Hefei Municipal Architecture Affairs Administration. The compensation would be paid by instalments with the schedule as follows, 30% be paid before 10 March 2014, 30% be paid before 30 June 2014, 20% to be paid before 30 September 2014, and the remaining 20% to be paid before 30 December 2014.

On 10 March 2014, Ma Steel (Hefei) received the first batch of instalment of RMB360,000,000. On 12 August 2014, Ma Steel (Hefei) received the second batch of instalment of RMB360,000,000.

### Acquisition of VALDUNES S.A.S.

On 22 May 2014, the Company's Board of Directors approved the acquisition of the French company VALDUNES S.A.S.' assets through a newly-established subsidiary MG-VALDUNES S.A.S. The purchase consideration was EUR13,000,000. On 29 May 2014, the acquisition was approved by the VALENCIENNES Commercial Court. The purchase consideration was fully paid by the Company through MG-VALDUNES S.A.S. On 1 July 2014, the Company entered into the Completing Agreement with S.A.S VALDUNES. On 11 July 2014, the paid-in capital of MG-VALDUNES S.A.S was increased to EUR40,200,000 due to the capital injection of EUR40,000,000 by the Company. As at the report date, the purchase has not been closed.

# Notes to Interim Financial Statements (Continued)

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## IX. POST BALANCE SHEET EVENTS (CONTINUED)

### Bankruptcy of Yuyuan Logistics

On 31 July 2014, the Company received the civil judgment from the custodian of Yuyuan Logistics ([2012] MaPoZi No.00001-5) issued on 31 July 2014 by Ma'anshan City Intermediate People's Court, Anhui Province. The judgment states that:

As the draft restructuring proposal was not approved and that the custodian of Yuyuan Logistics cannot reach agreement on a new draft restructuring proposal with the creditors after negotiation, in accordance with Section 88 of the Enterprise Bankruptcy Law of the People's Republic of China, it is decided as follows:

1. The restructuring procedure of Yuyuan Logistics shall be terminated;
2. Yuyuan Logistics is declared bankrupt.

Such judgment took effect on 31 July 2014.

### Issuance of Short-term Financing Bill

The Company announce that it is in the process of issuing the first batch short-term financing bill in 2014 with the principal of RMB5,000,000,000 and term of 365 days and the expected issuing date at 22 August 2014. As at the date of this report, the issuance of the short-term financing bill is not completed.

## X. OTHER SIGNIFICANT EVENTS

### 1. Leases

*As lessor*

The Group has leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rent is fixed during the operating lease periods.

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Remaining lease period		
Within 1 year, inclusive	<b>1,250,000</b>	1,250,000
1 to 2 years, inclusive	<b>1,250,000</b>	1,250,000
2 to 3 years, inclusive	<b>1,250,000</b>	1,250,000
Over 3 years	<b>7,032,534</b>	7,657,534
	<b>10,782,534</b>	11,407,534

# Notes to Interim Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. Assets measured at fair value

#### 30 June 2014 (Unaudited)

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the period	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	509,330	(19,730)	-	-	489,600

#### 31 December 2013 (Audited)

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	587,120	(77,790)	-	-	509,330

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 3. Financial assets and liabilities in foreign currencies

**30 June 2014 (Unaudited)**

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the period	Closing balance
Financial assets					
Loans and trade receivables	183,660,830	2,831,909	-	-	259,915,578
Financial liabilities					
Borrowings	6,410,268,490	(17,394,227)	-	-	4,471,752,041
Trade payables	34,642,398	(1,233,766)	-	-	131,726,078

**31 December 2013 (Audited)**

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Loans and trade receivables	175,318,454	(8,919,551)	-	-	183,660,830
Financial liabilities					
Borrowings	3,618,962,623	58,686,069	-	-	6,410,268,490
Trade payables	86,823,658	6,269	-	-	34,642,398

# Notes to Interim Financial Statements (Continued)

30 June 2014

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. Operating segment information

#### *Operating segment*

The Group divides the operation services into three operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for Masteel Financial, Ma Steel International Trade Corp. and Shanghai Trading.
- Trading of steel, iron ores and raw materials: Ma Steel International Trade Corp. and Shanghai Trading.
- Financial service: Masteel Financial.

