

# 2015 Interim Report

H Share Code: 323  
A Share Code: 600808



**MAANSHAN IRON & STEEL COMPANY LIMITED**

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## IMPORTANT NOTICE

- I. 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.
- II. All members of the Board attended the Board meeting.
- III. The interim financial reports of the Company are unaudited but approved by the Audit Committee of the Company.
- IV. Mr. Ding Yi, the person-in-charge of the Company, Mr. Qian Haifan, the person-in-charge of accounting operations, and Mr. Xing Qunli, the person-in-charge of the Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in this interim report.
- V. No appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.
- VI. 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 following terms have the following meanings:

## DEFINITIONS OF COMMON TERMS

The Company or Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	The Company and subsidiaries
Holding	means	Magang (Group) Holding Company Limited
Board of Directors or Board	means	the Board of Directors of the Company
Directors	means	the directors of the Company
Supervisory Committee	means	the Supervisory Committee of the Company
Supervisors	means	the supervisors of the Company
Hong Kong Stock Exchange	means	The Stock Exchange of Hong Kong Limited
SSE	means	Shanghai Stock Exchange
A shares	means	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
Anhui Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd.
Hefei Co	means	Ma Steel (Hefei) Iron & Steel Co., Ltd.
Rail Transportation Equipment Co. Ltd.	means	Maanshan Jinxi Rail Transit Equipment Co., Ltd., renamed to Magang Rail Transportation Equipment Co. Ltd. in August 2015
Changzhou Runhe	means	Changzhou Runhe Real Estate Development Co., Ltd.
Masteel Financial	means	Magang Group Finance Co. Ltd.
Anhui Xinchuang	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology 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	Hu Shunliang	He Hongyun
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 annual report publication	www.sse.com.cn
Location for inspection of annual 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 license	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 five major categories: steel plates, section steel, wire rods, special steel, 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	Corresponding	Increase/ decrease at the reporting period as compared to the corresponding period of the previous year
	(January to June)	period of the previous year	period of the previous year (%)
Operating revenue	23,447,521	28,864,352	-18.8
Net loss attributable to shareholders of the Company	1,236,592	730,266	69.3
Net loss excluding non-recurring gains or losses attributable to shareholders of the Company	1,345,736	792,094	69.9
Net cash flows from operating activities	4,628,268	1,388,044	233.4
	<b>As at the end of the reporting period</b>	<b>As at the end of the previous year</b>	<b>Increase/ decrease at the end of the reporting period as compared to the end of the previous year (%)</b>
Net assets attributable to shareholders of the Company	22,012,632	23,295,566	-5.5
Total assets	68,319,391	68,511,175	-0.3

### 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 reporting the period as compared to the corresponding period of the previous year (%)
Basic losses per share (RMB/share)	-0.161	-0.095	-
Diluted losses per share (RMB/share)	-0.161	-0.095	-
Basic losses per share excluding non-recurring gains or losses (RMB/share)	-0.175	-0.103	-
Return on net assets (weighted average) (%)	-5.46	-3.21	Decrease by 2.25 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	-5.94	-3.48	Decrease by 2.46 percentage points

#### 2. ACCOUNTING DATA DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS

✓Not applicable

#### 3. ITEMS AND AMOUNT OF NON-RECURRING GAINS OR LOSSES

Items of non-recurring gains or losses	<i>Unit: RMB</i> Amount
Government grant recorded as current period profit	106,326,270
Amortization of deferred income	63,643,381
Profit from disposal of non-current assets	660,487
Realized investment income from disposal of financial assets measured at fair value through profit or loss	625,118
Non-operating income and expenses other than the above items	-13,146,595
Other investment loss	- 7,385,938
Impact of minority interests	-1,262,024
Impact of income tax	-40,317,616
Total	<u><u>109,143,083</u></u>

## IV. Report of the Board

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

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

During the period under review, China's overall national economic performance remained steady. GDP grew by 7%, down 0.4 percentage point when compared with same period of last year; while fixed asset investment across the country grew by 11.4%, down 5.9 percentage point when compared with same period of last year. The general oversupply situation in the Chinese domestic iron and steel industry became intense, while the pace of growth in the major downstream steel-consuming sectors decelerated so that the demand for steel products declined, leading to a plunge in steel price. The consolidated price index for domestic steel products as at the end of June was 66.69, down 28.28% when compared with same period of last year, down 16.40 points over that as at the end of last year, a wider drop than that of last year. The cost savings of the iron and steel industry achieved by benchmarking, tapping potentials and improving management could not fully make up for the losses incurred by the price drop of steel products. Member companies posted an average profit margin of 0.11% in the first half of this year, down 0.3 percentage point when compared with same period of last year, according to CISA.

As for imports and exports, according to the customs statistics, exported steel products during the first half of 2015 amounted to 52,400,000 tonnes, an increase of 27.8% when compared with same period of last year, while imported steel products amounted to 6,650,000 tonnes, a decrease of 8.2% when compared with same period of last year. Equivalent net export of crude steel amounted to 47,660,000 tonnes in the first half of 2015, an increase of 33.5% when compared with same period of last year.

## IV. Report of the Board (Continued)

### 2. Production and operation of the Company

Due to the plunge in steel price during the reporting period, the Company recorded greater losses as compared with the corresponding period of the previous year.

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

- Implemented the blast furnace checkup system with joint efforts across departments to assure production stability. During the reporting period, the Group produced 8,680,000 tonnes of pig iron, 9,150,000 tonnes of crude steel and 8,910,000 tonnes of steel products, representing an increase of 0.36%, 1.10% and 2.67%, respectively when compared with same period of last year (in which the Company produced 6,490,000 tonnes of pig iron, 6,930,000 tonnes of crude steel and 6,740,000 tonnes of steel products, representing an increase of 5.5%, 5% and 6.5%, respectively when compared with same period of last year).
- Developed new direct-sale customers, expanded exports and promoted online sales. During the reporting period, the Group's total sales of steel products amounted to 8,760,000 tonnes, among which the sales of steel plates, section steels, wire rods, train wheels and rims, and special steel amounted to 4,610,000 tonnes, 860,000 tonnes, 3,190,000 tonnes, 60,000 tonnes and 40,000 tonnes, respectively.
- Acquired 50% equity interests in Rail Transportation Equipment Co. Ltd. which enabled the Company to extend its wheel industrial chain and establish a manufacturing platform for train-related facilities and equipment.

### 3. Financial position and exchange risks

As at 30 June 2015, the total loans of the Group amounted to RMB21,559 million, including short-term loans of RMB13,517 million for working capital and long-term loans of RMB8,042 million. Except for foreign currency loans amounting to US\$1,034 million, all other loans were denominated in Renminbi. Except for US dollar loans amounting to US\$758 million with fixed interest rates and US dollar loans of US\$276 million at LIBOR plus premium, among the Renminbi-denominated loans of the Group, loans amounting to RMB7,725 million carried fixed interest rates and loans amounting to RMB7,515 million carried floating interest rates.

As at 30 June 2015, the Group's total amount of direct financing reached RMB11.34 billion, including 5-year bonds of RMB2.34 billion issued in 2011, short-term financing bonds of RMB5 billion issued in 2014, and two RMB2 billion mid-term notes, totaling RMB4 billion, issued in July and August 2015 respectively. The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. The Group had no overdue loans in the reporting period, except for Shanghai Trading's short-term bank loans.

At present, the Group is financing its capital projects primarily via its own funds. As at the end of the reporting period, banking facilities available to the Group amounted to approximately RMB42,890 million.

As at 30 June 2015, the Group's cash and bank balances amounted to RMB7,979 million and bills receivable amounted to RMB5,939 million, the majority of which derived from sales proceeds.

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 Group's purchase of equipment in Europe and Japan was not significant and, as a result, the impact of foreign exchange rate fluctuations on procurement payment 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 CSRC, the National Audit Office, the CBRC 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 functions of the Company and forms a regulated management system, enabling 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 2014". 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 Board (Continued)

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

In the second half of the year, China will adhere to the main theme of “making progress while maintaining stability” for its effort to promote the healthy growth of the country’s economy and maintain consistent and stable macroeconomic policies. The effects of the measures for maintaining stability will show gradually, and may drive up steel consumption, though with limited growth. As there is no instant wire to the steel overcapacity issue, the business environment of steel companies will still be challenging.

In the second half of the year, the Company will focus on the following areas:

- To reshape the business processes, drive consolidation with specialization, focus on core business, optimize resource allocation and improve operational efficiency;
- To optimize the mix of production capacities, adapt the production organization model, and drive production efficiency of key production lines and furnaces; suspend utilization of production lines and furnaces without marginal profit; redouble efforts on restructuring and elimination of outdated capacities and shut down certain production lines and furnaces permanently;
- To optimize human resources, enhance productivity and reduce the use of external labor;
- To drive upgrade of product mix and make significant improvements in the quality control of key production lines;
- To achieve synergy between domestic and international markets, win as many overseas orders as possible and boost market share in the global market; in the meantime, promote globalization by integrating overseas resources and optimizing the overseas business mix.

## (1) ANALYSIS OF PRINCIPAL OPERATIONS

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

Unit: RMB'000

Items	Amount of the Reporting period	Corresponding period of the previous year	Change (%)
Revenue	23,447,521	28,864,352	-18.8
Cost of sales	22,624,291	27,822,934	-18.7
Selling expenses	299,730	231,264	29.6
Administrative expenses	822,972	598,280	37.6
Financial expenses	565,859	693,488	-18.4
Net cash flows from operating activities	4,628,268	1,388,044	233.4
Net cash flows (used in)/from investing activities	-1,578,859	1,808,194	-187.3
Net cash flows from/(used in) financing activities	531,009	-566,979	-193.7
Research and development expenditure	253,760	282,730	-10.2
Business tax and surcharges	126,215	92,670	36.2
Investment income	44,104	74,344	-40.7
Non-operating income	171,643	101,415	69.2
Non-operating expenses	14,159	1,961	622.0
Income tax	203,069	18,669	987.7
Minority interests	-123,711	-33,229	272.3
Net loss attributable to the equity holders of the parent	1,236,592	730,266	69.3
Effect of foreign exchange rate changes on cash and cash equivalents	-23,055	89,599	-125.7

Changes in revenue and the reasons therefor: mainly attributable to the decrease in the selling price of steel products during the reporting period.

Changes in cost of operation and the reasons therefor: mainly attributable to the drop of the prices of raw material and fuel, such as iron ore and coking coal, during the reporting period. Also, through the structural optimization of coal blending and ore proportioning, the recycling of wastes and substandard products was strengthened.

## IV. Report of the Board (Continued)

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

Changes in selling expenses and the reasons therefor: mainly attributable to a surge in freight and port loading/unloading expenses relating to exported products incurred by strong exports during the reporting period.

Changes in administrative expenses and the reasons therefor: mainly attributable to the effect of the increase of land use tax rate during the reporting period when compared with same period of last year.

Changes in financial expenses and the reasons therefor: mainly attributable to a decline in sales revenue and decrease in imports during the reporting period, which reduces interest expenses on discounting of notes receivable and administrative fees such as bank handling charges for issuance of L/C.

Changes in net cash flows from operating activities and the reasons therefor: mainly attributable to a decrease in operating receivables but a significant increase in operating payables during the reporting period, along with the growth of deposits taken by the finance company and reduction of deposits in central bank.

Changes in net cash flows (used in)/from investing activities and the reasons therefor: mainly attributable to the consideration for disposal of assets other than in the iron & steel industry and compensation for land expropriation to Hefei Iron & Steel received in the corresponding period last year, as well as an increase in the cost of Construction in Progress (CIP) recorded during the reporting period.

Changes in net cash flows from/(used in) financing activities and the reasons therefor: mainly attributable to an increase in cash received from borrowings during the reporting period.

Changes in business taxes and surcharges and the reasons therefor: mainly attributable to the increase in additional tax resulted from the increase in value added tax during the reporting period.

Changes in business taxes and surcharges and the reasons therefor: mainly attributable to the decrease in net profit from associates and joint ventures as compared with the first half of 2014.

Changes in non-operating income and the reasons therefor: mainly attributable to the effect of government grants for transformation and development and tax incentives for the waste recycling industry during the reporting period.

Changes in non-operating expenses and the reasons therefor: mainly attributable to the claim for compensation on Shanghai Industry and Trade Company Limited during the reporting period.

Changes in income tax expenses and the reasons therefor: mainly attributable to the reversal in deferred tax relating to tax deductible losses during the reporting period.

Changes in non-controlling interests and the reasons therefor: mainly attributable to the increase in loss from non-wholly owned subsidiaries during the reporting period.

Changes in net loss attributable to owners of the parent company and the reasons therefor: mainly attributable to the decline in gross profit as a result of the decrease in selling price of steel price during the reporting period.

Changes in effect on foreign exchanges on cash and cash equivalents and the reasons therefor: mainly attributable to the depreciation of foreign currencies held by the Company against Renminbi during the reporting 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:

- Monetary assets increased 71% compared with the end of last year, mainly owing to net cash inflow of RMB4,600 million from operating activities, net cash outflow of RMB1,600 million from investing activities, net cash inflow of RMB500 million from financing activities, and about RMB200 million incurred by other changes (such as the effect of changes in restricted funds and exchange rates) during the reporting period.
- Ending balance of financial assets at fair value through profit or loss was 0, while the ending balance of last year was RMB1,073,490 due to this financial asset class was sold out during the reporting period.
- Notes receivable decreased 30% compared with the end of last year, mainly owing to a decline in sales recorded during the reporting period.
- Interest receivable shrank by 44% compared with the end of last year, mainly owing to the timely recovery of interest on lendings provided by the finance company to external parties.
- CIP grew 29% compared with the end of last year, mainly owing to the increase in category and quality projects and equipment upgrade projects.
- Deposits received grew 66% compared with the end of last year, mainly owing to the proceeds from the Group's offloading shares of the Company in May 2015 were partially deposited to the finance company.
- Interest payable soared by 141% compared with the end of last year, mainly owing to interest accrual on the RMB5 billion worth of short-term financing bonds issued in August 2014 for January to June 2015 during the reporting period.

## IV. Report of the Board (Continued)

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

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

Unit: RMB Million

Product segment	Operating income	Operating cost	Gross profit (%)	Increase/	Increase/	Increase/
				(decrease) of operating income when compared with same period of last year (±%)	(decrease) of operating cost when compared with same period of last year (±%)	(decrease) of gross profit margin when compared with same period of last year (±%)
Iron and steel	22,182	21,433	3.38	-17.70	-19.07	Increase by 1.63 percentage point

Products segment	Operating income	Operating cost	Gross profit margin (%)	Increase/	Increase/	Increase/
				(decrease) of operating income when compared with same period of last year (±%)	(decrease) of operating cost when compared with same period of last year (±%)	(decrease) of gross profit margin when compared with same period of last year (±%)
Steel plates	11,305	10,745	4.95	-3.48	-5.51	Increase by 2.05 percentage point
Section steels	1,657	1,641	0.97	-39.44	-40.63	Increase by 1.99 percentage point
Wire rods	6,521	6,529	-0.12	-36.00	-35.86	Decrease by 0.22 percentage point
Train wheels and wheel rims	414	333	19.57	-40.00	-40.85	Increase by 1.16 percentage point

#### *Explanation of principal operation by industry and products*

In the reporting period, the Group's principal operating income amounted to RMB22,933 million, of which RMB22,182 million was income from the iron and steel business, representing 97% of the principal operating income. The connected transactions arising from the Group's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB196 million during the reporting period.

## 2. Principal operation by region

*Unit: RMB Million*

Region	Operating income	Increase/ (decrease) in operating income when compared with same period of last year (± %)
Anhui	8,336	-31.27
Jiangsu	3,584	-17.19
Shanghai	3,268	-2.85
Zhejiang	1,458	-19.09
Guangdong	1,261	0.64
Other Regions in the PRC	3,393	-25.35
Exports	2,147	48.68

## (3) ANALYSIS BY INVESTMENT

### 1. General analysis of external equity investment

(1) *Equity holding in other listed companies*

✓ Not applicable

(2) *Equity holding in financial companies*

✓ Not applicable

## IV. Report of the Board (Continued)

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

(1) *Trust management*

✓ Not applicable

(2) *Entrusted loan*

Unit: RMB100 million

The name of the borrower	The amount of entrust loan	Length of maturity	Loan rate	The usage of the loan	Collateral or guarantee	Connected Overdue transaction	Extendible	Involved in appeal	Sources of funding	Incidence relation	prospective earnings	Investment earning/loss
Changzhou Runhe	1.33	2 years	7%/year	Return the borrowing and management	Partly guaranteed	No	No	No	Own funds, not from fund raising	Other	-	-

(3) *Other entrusted financial management and derivatives investment*

✓ Not applicable

### 3. Proceeds raised

(1) *Proceeds raised*

✓ Not applicable

(2) *Information on projects undertaken to be financed by the proceeds*

✓ Not applicable

(3) *Change in projects to be financed by the proceeds*

✓ Not applicable

#### 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%. It 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 RMB272 million.
- Anhui Chang Jiang Iron and Steel Co., Ltd., in which the Company holds a direct stake of 55%. It 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 RMB65 million.
- Magang Group Finance Co., Ltd., in which 91% of its equity is directly owned by the Company. It is primarily responsible for providing corporate finance, financial advisory, relevant 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 RMB55 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 RMB77 million.
- Ma Steel (Jinhua) Processing and Distribution Co., Ltd., in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net loss for the reporting period amounted to RMB29 million.