The Group did not consider trade service and financial service as an individual reportable segment, as their revenue, profit and assets are lower than 10% of the Group, and that Masteel Financial mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of steel and it is unnecessary for the Group to disclose more detailed information.

#### *Other information*

#### **Products and service information**

External principal operation income

	<b>For the six months ended 30 June</b>	
	<b>2014 Unaudited</b>	2013 Unaudited
Sale of steel products	<b>26,505,766,957</b>	29,680,878,570
Sale of steel billets and pig iron	<b>447,844,013</b>	364,639,204
Sale of coke by-products	<b>500,456,377</b>	468,415,809
Others	<b>514,523,071</b>	1,388,090,950
	<b>27,968,590,418</b>	<b>31,902,024,533</b>

# Notes to Interim Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. Operating segment information (continued)

#### Geographical information

External principal operation income

For the six months  
ended 30 June

	2014 Unaudited	2013 Unaudited
The PRC	26,790,198,483	31,038,470,291
Overseas	1,178,391,935	863,554,242
	<u>27,968,590,418</u>	<u>31,902,024,533</u>

Non-current assets

For the six months  
ended 30 June

	2014 Unaudited	2013 Unaudited
The PRC	43,121,599,045	42,267,826,947
Overseas	208,953,218	201,626,423
	<u>43,330,552,263</u>	<u>42,469,453,370</u>

The non-current asset information above is based on the locations of assets and excludes deferred tax assets.

#### Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

# Notes to Interim Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. Other financial information \*

	The Group		The Company	
	30 June 2014 Unaudited	December 31 2013 Audited	30 June 2014 Unaudited	December 31 2013 Audited
Current assets	29,177,330,603	28,596,789,876	21,309,034,400	20,543,837,159
Less: Current liabilities	39,760,304,019	37,088,333,872	28,961,242,908	26,556,726,601
Net current liabilities	<u>(10,582,973,416)</u>	<u>(8,491,543,996)</u>	<u>(7,652,208,508)</u>	<u>(6,012,889,442)</u>

	The Group		The Company	
	30 June 2014 Unaudited	December 31 2013 Audited	30 June 2014 Unaudited	December 31 2013 Audited
Total assets	73,299,178,280	71,821,618,000	60,195,762,562	59,452,618,001
Less: Current liabilities	39,760,304,019	37,088,333,872	28,961,242,908	26,556,726,601
Net total assets minus liabilities	<u>33,538,874,261</u>	<u>34,733,284,128</u>	<u>31,234,519,654</u>	<u>32,895,891,400</u>

### 6. Comparative data

As at 30 June 2014, the advance payment of income tax and the deductible VAT input tax has been reclassified as other current assets and the comparative data for the previous year has been restated. Please refer to Note V.8 and Note V.21 for detail.



# Notes to Interim Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

### 1. Trade receivables

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days.

An aged analysis of trade receivables is as follows:

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Within one year	<b>1,713,184,328</b>	1,270,738,192
One to two years	<b>29,120,341</b>	25,760,955
Two to three years	<b>294,700</b>	602,210
Over three years	<b>8,302,458</b>	8,314,031
	<b>1,750,901,827</b>	1,305,415,388
Less: Provisions for bad debts	<b>13,382,203</b>	13,382,203
	<b>1,737,519,624</b>	1,292,033,185

Trade receivable balance is analyzed as follows:

	30 June 2013 (Unaudited)				31 December 2012 (Audited)			
	Book Value		Provision for bad debts		Book Value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	1,733,911,393	99	(6,927,040)	-	1,284,187,506	98	(6,927,040)	1
Other insignificant but assessed for impairment individually	16,990,434	1	(6,455,163)	38	21,227,882	2	(6,455,163)	30
	<b>1,750,901,827</b>	<b>100</b>	<b>(13,382,203)</b>		<b>1,305,415,388</b>	<b>100</b>	<b>(13,382,203)</b>	

The movements of provision for bad debts against trade receivables for the period are disclosed in Note XI.3.