## IV. Report of the Board (Continued)

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

*Unit: RMB million*

Project name	Project amount	Project progress
Relocation of Hefei Company for environmental protection: Adaptive Reconstruction Project of port-based raw materials plant	253	Equipment Assembling
Relocation of Hefei Company for environmental protection: 4# Blast Furnace Project of No. 2 Iron-making Factory	1,150	Framework Assembling
Relocation of Hefei Company for environmental protection: 3# Sintering Machine Project of No. 2 Iron-making Factory	500	Plant Construction
Relocation of Hefei Company for environmental protection: Public and Auxiliary Facilities Project	411	Equipment Foundation Construction
Relocation of Hefei Company for environmental protection: General Drawing Transportation Project	88	Railway Foundation Construction
Cold-roll Plant new Reroll Inspection Line Project	100	Equipment Assembling
Cold-roll Plant new electrolytic degreasing Project	80	Construction Commencement
Third Steel Rolling Plant high-speed wire innovation project	118	Equipment Foundation Construction
Coking Company New District full CDQ project	150	Equipment Assembling
Major maintenance project for Coking Company 5# Coke Oven	150	Early Stage Removal Preparation
Fume desulfurization project of No. 2 Iron-making Factory 2# sintering machine	58	Equipment Assembling
Fume desulfurization and denitration project of Thermoelectricity Plant Old District pulverized coal fired boiler	80	Civil Pile Foundation Construction
Total	3,168	/

In the reporting period, the expenses of the Group totaled RMB947 million, down 65.84% when compared with same period of last year.

## 2. THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

### (1) Implementation or Adjustment of Profit Distribution Plan in reporting period

The 2014 profit distribution plan, i.e. no profit distribution, including cash dividend, and no shares converted from public reserve either, was reviewed and approved in the annual shareholders' general meeting held on 16 June 2015. This matter was disclosed on Shanghai Securities News and the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange.

The plan has been enacted and executed in accordance with the provisions as set out in the Articles of Association and the requirements in the resolution of annual shareholders' general meeting. The decision-making procedure and mechanism are robust and independent directors have performed their duties properly and made due contribution.

### (2) Profit Distribution Plan and Transfer of Public Reserve to Common Shares Decided Half-Yearly

Distribute or Transfer	No
Number of bonus shares for every 10 existing shares	0
Dividend distribution for every 10 existing shares (RMB) (before tax)	0
Number of converted shares for every 10 existing shares	0

## IV. Report of the Board (Continued)

### 3. OTHER DISCLOSURE MATTERS

- (1) **Profit alert and explanation of the accumulative net profit which is expected to experience a loss during the period from the beginning of the year to the end of the third quarter, or have a significant change when compared with the same period last year.**

The Company expects a loss in accumulative net profit during the period from the beginning of the year to the end of the third quarter mainly because the aggregate net loss of the company as at the end of the reporting period is significant, and changes in the raw materials market and the steel products market which benefit the iron and steel industry and the Group are unlikely to occur in the third quarter.

- (2) **Explanation from the Board of Directors on the “Non-standard Audit Opinions” of the Accounting Firm during the period under review.**

✓ Not applicable

- (3) **Other matters**

- Purchase, sale and redemption of the Company’s listed securities  
During the reporting period, the Company did not redeem any of its listed securities. Neither the Company nor any of its subsidiaries purchase or re-sell any of the Company’s listed securities.
- Preemptive right  
Under the Articles of Association and the PRC laws, the Company is not required to allow existing shareholders to buy new shares first in proportion to their shareholding during the issue of new shares by the Company.

# V. Significant Matters

## 1. MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

✓ Not applicable

## 2. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

✓ Not applicable

## 3. ASSET TRANSACTIONS AND MERGER OF COMPANIES

✓ Applicable

### (1) Matters regarding the acquisition, asset selling and merger that has been disclosed in the transitory announcement and there is no change upon these matters afterwards

#### Summary and type of the case

Acquisition of 50% equity of Rail  
Transportation Equipment Co., Ltd.

#### Information source

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

### (2) Matters that have not been disclosed in the transitory announcement and there are changes upon these matters afterwards

✓ Not applicable

## 4. THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

✓ Not applicable

## V. Significant Matters (Continued)

### 5. MATERIAL CONNECTED TRANSACTIONS

✓ Applicable

#### (1) Connected Transactions related to Normal Operations

##### 1. The normal business transactions between the Company and Holding

The normal business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding 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.

In the reporting period, the payment made by the Company to Holding in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2012, was as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	1,194,385	20

- (2) In the reporting period, businesses under the Finance Services Agreement between Masteel-Financial and Holding

Business nature		Amount of loan or deposit	Interest income/ expenses
		RMB'000	RMB'000
Deposit	Maximum daily deposit	2,681,704	15,610
	Monthly average maximum daily deposit	1,635,525	
Loan	Maximum daily loan	498,000	10,897
	Monthly average maximum daily loan	387,868	
Other income			
Net income from handling fee and commission (RMB'000)			838
Income from discount interest (RMB'000)			1,233

(3) Business transactions between the Group and Anhui Xinchuang

In the reporting period, amounts of the transactions for the Group under the Energy Saving and Environmental Protection Agreement signed in 2012 (in RMB'000) are as follows:

	<b>Amount</b>	<b>Proportion of transaction of the same category (%)</b>
Purchase of energy saving and environmental protection engineering and other services by the Group from Anhui Xinchuang	167,613	8
Purchase of wastes and other services by Anhui Xinchuang from the Group	26,503	14
Total	194,116	-

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

	<b>Amount</b>	<b>Proportion of transaction of the same category (%)</b>
Steel products and other products purchased by Holding from the Company	106,732	0
Water, electricity, telephone and other services acquired by Holding from the Company	62,112	32
Purchase by the Company for fixed assets and construction services	191,912	19
Purchase by the Company from Holding for other services and products	1,060,747	100
Total	1,421,503	-

## V. Significant Matters (Continued)

### 6. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

#### 1 Entrustment, Contracting and Leasing

✓ Not applicable

#### 2 Guarantees

Unit: RMB

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Guarantees incurred in reporting period (excluding guarantees offered to subsidiaries)	0
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	0
Guarantees Offered to Subsidiaries	
Total amount of guarantees newly offered to subsidiaries in reporting period	0
Total ending balance of guarantees offered to subsidiaries (B)	0
Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	0
Total amount of guarantees as a percentage of net assets of the Company (%)	0
Of which :	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	0
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	0
The portion of total guarantees in excess of 50% of net assets (E)	0
Total amount of the preceding three types of guarantees (C+D+E)	0
Explanation on guarantees	<p>During the reporting period, the Company has provided no guarantee to any external party or any of its subsidiaries. As approved by the Board of Directors, Anhui Changjiang Steel, a subsidiary in which the Company has a controlling interest, provided RMB150 million total worth of guarantees to its wholly-owned subsidiary. For details, please see the Company's announcement dated June 17 on these websites:</p> <p><a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ;</p> <p><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>.</p>

## 7. PERFORMANCE OF UNDERTAKINGS

✓ Applicable

Neither the Company nor any of its shareholders with more than 5% shareholdings was bound by performance of any undertaking that was made during or extended from any of the prior periods into the reporting period.

Yet, the Company received a notification letter from its controlling shareholder on 24 July, which stated the controlling shareholder intends to further acquire A Shares of the Company of not less than RMB409 million at an appropriate price through a wholly owned subsidiary, in a way complying with applicable laws and regulations, and promises shares acquired will not be sold within six months after the completion of the further acquisition plan. Please refer to the Company's "Announcement on Intended Increase in Shareholding of the Company's A Shares by the Controlling Shareholder" released on 25 July 2015 for more details: <http://www.sse.com.cn>; <http://www.hkex.com.hk>.

## 8. APPOINTMENT AND REMOVAL OF AUDITOR

✓ Not applicable

## 9. PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING MORE THAN 5% OF SHAREHOLDING, ACTUAL CONTROLLER AND ACQUIRER

✓ Not applicable

## 10. CONVERTIBLE CORPORATE BONDS

✓ Not applicable

## 11. 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 Code 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.

All directors of the Company have, confirmed by all directors in writing, complied with the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 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.

## 12. OTHER SIGNIFICANT EVENTS

### (1) 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

✓ Not applicable

### (2) Analysis and Explanation of the Board's Discussions on the Reasons for and the Impact of Corrections of Material Prior Period Errors

✓ Not applicable

# VI. Movements in Share Capital and Shareholders

## (1) SHARE MOVEMENTS

### (1) TABLE ON SHARE MOVEMENTS

#### 1. Table on Share Movements

*Unit: Share*

	Prior to the current movements		Increase /(decrease) if current movements (+,-)					After current movements	
	Number of shares	Percentage (%)	Issue of new shares	Bonus issues	Transferred from receives	Others	Sub-total	Number of shares	Percentage (%)
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>

#### 2. Notes on Share Movements

Magang (Group) Holding Company Limited (“Magang Group”), the Company’s controlling shareholder, reduced its shareholding by an aggregate of 379,956,471 shares in the Company, accounting for 4.93% of the total shareholding of the Company, via the auction trading system of Shanghai Stock Exchange from 14 May 2015 to 22 May 2015. Please refer to the company announcement released on 23 May 2015 for more details: <http://www.sse.com.cn>; <http://www.hkex.com.hk>

#### 3. Other Disclosures the Company Deems Necessary or Required by the Securities Regulator

The Company received “Letter of further acquisition plan of A Shares in Magang” from Magang (Group) Holding Company Limited (“Magang Holding”), the controlling shareholder on 24 July 2015. Please refer to the Company’s “Announcement on Intended Increase in Shareholding of the Company’s A Shares by the Controlling Shareholder” released on 25 July 2015 for more details: <http://www.sse.com.cn>; <http://www.hkex.com.hk>.

## (1) SHARE MOVEMENTS (continued)

### (2) MOVEMENTS ON SHARES SUBJECT TO SELLING RESTRICTIONS

✓ Not applicable

## (2) SHAREHOLDER

### (1) Total number of shareholders

Unit: Shares

Total number of shareholders at the end of the reporting period

345,961

### (2) Table on Shareholding of the top ten shareholders, Shareholding of top ten public shareholders (or shareholders without selling restrictions) at the end of the reporting period

Unit: Shares

Name of shareholder (Full Name)	Increase or decrease	Total number of shares held	Percentage (%)	Number of shares held with selling restrictions	Number of pledged or frozen shares		Type of shareholders
					Share states	number	
Magang (Group) Holding Company Limited (馬鋼(集團)控股有限公司, the "Holding")	(379,956,471)	3,506,467,456	45.54	0	Nil	0	State-owned Shareholder
HKSCC (Nominees) Limited (香港中央結算(代理人)有限公司)	Unknown	1,709,980,898	22.21	0	Unknown	Unknown	Foreign Shareholder
Ren Xiaoming (任小明)	Unknown	22,257,900	0.29	0	Unknown	Unknown	Unknown
Yin Jiang (尹江)	Unknown	15,583,260	0.20	0	Unknown	Unknown	Unknown
Yin Meijuan (尹美娟)	Unknown	14,721,314	0.19	0	Unknown	Unknown	Unknown
Li Minshan (李敏珊)	Unknown	12,366,800	0.16	0	Unknown	Unknown	Unknown
Ye Mingzhu (葉明珠)	Unknown	12,009,770	0.16	0	Unknown	Unknown	Unknown
Li Ping (李萍)	Unknown	10,419,669	0.14	0	Unknown	Unknown	Unknown
Shaanxi International Trust Co., LTD. - SITI - Lucky Star No.1 Structured securities Capital Trust Plan (陝西省國際信託股份有限公司 - 陝國投•福星1號結構化證券 投資集合資金信託計劃)	Unknown	9,000,000	0.12	0	Unknown	Unknown	Unknown
Chen JIANG (陳建鋼)	Unknown	8,166,410	0.11	0	Unknown	Unknown	Unknown

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

### (2) SHAREHOLDER (continued)

#### (2) Table on Shareholding of the top ten shareholders, Shareholding of top ten public shareholders (or shareholders without selling restrictions) at the end of the reporting period (continued)

Shareholding of top ten shareholders without selling restrictions			
Name of shareholder	Number of shares without selling restrictions	Type and number of shares	
		Type	Number
Magang (Group) Holding Company Limited (馬鋼(集團)控股有限公司, the "Holding")	3,506,467,456	RMB-denominated ordinary shares	3,506,467,456
HKSCC (Nominees) Limited (香港中央結算(代理人)有限公司)	1,709,980,898	Overseas-listed shares	1,709,980,898
Ren Xiaoming (任小明)	22,257,900	RMB-denominated ordinary shares	22,257,900
Yin Jiang (尹江)	15,583,260	RMB-denominated ordinary shares	15,583,260
Yin Meijuan (尹美娟)	14,721,314	RMB-denominated ordinary shares	14,721,314
Li Minshan (李敏珊)	12,366,800	RMB-denominated ordinary shares	12,366,800
Ye Mingzhu (葉明珠)	12,009,770	RMB-denominated ordinary shares	12,009,770
Li Ping (李萍)	10,419,669	RMB-denominated ordinary shares	10,419,669
Shaanxi International Trust Co., LTD. – SITI – Lucky Star No.1 Structured securities Capital Trust Plan (陝西省國際信託股份有限公司 – 陝國投•福星1號結構化證券 投資集合資金信託計劃)	9,000,000	RMB-denominated ordinary shares	9,000,000
Chen Jiangang (陳建鋼)	8,166,410	RMB-denominated ordinary shares	8,166,410
Description of any connected relationships or concerted actions among the above mentioned shareholders	There was no connected relationship between the 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 concerted parties.		

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 1,709,980,898 H shares of the Company on behalf of multiple clients.

Based on the documents publicly accessible to the Company and to the best knowledge of the Company, as at the date of announcement of this interim report, the Company is in compliance with the requirements on shareholding by the public according to the Hong Kong Stock Exchange Listing Rules.

**(3) Strategic Investors or General Legal Person Becoming Top 10 Shareholders Because of Placing of New Shares**

✓ Not applicable

**3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS**

✓ Not applicable

# VII. Directors, Supervisors and Senior Management

## 1. CHANGES IN SHAREHOLDING

### (1) Changes in Shareholding held by Existing and Outgoing Directors, Supervisors and Senior Management in reporting period

✓ Not applicable

### (2) Share Incentives Granted to Directors, Supervisors and Senior Management in reporting period

✓ Not applicable

## 2. MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Position</u>	<u>Movement</u>	<u>Reasons of movement</u>
Ren Tianbao	Deputy General Manager	Leave Office	Change of Work
Yan Hua	Deputy General Manager	Leave Office	Change of Work
Hu Shunliang	Company Secretary	Appointment	Change of Work

## 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 2015, 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 2015

Renminbi Yuan

## ASSETS

	Note V	30 June 2015 Unaudited	31 December 2014 Audited
<b>CURRENT ASSETS</b>			
Cash and bank balances	1	7,978,940,797	4,654,551,519
Financial assets measured at fair value through profit or loss		–	1,073,490
Bills receivable	2	5,939,429,030	8,483,607,113
Trade receivables	3	823,651,878	856,559,860
Interest receivable		1,056,415	1,898,994
Prepayments	4	688,372,932	648,963,073
Other receivables	5	231,492,640	255,577,937
Inventories	6	8,550,177,790	8,684,293,285
Loans and advances to customers	7	643,422,958	633,203,277
Other current assets	8	746,939,165	665,474,438
<b>Total current assets</b>		<b>25,603,483,605</b>	24,885,202,986
<b>NON-CURRENT ASSETS</b>			
Available-for-sale financial assets	9	126,722,160	126,772,160
Long term equity investments	10	1,021,306,285	1,089,585,013
Investment properties	11	64,533,569	62,904,210
Fixed assets	12	35,496,434,166	37,041,356,860
Construction in progress	13	3,658,377,173	2,831,050,182
Intangible assets	14	1,874,772,503	1,826,460,576
Deferred tax assets	15	473,761,188	647,842,823
<b>Total non-current assets</b>		<b>42,715,907,044</b>	43,625,971,824
<b>TOTAL ASSETS</b>		<b>68,319,390,649</b>	68,511,174,810

# Consolidated Balance Sheet (Continued)

30 June 2015

Renminbi Yuan

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
	Note V		
<b>CURRENT LIABILITIES</b>			
Borrowing funds		500,000,000	500,000,000
Customer deposits	17	1,992,058,256	1,199,618,850
Repurchase agreements	18	90,896,113	–
Short term loans	19	11,764,444,349	12,058,394,894
Bills payable	20	4,958,716,744	4,802,906,077
Accounts payable	21	6,722,499,268	6,679,288,444
Deposits received		2,724,356,780	3,701,440,863
Payroll and benefits payable	22	381,682,937	299,077,212
Taxes payable	23	172,034,114	236,783,996
Interest payable	24	353,585,078	146,625,806
Dividends payable	25	7,328,392	7,210,819
Other payables	26	778,685,281	827,419,110
Non-current liabilities due within one year	27	1,752,064,448	2,231,683,000
Accrued liabilities	28	13,926,444	14,100,985
<b>Total current liabilities</b>		<b>32,212,278,204</b>	<b>32,704,550,056</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term loans	29	8,042,266,432	6,339,132,454
Bonds payable	30	2,334,866,409	2,332,666,298
Deferred income	31	1,190,710,580	1,186,358,849
Long-term payroll and benefits payable	22	26,948,371	25,877,746
Deferred tax liabilities	15	33,382,422	33,191,420
<b>Total non-current liabilities</b>		<b>11,628,174,214</b>	<b>9,917,226,767</b>
<b>Total liabilities</b>		<b>43,840,452,418</b>	<b>42,621,776,823</b>

# Consolidated Balance Sheet (Continued)

30 June 2015

Renminbi Yuan

## LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)

	Note V	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	32	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	33	<b>8,329,067,663</b>	8,329,067,663
Other Comprehensive income	42	<b>(179,263,715)</b>	(137,159,480)
Special reserve		<b>17,274,035</b>	21,511,442
Surplus reserve		<b>3,831,458,700</b>	3,831,458,700
General reserve		<b>98,706,649</b>	98,706,649
Retained profits		<b>2,214,707,402</b>	3,451,299,829
Equity attributable to owners of the parent		<b>22,012,631,920</b>	23,295,565,989
Minority interests		<b>2,466,306,311</b>	2,593,831,998
Total shareholders' equity		<b>24,478,938,231</b>	25,889,397,987
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>68,319,390,649</b>	68,511,174,810