# Notes to Interim Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. Trade receivables (continued)

The following balances are denominated in foreign currencies:

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	29,403,440	6.1528	180,913,487	27,081,545	6.0969	165,113,473
EUR	1,333,161	8.3946	11,191,353	529,657	8.4189	4,459,126
			<u>192,104,840</u>			<u>169,572,599</u>

As at 30 June 2014, the top five largest customers were as follows:

	Relationship with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	209,265,544	Within one year	12
Company 2	Subsidiary	206,847,927	Within one year	12
Company 3	Subsidiary	199,585,243	Within one year	11
Company 4	Subsidiary	177,293,205	Within one year	10
Company 5	Subsidiary	143,552,808	Within one year	8
		<u>936,544,727</u>	Within one year	<u>53</u>

As at 31 December 2013, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Subsidiary	272,409,041	Within one year	21
Company 2	Subsidiary	270,833,330	Within one year	21
Company 3	Subsidiary	188,089,471	Within one year	14
Company 4	Subsidiary	53,520,747	Within one year	4
Company 5	Independent third party	51,715,171	Within one year	4
		<u>836,567,760</u>		<u>64</u>

# Notes to Interim Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables

An aged analysis of the other receivables is as follows:

	<b>30 June 2014 Unaudited</b>	31 December 2013 Audited
Within one year	<b>221,834,006</b>	1,524,776,171
One to two years	<b>336,630,884</b>	545,040,813
Two to three years	<b>239,944</b>	130,000
Over three years	<b>6,899,731</b>	6,259,137
	<b>565,604,565</b>	2,076,206,121
Less: Provisions for bad debts	<b>310,044,429</b>	310,044,429
	<b>255,560,136</b>	1,766,161,692

The movements of provision for bad debts against other receivables for the period are disclosed in Note XI.3.

Other receivable balance is analyzed as follows:

	<b>30 June 2014 (Unaudited)</b>				31 December 2013 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Rate (%)	Amount	Rate (%)	Balance	Rate (%)	Amount	Rate (%)
Individually significant and assessed for impairment								
Individually	553,224,438	98	(306,185,292)	55	2,044,668,677	98	(306,185,292)	15
Other insignificant but assessed for impairment								
Individually	12,380,127	2	(3,859,137)	31	31,537,444	2	(3,859,137)	12
	<b>565,604,565</b>	<b>100</b>	<b>(310,044,429)</b>		<b>2,076,206,121</b>	<b>100</b>	<b>(310,044,429)</b>	

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables (continued)

During the period, there were no write-off or reversal of provision for bad debts against other receivables.

The balance of other receivables as at 30 June 2014 did not contain any amount due from either shareholders who held 5% or above of the Company's equity interests or related parties (31 December 2013: RMB1,569,539,285).

As at 30 June 2014, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	132,186,434	Within two years	23
Company 2	Independent third party	127,685,368	Within two years	22
Company 3	Independent third party	60,939,960	Within two years	11
Company 4	Independent third party	37,243,733	Within two years	7
Company 5	Independent third party	16,121,438	Within one year	3
		<u>374,176,933</u>		<u>66</u>

As at 31 December 2013, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	The Holding	1,569,539,285	Within one year	76
Company 2	Independent third party	132,186,434	One to two years	6
Company 3	Independent third party	127,685,368	One to two years	6
Company 4	Independent third party	60,939,960	One to two years	3
Company 5	Independent third party	37,243,733	One to two years	2
		<u>1,927,594,780</u>		<u>93</u>

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. Asset impairment provisions

	30 June 2014 (Unaudited)					Closing balance
	Opening Balance	Increase during the period	Decrease during the period			
			Reversal	Write-back	Write-off	
Provisions for bad debts	323,426,632	-	-	-	-	323,426,632
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	310,044,429	-	-	-	-	310,044,429
Provisions for inventories (i)	600,646,153	343,864,457	-	715,529,874	-	228,980,736
Including: Raw materials	509,774,940	244,629,340	-	638,603,233	-	115,801,047
Semi-finished products	12,334,950	69,928,055	-	37,719,628	-	44,543,377
Finished products	18,202,582	29,307,062	-	39,108,557	-	8,401,087
Spare parts	60,333,681	-	-	98,456	-	60,235,225
Provisions for long term investments	330,000,000	-	-	-	-	330,000,000
Including: Subsidiary	330,000,000	-	-	-	-	330,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>1,254,072,785</u>	<u>343,864,457</u>	<u>-</u>	<u>715,529,874</u>	<u>-</u>	<u>882,407,368</u>