The financial statements are signed by the following persons

Company Representative:

Ding Yi

25 August 2015

Chief Accountant:

Qian Haifan

25 August 2015

Head of Accounting:

Xing Qunli

25 August 2015

# Consolidated Income Statement

For the six months ended 30 June 2015

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
	Note V	<b>2015 Unaudited</b>	2014 Unaudited
Revenue	34	<b>23,447,520,693</b>	28,864,351,998
Less: Cost of sales	34	<b>22,624,291,030</b>	27,822,934,411
Business taxes and surcharges		<b>126,214,959</b>	92,669,574
Selling expenses	35	<b>299,730,118</b>	231,264,336
Administrative expenses	36	<b>822,972,196</b>	598,280,425
Financial expenses	37	<b>565,859,338</b>	693,487,627
Assets impairment losses	38	<b>367,276,117</b>	344,320,395
Loss on fair value changes		–	19,730
Add: Investment income	39	<b>44,104,484</b>	74,343,808
including: share of profits of associates and jointly-controlled entities		<b>41,114,047</b>	67,142,483
Operating loss		<b>(1,314,718,581)</b>	(844,280,692)
Add: Non-operating income		<b>171,642,968</b>	101,415,452
Including: gain from disposal of non-current assets		<b>660,487</b>	–
Less: Non-operating expenses		<b>14,159,425</b>	1,960,924
including: loss from disposal of non-current assets		–	520,880
Loss before tax		<b>(1,157,235,038)</b>	(744,826,164)
Less : Income tax	40	<b>203,068,501</b>	18,669,331
Net loss		<b>(1,360,303,539)</b>	(763,495,495)
Net loss attributable to the owners of the parent company		<b>(1,236,592,427)</b>	(730,266,178)
Profit/(loss) of non-controlling interests		<b>(123,711,112)</b>	(33,229,317)

# Consolidated Income Statement (Continued)

For the six months ended 30 June 2015

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
	Note V	<b>2015 Unaudited</b>	2014 Unaudited
Other comprehensive income, net of tax			
Total other comprehensive income attributable to owners of the parent company, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	42	<b>(42,104,235)</b>	7,427,375
Total other comprehensive income attributable to non-controlling interests, net of tax		<b>890,641</b>	788,676
Total comprehensive loss		<b>(1,401,517,133)</b>	(755,279,444)
Total comprehensive loss attributable to owners of the parent		<b>(1,278,696,662)</b>	(722,838,803)
Total comprehensive loss attributable to minority shareholders		<b>(122,820,471)</b>	(32,440,641)
LOSS PER SHARE:			
Basic	41	<b>(16.06) cents</b>	(9.48) cents
Diluted	41	<b>(16.06) cents</b>	(9.48) cents

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

Renminbi Yuan

## 30 June 2015 (Unaudited)

	Attributable to owners of parent								Total shareholders' equity	
	Share capital (Note V 32)	Capital reserve (Note V 33)	Other comprehensive income (Note V 42)	Special reserve	Surplus reserve	General reserve	Retained profits	Non-controlling interests Sub-total		
1. At 1 January 2015	7,700,681,186	8,329,067,663	(137,159,480)	21,511,442	3,831,458,700	98,706,649	3,451,299,829	23,295,565,989	2,593,831,998	25,889,397,987
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(42,104,235)	-	-	-	(1,236,592,427)	(1,278,696,662)	(122,820,471)	(1,401,517,133)
2) Capital contribution and withdrawal										
(i) Capital contribution/(withdrawal)	-	-	-	-	-	-	-	-	-	-
3) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	(21,000)	(21,000)
4) Special reserve										
(i) Additions	-	-	-	48,189,337	-	-	-	48,189,337	5,678,348	53,867,685
(ii) Utilization	-	-	-	(52,426,744)	-	-	-	(52,426,744)	(10,362,564)	(62,789,308)
3. At 30 June 2015	7,700,681,186	8,329,067,663	(179,263,715)	17,274,035	3,831,458,700	98,706,649	2,214,707,402	22,012,631,920	2,466,306,311	24,478,938,231

# Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2015

Renminbi Yuan

30 June 2014 (Unaudited)

	Attributable to owners of parent							Non-controlling interests	Total shareholders' equity	
	Share capital (Note V 32)	Capital reserve (Note V 33)	Other comprehensive income (Note V 42)	Special reserve	Surplus reserve	General reserve	Retained profits			
1. At 1 January 2014	7,700,681,186	8,329,067,663	(72,208,059)	13,055,678	3,789,735,764	98,706,649	3,272,406,740	23,131,445,621	2,567,589,817	25,699,035,438
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	7,427,375	-	-	-	(730,266,178)	(722,838,803)	(32,440,641)	(755,279,444)
2) Capital contribution and withdrawal										
(i) Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	(17,044,732)	(17,044,732)
3) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	(149,570)	(149,570)
4) Special reserve										
(i) Additions	-	-	-	36,880,367	-	-	-	36,880,367	-	36,880,367
(ii) Utilization	-	-	-	(33,684,365)	-	-	-	(33,684,365)	-	(33,684,365)
3. At 30 June 2014	7,700,681,186	8,329,067,663	(64,780,684)	16,251,680	3,789,735,764	98,706,649	2,542,140,562	22,411,802,820	2,517,954,874	24,929,757,694

# Consolidated Cash Flow Statement

For the six months ended 30 June 2015

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2015 Unaudited</b>	2014 Unaudited
	Note V		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	<b>28,679,828,977</b>	35,464,305,325
	Net increase in customer deposits and borrowing funds	<b>792,439,406</b>	442,865,433
	Cash received for interest charges, fees and commissions	<b>43,954,490</b>	57,343,968
	Refunds of taxes	<b>82,804,766</b>	31,444,100
	Cash deposited in central Bank	<b>444,798,960</b>	–
	Net increase in repurchase agreements	<b>90,896,113</b>	–
	Cash received relating to other operating activities	<b>24,534,334</b>	21,385,601
	43		
	Sub-total of cash inflows	<b>30,159,257,046</b>	36,017,344,427
	Cash paid for goods and services	<b>(21,801,936,322)</b>	(30,965,465,209)
	Cash paid to and on behalf of employees	<b>(2,002,927,520)</b>	(2,087,424,094)
	Cash paid for all taxes	<b>(1,314,805,102)</b>	(937,536,383)
	Net decrease in repurchase agreements	–	(165,252,425)
	Net increase in loans and advances to customers	<b>(6,427,320)</b>	(94,111,239)
	Cash paid for interest charges, fees and commissions	<b>(12,947,822)</b>	(13,041,281)
	Cash paid relating to other operating activities	<b>(391,944,982)</b>	(366,470,195)
	43		
	Sub-total of cash outflows	<b>(25,530,989,068)</b>	(34,629,300,826)
	Net cash flows from operating activities	<b>4,628,267,978</b>	1,388,043,601
	44(1)		
2.	Cash flows from investing activities:		
	Cash received from disinvestment	<b>1,073,490</b>	–
	Cash received from investment income	<b>50,709,380</b>	172,430,953
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	<b>9,481,536</b>	1,914,418,028
	Cash received from decrease of pledged deposits	–	758,227,076
	Cash received relating to other investing activities	<b>32,445,774</b>	3,280,763
	43		
	Sub-total of cash inflows	<b>93,710,180</b>	2,848,356,820

# Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June 2015

Renminbi Yuan

		For the six months ended 30 June	
		2015 Unaudited	2014 Unaudited
	Note V		
2.	Cash flows from investing activities (continued)		
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(1,331,018,080)	(869,020,371)
	Cash received from the increase of pledged deposits	(211,824,701)	-
	Cash paid for investment in JV and other business units	(56,537,594)	(62,044,732)
	Cash paid for acquisitions of subsidiaries	(73,188,523)	(109,097,300)
	Sub-total of cash outflows	(1,672,568,898)	(1,040,162,403)
	Net cash flows (used)/from in investing activities	(1,578,858,718)	(1,808,194,417)
3.	Cash flows from financing activities:		
	Cash received from borrowings	9,272,965,108	4,390,247,153
	Sub-total of cash inflows	9,272,965,108	4,390,247,153
	Cash repayments of borrowings	(8,341,959,971)	(4,572,526,941)
	Cash paid for distribution of dividend or profits and for interest expenses	(399,995,657)	(384,698,835)
	Including: dividend paid to minority shareholders by subsidiaries	-	(149,570)
	Sub-total of cash outflows	(8,741,955,628)	(4,957,225,776)
	Net cash flows from/(used in) financing activities	531,009,480	(566,978,623)
4.	Effect of foreign exchange rate changes on cash	(23,055,203)	89,599,239
5.	Net increase in cash and cash equivalents	3,557,363,537	2,718,858,634
	Add: Balance of cash and cash equivalents at the beginning of the period	2,709,836,299	1,814,518,125
6.	Balance of cash and cash equivalents at the end of the period	6,267,199,836	4,533,376,759

# Balance Sheet

30 June 2015

Renminbi Yuan

## ASSETS

		<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
	Note XIV		
<b>CURRENT ASSETS:</b>			
Cash and bank balances		<b>6,708,310,996</b>	5,033,512,998
Financial assets measured at fair value through profit or loss		–	1,073,490
Bills receivable		<b>4,161,102,374</b>	6,168,408,389
Trade receivables	1	<b>1,816,824,249</b>	1,301,307,701
Dividends receivable		<b>7,225,723</b>	7,225,723
Prepayments		<b>535,083,504</b>	408,746,555
Other receivables	2	<b>260,228,843</b>	161,823,003
Inventories		<b>5,816,986,579</b>	6,084,558,454
Other current assets		<b>375,121,677</b>	346,438,700
<b>Total current assets</b>		<b>19,680,883,945</b>	19,513,095,013
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets		<b>126,722,160</b>	126,772,160
Long term equity investments	3	<b>6,809,412,645</b>	6,542,246,491
Investment properties		<b>76,881,740</b>	77,745,472
Fixed assets		<b>26,718,521,982</b>	27,894,663,311
Construction in progress		<b>3,259,835,774</b>	2,725,983,735
Intangible assets		<b>988,714,868</b>	1,003,515,704
Deferred tax assets		<b>473,045,265</b>	583,517,420
<b>Total non-current assets</b>		<b>38,453,134,434</b>	38,954,444,293
<b>TOTAL ASSETS</b>		<b>58,134,018,379</b>	58,467,539,306

## Balance Sheet (Continued)

30 June 2015

Renminbi Yuan

### LIABILITIES AND SHAREHOLDERS' EQUITY

Note XIV

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
<b>CURRENT LIABILITIES:</b>		
Short term loans	5,712,700,000	5,350,000,000
Bills payable	3,472,388,900	3,281,609,644
Accounts payable	9,803,078,624	10,496,946,152
Deposits received	1,885,454,073	3,158,414,180
Payroll and benefits payable	268,597,945	186,884,642
Taxes payable	64,062,907	80,187,544
Interest payable	352,758,709	146,840,022
Dividends payable	6,525,534	6,407,961
Other payables	555,534,490	556,182,231
Non-current liabilities due within one year	1,752,064,448	2,180,683,000
<b>Total current liabilities</b>	<b>23,873,165,630</b>	25,444,155,376
<b>NON-CURRENT LIABILITIES</b>		
Long term loans	10,874,913,056	8,471,764,660
Bonds payable	2,334,866,409	2,332,666,298
Deferred income	500,128,596	500,208,915
<b>Total non-current liabilities</b>	<b>13,709,908,061</b>	11,304,639,873
<b>Total liabilities</b>	<b>37,583,073,691</b>	36,748,795,249
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,338,358,399	8,338,358,399
Special reserve	2,807,567	2,807,567
Surplus reserve	2,993,175,001	2,993,175,001
Retained profits	1,515,922,535	2,683,721,904
<b>Total shareholders' equity</b>	<b>20,550,944,688</b>	21,718,744,057
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>58,134,018,379</b>	58,467,539,306

# Income Statement

For the six months ended 30 June 2015

Renminbi Yuan

	Note XIV	For the six months ended 30 June	
		2015 Unaudited	2014 Unaudited
Revenue	5	20,388,093,240	24,747,723,089
Less: Cost of sales	5	20,004,309,727	24,135,823,168
Business taxes and surcharges		89,467,436	67,497,312
Selling expenses		173,050,371	116,254,118
Administrative expenses		594,983,290	435,644,904
Financial expenses		465,694,135	495,215,864
Asset impairment losses		303,920,195	343,864,457
Loss on fair value changes		–	19,730
Add: Investment income	6	41,306,373	74,769,282
Including: share of profits of associates and jointly-controlled entities		40,540,565	67,409,827
Operating loss		(1,202,025,541)	(771,827,182)
Add: Non-operating income		145,158,786	46,898,578
Including: gain on disposal of non-current assets		396,328	–
Less: Non-operating expenses		460,459	1,050,767
Including: loss on disposal of non-current assets		–	329,534
Loss before tax		(1,057,327,214)	(725,979,371)
Less: Income tax		110,472,155	(1,724,653)
Net loss		(1,167,799,369)	(724,254,718)
Other comprehensive income		–	–
Total comprehensive loss		(1,167,799,369)	(724,254,718)

# Statement of Changes in Equity

For the six months ended 30 June 2015

Renminbi Yuan

## 30 June 2015 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2015	7,700,681,186	8,338,358,399	2,807,567	2,993,175,001	2,683,721,904	21,718,744,057
2. Increase/(decrease) during the period						
1) Total comprehensive income	-	-	-	-	(1,167,799,369)	(1,167,799,369)
2) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
3) Profits appropriation						
(i) Distribution to shareholders	-	-	-	-	-	-
4) Special reserve						
(i) Additions	-	-	27,144,259	-	-	27,144,259
(ii) Used	-	-	(27,144,259)	-	-	(27,144,259)
3. At 30 June 2015	7,700,681,186	8,338,358,399	2,807,567	2,993,175,001	1,515,922,535	20,550,944,688

# Statement of Changes in Equity (Continued)

For the six months ended 30 June 2015

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) Total comprehensive income	-	-	-	-	(724,254,718)	(724,254,718)
2) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
3) Profits appropriation						
(i) Distribution to shareholders	-	-	-	-	-	-
4) 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

# Cash Flow Statement

For the six months ended 30 June 2015

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2015</b>	2014
		<b>Unaudited</b>	Unaudited
	Note XIV		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	<b>21,941,090,591</b>	29,142,163,861
	Refunds of taxes	<b>82,173,800</b>	–
	Cash received relating to other operating activities	<b>1,234,001</b>	511,477
	Sub-total of cash inflows	<b>22,024,498,392</b>	29,142,675,338
	Cash paid for goods and services	<b>(18,527,918,410)</b>	(23,231,543,492)
	Cash paid to and on behalf of employees	<b>(1,570,105,083)</b>	(1,656,556,785)
	Cash paid for all taxes	<b>(892,123,679)</b>	(669,199,599)
	Cash paid relating to other operating activities	<b>(318,878,721)</b>	(128,844,543)
	Sub-total of cash outflows	<b>(21,309,025,893)</b>	(25,686,144,419)
	Net cash flows from operating activities	<b>715,472,499</b>	3,456,530,919
2.	Cash flows from investing activities:		
	Cash received from disinvestment	<b>1,075,180</b>	–
	Cash received from investment income	<b>37,169,145</b>	190,185,487
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	<b>6,735,969</b>	1,554,581,357
	Cash received from decrease of pledged deposits	<b>–</b>	157,753
	Cash received relating to other investing activities	<b>25,650,000</b>	317,000
	Sub-total of cash inflows	<b>70,630,294</b>	1,745,241,597
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	<b>(956,013,669)</b>	(1,003,584,479)
	Cash paid for investment in JV and other business units	<b>(56,537,594)</b>	(133,748,997)
	Cash paid for acquisitions of a subsidiary	<b>(170,087,995)</b>	–
	Decrease/(increase) of pledged cash	<b>(366,595,693)</b>	–
	Sub-total of cash outflows	<b>(1,549,234,951)</b>	(1,137,333,476)
	Net cash flows used/(from) in investing activities	<b>(1,478,604,657)</b>	607,908,121

# Cash Flow Statement (Continued)

For the six months ended 30 June 2015

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2015 Unaudited</b>	2014 Unaudited
	Note XIV		
3.	Cash flows from financing activities:		
	Cash received from borrowings	<b>6,669,892,000</b>	3,627,874,000
	Sub-total of cash inflows	<b>6,669,892,000</b>	3,627,874,000
	Cash paid for repayments of borrowings	<b>(4,335,820,300)</b>	(3,912,098,014)
	Cash paid for distribution of dividend or profits and for interest expenses	<b>(267,438,717)</b>	(213,309,203)
	Sub-total of cash outflows	<b>(4,603,259,017)</b>	(4,125,407,217)
	Net cash flows from/(used in) financing activities	<b>2,066,632,983</b>	(497,533,217)
4.	Effect of foreign exchange rate changes on cash	<b>4,701,480</b>	(154,858,480)
5.	Net increase/(decrease) in cash and cash equivalents	<b>1,308,202,305</b>	3,412,047,343
	Add: Balance of cash and cash equivalents at the beginning of the period	<b>4,807,119,543</b>	4,232,198,204
6.	Balance of cash and cash equivalents at the end of the period	<b>6,115,321,848</b>	7,644,245,547

# Notes to Interim Financial Statements

30 June 2015

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.

As at 30 June 2015, 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.32 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 25 August 2015.

The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The change in the scope of consolidation during the year is described in Note VI.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## II. BASIS OF PREPARATION

### 1. Basis of preparation

The financial statements are prepared in accordance with “China Accounting Standards for Business Enterprises – General Principles” and other issued application guidance, interpretations and other related regulations issued later (collectively known as the “CAS”).