- (i) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. Asset impairment provisions (continued)

	31 December 2013 (Audited)					Closing balance
	Opening Balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	353,094,800	-	29,668,168	-	-	323,426,632
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	339,712,597	-	29,668,168	-	-	310,044,429
Provisions for inventories (i)	347,352,609	1,190,949,479	-	937,655,935	-	600,646,153
Including: Raw materials	219,713,336	957,569,761	-	667,508,157	-	509,774,940
Semi-finished products	49,553,203	66,387,275	-	103,605,528	-	12,334,950
Finished products	17,434,142	166,992,443	-	166,224,003	-	18,202,582
Spare parts	60,651,928	-	-	318,247	-	60,333,681
Provisions for long term investments	330,000,000	-	-	-	-	330,000,000
Including: Subsidiary	330,000,000	-	-	-	-	330,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>1,030,447,409</u>	<u>1,190,949,479</u>	<u>29,668,168</u>	<u>937,655,935</u>	<u>-</u>	<u>1,254,072,785</u>

- (i) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Principal operating income	23,449,280,979	26,729,294,346
Other operating income	1,298,442,110	1,676,889,881
	<u>24,747,723,089</u>	<u>28,406,184,227</u>

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Principal cost of sales	22,799,218,515	25,650,641,557
Other cost of sales	1,336,604,653	1,746,629,079
	<u>24,135,823,168</u>	<u>27,397,270,636</u>

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Sale of steel products	22,383,984,580	25,159,685,534
Sale of steel billets and pig iron	328,171,408	353,555,330
Sale of coke by-products	461,071,915	451,401,872
Others	276,053,076	764,651,610
	<u>23,449,280,979</u>	<u>26,729,294,346</u>

# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. Revenue and cost of sales (continued)

In the first half of 2014, the revenue from the top five largest customers is as follows:

	Amount	Percentage of total revenue (%)
Company 1	1,266,460,371	5
Company 2	1,262,585,700	5
Company 3	982,407,333	4
Company 4	780,531,079	3
Company 5	747,957,368	3
	<u>5,039,941,851</u>	<u>20</u>

In the first half of 2013, the revenue from the top five largest customers is as follows:

	Amount	Percentage of total revenue (%)
Company 1	1,444,756,667	5
Company 2	1,379,935,812	5
Company 3	1,168,198,725	4
Company 4	1,004,511,114	4
Company 5	927,593,649	3
	<u>5,924,995,967</u>	<u>21</u>



# Notes to Interim Financial Statements (Continued)

30 June 2014

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. Investment income

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Long term equity investment income under the equity method	67,409,827	51,466,354
Investment income from holding available for sale financial assets	7,352,969	27,346,221
Investment income from financial assets measured at fair value through profit or loss	6,486	2,520
	<b>74,769,282</b>	<b>78,815,095</b>

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

### 6. Cash flows from operating activities

	For the six months ended 30 June	
	2014 Unaudited	2013 Unaudited
Net loss	(724,254,718)	(565,086,914)
Add: Provision/(reversal of provision) for inventories	343,864,457	(88,395,360)
Depreciation of fixed assets	1,609,752,030	1,631,975,294
Amortisation of investment properties	863,732	405,049
Amortisation of intangible assets	14,800,836	16,013,051
Amortisation of deferred income	(46,387,101)	(44,691,240)
Loss on disposal of non-current assets	329,534	1,412,016
Financial expenses	458,904,047	522,927,626
Investment income	(74,769,282)	(78,815,095)
Loss on fair value changes of financial assets held for trading	19,730	97,570
(Increase)/decrease in deferred tax assets	(1,724,653)	17,325,633
Decrease in inventories	453,277,288	357,425,014
Decrease/(increase) in receivables from operating activities	270,529,180	(468,791,104)
Increase in payables from operating activities	1,151,325,839	5,283,118,266
Net cash flows from operating activities	<b>3,456,530,919</b>	<b>6,584,919,806</b>