As at 30 June 2015, the net current liabilities of the Group were RMB6,608,794,599. The directors of the Company have considered the availability of funding sources, including but not limited to an unused bank credit quota of RMB22.5 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 2015 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. Adoption of the New CAS

In July 2014, the MOF revised CAS – Basic Standard and CAS No.37 – Presentation of Financial Instruments, which require the companies to apply revised CASs to prepare financial statements and present financial instruments in accordance with the revised standards for the year ended 31 December 2014 and onwards. The Company has prepared the 2014 financial statements in accordance with the revised CASs. The adoption of the above CASs has no impact on the Group’s financial position and results of operations.

The new Hong Kong Companies Ordinance (Cap. 622) comes into operation since 3 March 2014, the Group has assessed that there is no significant impact on the disclosure of the consolidated financial statements for the year ended 31 December 2015. Besides, it may affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Statement of compliance with 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 2015, and the results of their operations and their cash flows for the six months ended 30 June 2015.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 2. Accounting period

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

### 3. 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 as the reporting currency for recording purposes in accordance with their own operating environment, which are translated to Renminbi in the preparation of the consolidated financial statements.

### 4. Business combination

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

#### *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 (including the goodwill arising from the acquisition of the acquiree as part of the ultimate controlling party's investment) are measured at the carrying amounts as recorded by the ultimate controlling party at the acquisition 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 the capital reserve. If the balance of the share premium reserve is insufficient, any excess is adjusted to retained profits.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 4. Business combination (continued)

#### *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 statement of profit or loss and other comprehensive income any excess remaining after reassessment.

If the business combination is achieved in stages through multiple transactions, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. Other comprehensive income related to accounting for previously held equity interest under equity method is accounted as if the related assets or liabilities are directly disposed by the acquiree. Equity movement other than net profit or loss, other comprehensive income and profit distribution are transferred to profit or loss on the acquisition date.

### 5. 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 six months ended 30 June 2015. 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).

# Notes to Interim Financial Statements (Continued)

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

### 5. Consolidated financial statements (continued)

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 non-controlling shareholders of a subsidiary exceeds the opening minority interests, the balance offsets non-controlling 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.

The investor shall reassess its control when changes in relevant facts and circumstances lead to changes in the elements of control.

Any change in the non-controlling interests without losing control is recognised as an equity transaction.

### 6. Joint arrangement and joint operations

A joint arrangement is classified as either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of revenue from the sale of the output by the joint operation; its expenses, including its share of any expenses incurred jointly.

# Notes to Interim Financial Statements (Continued)

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

### 7. 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.

### 8. 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 end of reporting period. The resulting exchange differences are recognised in the statement of profit or loss and other comprehensive income, 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 recognised 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 end of reporting period; 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 statement of profit or loss and other comprehensive income are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognised as other comprehensive income, and are presented separately in the shareholders' equity in the statement of financial position. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income.

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 statement of cash flows.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 9. 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 recognises 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 derecognised, which means writing off from the account and the statement of financial position:

- (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 derecognised when, and only when, the current obligation is discharged or cancelled or expires. 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 recognise the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognised in the statement of profit or loss and other comprehensive income.

All financial assets purchased or sold in regular way are recognised or derecognised 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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## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. 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 statement of profit or loss and other comprehensive income; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

The subsequent measurement of financial assets depends on their 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 recognised in the statement of profit or loss and other comprehensive income. All dividends or interest related to financial assets at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income.

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.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 9. Financial instruments (continued)

Classification and measurement of financial assets (continued)

*Financial assets at fair value through profit or loss (continued)*

- (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.
- (4) Hybrid instruments which contain embedded derivatives that should split, but cannot be measured separately when acquired or at the end of subsequent reporting period.

For the equity investment where is 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.

*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 recognised in the statement of profit or loss and other comprehensive income when the held-to-maturity investments are derecognised, 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 recognised in the statement of profit or loss and other comprehensive income when the loans and receivables are derecognised, impaired, or amortized.

# Notes to Interim Financial Statements (Continued)

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

### 9. 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 recognised as interest income or expense. The fair value changes of available-for-sale financial assets are recognised as other comprehensive income except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in prior periods are transferred to the statement of profit or loss and other comprehensive income. All dividends or interest income related to available-for-sale financial assets are recognised in the statement of profit or loss and other comprehensive income.

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.

#### Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when they are recognised 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 statement of profit or loss and other comprehensive income; whereas for other financial liabilities, transaction costs are recognised as initial cost.

The subsequent measurement of financial liabilities depends 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 subsequently measured at fair value. All the realized and unrealized gains or losses are recognised in the statement of profit or loss and other comprehensive income.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 9. Financial instruments (continued)

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

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

#### *Other financial liabilities*

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

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 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 recognised 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 end of the reporting period, and (ii) the amount initially recognised less, where appropriate, cumulative amortization.

#### Impairment of financial assets

The Group assesses the carrying amount of a financial asset at the end of each reporting period 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. Evidence of impairment of financial assets may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 9. Financial instruments (continued)

#### Impairment of financial assets (continued)

##### *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) and the value of relevant guarantee into consideration. Accordingly, the relevant interest income is recognised based on the discount rate of the present value of the estimated future cash flows when an impairment loss has incurred. In the aspects of loans and trade receivables, if the expectation of recovery does not exist and all collaterals are realized or transferred into the Group, loans, trade receivables and the relevant impairment loss will be written-off.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in the statement of profit or loss and other comprehensive income 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 recognised cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the statement of profit or loss and other comprehensive income. 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 recognised at the reversal date.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 9. Financial instruments (continued)

#### Impairment of financial assets (continued)

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

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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. Impairment losses on these assets are not reversed.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 9. Financial instruments (continued)

#### Transfer of financial assets

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

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 derecognise the financial asset and recognise the related assets and liabilities incurred; if the control over the financial asset has not been lost, the Group recognises the financial asset to the extent of its continuing involvement of the financial asset and recognises an associated liability.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### 10. 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 statement of the profit or loss and other comprehensive income.
- (2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognised as an impairment loss and charged to the statement of the profit or loss and other comprehensive income.
- (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 2.5% (2014: 2.5%) of the balance as at the year end.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 11. Inventories

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

Inventories are initially recognised 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 statement of the profit or loss and other comprehensive income when issued.

Inventories are accounted for using the perpetual inventory system.

At the end of each reporting period, 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 recognised in the statement of the profit or loss and other comprehensive income. 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 statement of the profit or loss and other comprehensive income.

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 recognised as an expense in the period in which revenue was recognised, and the inventory provision should be written back accordingly, and reverse the current period's cost of sales.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 12. Long term equity investments

Long term equity investments consist of equity investments in subsidiaries, joint ventures and associates.

Long term equity investments are recognised at initial investment cost upon acquisition. For a long term equity investment acquired through a business combination under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owners' equity of the party being absorbed in the consolidated financial statements of the ultimate controlling party at combination date. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. Any other comprehensive income previously recognised shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long term equity investment. For those partially disposed equity investments, gains or loss upon disposal are proportionately recognised in profit or loss when they still constitutes long term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for step acquisitions not under common control, the initial investment cost is the sum of the carrying amount of the equity investment in the acquiree held before the acquisition date and the additional investment cost paid on the acquisition date), which is the sum of the fair value of assets transferred, liabilities incurred or assumed and equity instruments issued. If the equity investments in the acquiree involve other comprehensive income prior to the acquisition date, when disposing the investments, the relevant other comprehensive income will be accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long term equity investment. For those partially disposed equity investments, gains or loss upon disposal are proportionately recognised in profit or loss when they still constitutes long term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: For a long term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price has been paid plus those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long term equity investment; for those acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 12. 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 power over the investee such that the Company is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

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 recognised 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 agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. 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.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

When the equity method is adopted, the investor recognises 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 recognised). The recognition should be based on the adjusted statement of the profit or loss and other comprehensive income of the investee. With respect to the long term equity investment in associates and joint ventures 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 recognised 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 recognises 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.

When long term equity investments are disposed, the difference between the carrying amount and the actual proceeds received should be charged to the statement of the profit or loss and other comprehensive income. For long term equity investments under the equity method, if the method would not be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be all charged to the profit or loss for the year; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to the profit or loss for the year in proportion.

If the Company loses control of an investee with joint control or significant influence retained after partial disposal of its shares, equity method shall be adopted and accounting adjustment on the residual shares is made retrospectively.

# Notes to Interim Financial Statements (Continued)

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

### 13. Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property) held to earn rental income and/or for capital appreciation.

Investment properties are measured initially at cost. As for the subsequent expenses related to investment properties, if the economic benefits of the assets are likely to flow into the company and its cost can be measured reliably, then it will be included in the cost of investment property. Otherwise, the subsequent cost will be calculated in the current profits and losses when it occurs.

The Group uses the cost model for subsequent measurement of investment properties and the estimated useful life is determined by the period that it can bring economic benefits to the Group. Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties over its estimated useful life of 24-38 years. The estimated residual value is 3% of the cost.

### 14. Property, plant and equipment

Property, plant and equipment are recognised 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 derecognised; otherwise, is charged to the statement of the profit or loss and other comprehensive income.