# Appendices Supplementary Information

30 June 2014

Renminbi Yuan

## 1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” (No.43 [2008]) issued by the CSRC.

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Unaudited</b>	Unaudited
<b>Items of non-recurring gains or losses</b>		
Profit on disposal of non-current assets	(520,880)	(1,702,335)
Subsidy income	37,960,340	33,574,610
Amortisation of deferred income	48,585,751	45,786,977
Other non-operating expense and income items	13,429,316	4,115,037
Loss on fair value changes of financial assets held for trading	(19,730)	(97,570)
Investment income from financial assets measured at fair value through profit or loss	6,486	2,520
Other investment income	–	7,275,925
	<b>99,441,283</b>	88,955,164
Less: Income tax effect of non-recurring gains	<b>26,076,368</b>	17,917,210
Non-recurring gains attributable to minority shareholders	<b>11,537,540</b>	10,523,250
Net effect of non-recurring gains	<b>61,827,375</b>	60,514,704
<b>Net profit attributable to equity holders of the parent excluding non-recurring gains or losses</b>		
Net (loss) attributable to equity holders of the parent	<b>(730,266,178)</b>	(332,823,078)
Less: Net effect of non-recurring gains	<b>61,827,375</b>	60,514,704
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(792,093,553)</b>	(393,337,782)

## Appendices Supplementary Information (Continued)

30 June 2014

Renminbi Yuan

### 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

**For the six months ended 30 June 2014 (Unaudited)**

	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to equity holders of the parent	(3.21)	(0.095)	(0.095)
Net loss attributable to equity holders of the parent excluding holders of the parent	(3.48)	(0.103)	(0.103)

For the six months ended 30 June 2013 (Unaudited)

	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net loss attributable to equity holders of the parent	(1.45)	(0.043)	(0.043)
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	(1.72)	(0.051)	(0.051)

Return on net assets and earnings per share are calculated based on the formula stipulated in the “Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share” (2010 revised) issued by the CSRC.

# Appendices Supplementary Information (Continued)

30 June 2014

Renminbi Yuan

## 3. VARIANCE ANALYSIS

In accordance with to the requirement of *Information Disclosure Rules of Companies which Publicly Issue Securities No. 15 – General Rules on Financial Statements (amended in 2010)*, an analysis of the financial statement items either with a fluctuation over 30% compared with the comparative period, or with an amount over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

- (1) Cash and bank balances amounted to RMB7,067,349,627, an increase of 38% over the previous year. The restricted amount decreased RMB758,227,076, which was mainly attributable to the reduce of security for trade facilities and performance bonds; unrestricted amount increased RMB2,718,858,634, which was mainly attributable to the cash inflow from the operating activities.
- (2) Dividends receivable amounted to RMB0, a decrease of 100% over the previous year, which was mainly attributable to dividends received from associates and jointly-controlled entity.
- (3) Interest receivable amounted to RMB 11,346,317, an increase of 220% over the previous year, which was mainly attributable to the increase of the deposits every other month. It resulted in the increase of the accrued interests at the period end.
- (4) Prepayments amounted to RMB706,374,243, a decrease of 31% over the previous year, which was mainly attributable to the decrease of prepayments of crude fuel purchasing.
- (5) Other receivable balances amounted to RMB438,905,075, a decrease of 77%, which was mainly attributable to that the amount had been received from the Group, which was resulting from the asset reorganization.
- (6) Fix assets amounted to RMB36,164,440,923, an increase of 18% over the previous year, which was mainly attributable to Hot-rolled project of 4th steel plant(1580)'s post-restructuring in new zone of Masteel, The reconstruction project of Phase II silicon steel and Deep processing sheet project of Hefei Plate were ready to use and were transferred to the fixed assets.
- (7) Construction materials amounted to RMB61,617,734, an increase of 107% over the previous year, which was mainly attributable to the increase of purchase of asset for Deep processing sheet project of Hefei Plate in subsidiary.
- (8) Construction in progress amounted to RMB4,165,684,829, a decrease of 52% over the previous year, which was mainly attributable to Hot-rolled project of 4th steel plant(1580)'s post-restructuring in new zone of Masteel, The reconstruction project of Phase II silicon steel and Deep processing sheet project of Hefei Plate were ready to use and were transferred to the fixed assets.

# Appendices Supplementary Information (Continued)

30 June 2014

Renminbi Yuan

## 3. VARIANCE ANALYSIS (continued)

- (9) Borrowing funds amounted to RMB 500,000,000, an increase of 100% over the previous year, which was mainly attributable to Masteel Financial's borrowings from other financial institutions to satisfy the Group's demand for short-term financing.
- (10) Repurchase agreements amounted to RMB179,480,250, a decrease of 48% over the previous year, which was mainly attributable to the decreased of bill rediscounted from central bank in current period.
- (11) Interest payable amounted to RMB439,087,786, an increase of 166% over the previous year, which was mainly attributable to interest payments on corporate bonds due August every year, resulting in the significant balance of the interest payable as at 30 June 2014.
- (12) Other payables amounted to RMB1,344,615,143, an increase of 40% over the previous year, which was mainly attributable to the increase of the unpaid sales incentive and sales refund for price difference.
- (13) Long term loans amounted to RMB5,466,884,000, a decrease of 10% over the previous year, which was mainly attributable to the fact that some long term loans due within one year had been reclassified into non-current liabilities due within one year at the period end.
- (14) Deferred income amounted to RMB776,720,278, an increase of 27% over the previous year, which was mainly attributable to received compensation for the land use right disposal.
- (15) Revenue amounted to RMB28,864,351,998, a decrease of 22% over the previous period, which was mainly attributable to the decrease in the average unit sales price of steel products.
- (16) Cost of sales amounted to RMB27,822,934,411, a decrease of 21% over the previous period, which was mainly attributable to the decrease in the price of raw materials such as iron ore and coal.
- (17) Business taxes and surcharges amounted to RMB92,669,574, a decrease of 31% over the previous period, which was mainly attributable to the decrease of surcharges (mainly including city maintenance and construction tax and educational surcharges), resulting from the decrease of commodity turnover tax.
- (18) Administrative expenses amounted to RMB598,280,425, a decrease of 12% over the previous period which was mainly attributable to the disposal of some subsidiaries in last October and the decreased management fees resulting from the iron ore mine operated by Masteel Australia.

# Appendices Supplementary Information (Continued)

30 June 2014

Renminbi Yuan

## 3. VARIANCE ANALYSIS (continued)

- (19) Asset impairment losses amounted to RMB344,320,395, a decrease of 28% over the previous period, which was mainly attributable to that significant provision of inventory was recognised for prior period.
- (20) The loss on fair value changes amounted to RMB19,730, a decrease of 80% over the previous period, which was mainly attributable to the declined stock price compared with last period.
- (21) Non-operating expenses amounted to RMB1,960,924, a decrease of 36%, which was mainly attributable to the decrease of loss from disposal of fixed assets compared with last period.
- (22) Income tax amounted to RMB18,669,331, a decrease of 76% over the previous period, which was mainly attributable to the increase in the Group's total loss for the current period.
- (23) Minority interests amounted to RMB33,229,317, a decrease of 446% over the previous period, which was mainly attributable to losses of non-wholly owned subsidiaries in current period as compared to profits of non-wholly owned subsidiaries during last period.
- (24) Cash inflows from operating activities amounted to RMB1,388,043,601, a decrease of 63% over the previous period, which was mainly attributable to the decrease in the cash received from selling goods.
- (25) Cash inflows from investing activities amounted to RMB1,808,194,417, an increase of 163% compared to cash outflows over the previous period, which was mainly attributable to the decrease of cash payment for the construction in progress.
- (26) Cash outflows from operating activities amounted to RMB566,978,623, a decrease of 69% over the previous period, which was mainly attributable to the decrease of the cash received from lending and payment for debts.
- (27) Effect of foreign exchange rate changes on cash amounted to RMB89,599,239, a decrease of 148% over the previous period, which was mainly attributable to the appreciation of the holding foreign currencies against Renminbi.

## IX. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;
2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;
4. The Company's Articles of Association;
5. Interim report disclosed in other securities market;
6. Other related information.

**Maanshan Iron & Steel Company Limited**

**Ding Yi**

*Chairman*

19 August 2014