Property, plant and equipment 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 calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, except for property, plant and equipment 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	10 – 30 years	3%	3.2 – 9.7%
Plant and machinery	10 – 15 years	3%	6.5 – 9.7%
Office equipment	10 years	3%	9.7%
Motor vehicles	5 years	3%	19.4%

# Notes to Interim Financial Statements (Continued)

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

### 14. Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

### 15. Construction in progress

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction.

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### 16. 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 has 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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## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 16. 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 property, plant and equipment is interrupted abnormally and the interruption lasts for more than three months until the acquisition or construction is resumed.

### 17. Intangible assets

Intangible assets are recognised 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 recognised 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>
Concession contract	25 years
Land use rights	50 years
Mining rights	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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## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 17. 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 the end of each reporting period.

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 statement of the profit or loss and other comprehensive income 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.

### 18. Impairment of assets

The Group determines the impairment of assets according to the following method, except for inventories, deferred tax assets and financial assets.

The Group assesses whether an indication of impairment exists as at the end of each reporting period, 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. Intangible assets that not available for use are also tested for impairment annually.

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 recognised based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

# Notes to Interim Financial Statements (Continued)

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

### 18. Impairment of assets (continued)

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 statement of the profit or loss and other comprehensive income and an impairment allowance is provided.

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.

# Notes to Interim Financial Statements (Continued)

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

### 19. Payroll and employee benefits payable

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 employee benefits, post-employment benefits, 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.

#### Short-term employee benefits payable

A liability when an employee has provided service in exchange for employee benefits to be paid in the future and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

#### Post-employment benefit (Defined contribution plans)

Expenditures for employees' endowment insurance managed by the local government are capitalized in related assets or charged to the statement of the profit or loss and other comprehensive income.

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 statement of the profit or loss and other comprehensive income.

#### Post-employment benefit (Defined benefit plans)

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 19. Payroll and employee benefits payable (continued)

#### Post-employment benefit (Defined benefit plans) (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “cost of sales” and “administrative expenses” in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income comprising interest income on plan assets, interest expense on plan obligations and the interest influenced by asset limit.

#### Termination benefits

An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

#### Other long-term employee benefits

Other long-term employee benefits apply the same recognition and measurement as for post-employment benefits but all changes in the carrying amount of liabilities for other long-term employment benefits are recognised in profit or loss.

# Notes to Interim Financial Statements (Continued)

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

### 20. Provisions

Except for contingent considerations or contingent liabilities assumed for business combination not under common control, a provision is recognised 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 the end of each reporting period and adjusted to reflect the current best estimate.

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 recognised and the initially recognised amount after deducting the accumulated amortization in accordance with the policy for revenue recognition.

### 21. Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position 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 rate method.

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised in the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a “reverse repurchase agreement”. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

# Notes to Interim Financial Statements (Continued)

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

### 22. 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.

#### Revenue from the rendering of services

As at the end of reporting period, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised 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.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 22. Revenue (continued)

#### Interest income

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

#### Royalty income

Royalty income is recognised according to the agreed contract terms.

#### Lease income

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

### 23. Government grants

Government grants are recognised 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 to form long-term assets through construction or other method. Otherwise, the government grants should be income-related.

If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period. A government grant related to an asset is recognised 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 recognised immediately in profit or loss for the period.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 24. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the statement of profit or loss and other comprehensive income, except for goodwill generated in a business combination or items that have been recognised 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 statement of financial position and its tax base, and the differences between the carrying amounts of some items that have a tax base but are not recognised as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

A deferred tax liability is recognised 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, joint ventures 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 recognised 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, joint ventures and associates: a deferred tax asset is recognised 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 the end of each reporting period, 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 end of each reporting period.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 24. Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at end of each reporting period 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.

### 25. 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 statement of profit or loss and other comprehensive income or capitalized on the straight-line basis over the lease terms, and contingent rental payment is charged to the statement of profit or loss and other comprehensive income when it incurs.

#### As lessor in operating leases

Rentals receivable under operating leases are credited to the statement of profit or loss and other comprehensive income over the lease terms on the straight-line basis.

### 26. Profit distribution

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

### 27. Safety production reserve

Safety production reserve set aside in compliance with relevant regulations, is included in the cost of relevant products or recognised 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 recognised at the same amount.

# Notes to Interim Financial Statements (Continued)

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

### 28. General reserve

According to the relevant policy of the MOF, the Financial Co. accrues the general reserve from 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.

### 29. 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                      |

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

### 29. Fair value measurement (continued)

For assets and liabilities that are recognised 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.

### 30. 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 recognised in the financial statements:

#### *Continuous operation*

As stated in Note II. 2, the going-concern ability of the Group relies on the cash inflow of borrowing and operational activities, in order to maintain sufficient cash in the due date of relevant liabilities. The uncertainty of the Group's going-concern ability involves once the Group cannot obtain sufficient cash. The financial statement does not include any necessary adjustments related to booking value and classification of assets and liabilities when the Group cannot operate continuously.

#### *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.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

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

#### Judgments (continued)

##### *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.

##### *Judgement on entities in which the Group holds less than 20% of voting rights but has a significant influence over them*

The Group determines whether entities in which the Group holds less than 20% of voting rights but has a significant influence over them, and has developed criteria in making that judgment. 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. Therefore, the Group has the power to participate in the financial and operating policy decisions of the entities in which the Group holds less than 20% of voting rights, and recognised as the available-for-sale investments.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

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

#### Estimation uncertainty

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

#### *Impairment 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 recognised 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 recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

#### *Estimation of fixed assets' useful life*

The Group's management determines the estimated useful life 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.

#### *Provision for bad debts of receivables*

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation at the end of each reporting period.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

#### Estimation uncertainty (continued)

##### *Estimation of inventories under net realizable value*

The 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 the end of each reporting period 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 at the end of each reporting period.

## IV. 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 appreciation tax	Payable based on appreciation of land use right and building at a progressive tax rate of 30%-60% as a result of the transfer of ownership.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.

# Notes to Interim Financial Statements (Continued)

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## IV. TAX (CONTINUED)

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

Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
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 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.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank balances

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Cash on hand	<b>172,143</b>	179,213
Bank balances	<b>6,273,178,773</b>	2,715,810,506
Other monetary assets	<b>1,287,260,969</b>	1,075,433,928
Mandatory reserves with central bank	<b>418,328,912</b>	863,127,872
	<b>7,978,940,797</b>	4,654,551,519

As at 30 June 2015, the Group's other monetary assets amounting to RMB1,287,260,969 have been pledged to banks as security (31 December 2014: RMB1,075,433,928) for trade facilities and performance bonds, and time deposits amounting to USD1,000,000, which is equivalent as RMB6,151,080 (31 December 2014: USD1,000,000, which is equivalent to RMB6,153,420) have been pledged to banks to issue letters of credit, the term is one year, and mandatory reserves with central banks of RMB418,328,912 (31 December 2014: RMB863,127,872). As at 30 June 2015, the Group does not have bank deposits frozen (31 December 2014: nil).

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

As at 30 June 2015, the Group had cash and bank balances amounting to RMB386,413,342 that have been deposited outside the PRC (31 December 2014: RMB479,677,102), without restriction on remittance.

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 respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

### 2. Bills receivable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Bank acceptance bills	<b>5,896,491,322</b>	8,483,607,113
Commercial acceptance bill	<b>42,937,708</b>	–
	<b>5,939,429,030</b>	8,483,607,113

The pledged bills receivable were as follows :

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Bank acceptance bills	<b>2,552,084,882</b>	4,723,683,840

As at 30 June 2015, the undue bills discounted or endorsed were as follows :

	<b>30 June 2015 (Unaudited)</b>		31 December 2014 (Audited)	
	<b>Derecognised</b>	<b>Not derecognised</b>	Derecognised	Not derecognised
Bank acceptance bills	<b>2,720,323,354</b>	<b>278,698,380</b>	3,371,814,170	241,358,860
	<b>2,720,323,354</b>	<b>278,698,380</b>	3,371,814,170	241,358,860

As at 30 June 2015 and 31 December 2014, there was no trade receivables transferred from bills receivable because of the drawers' inability to pay.

# Notes to Interim Financial Statements (Continued)

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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 aging of trade receivables is analyzed as follows

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Within one year	<b>735,194,262</b>	775,850,830
One to two years	<b>46,808,420</b>	77,466,943
Two to three years	<b>48,969,743</b>	11,226,000
Over three years	<b>9,635,477</b>	8,574,303
	<b>840,607,902</b>	873,118,076
Less: Provisions for bad debts	<b>16,956,024</b>	16,558,216
	<b>823,651,878</b>	856,559,860

The movements of provision for bad debts against trade receivables for the year are disclosed in Note V.16.

The balances of trade receivables are analysed as follows:

	30 June 2015 (Unaudited)				31 December 2014 (Audited)			
	Book value Balance	Provision for bad debts Ratio (%)	Amount	Ratio (%)	Book value Balance	Provision for bad debts Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	806,051,540	96	(6,927,040)	1	835,909,910	96	(6,927,040)	1
Other insignificant but assessed for impairment individually	34,556,362	4	(10,028,984)	29	37,208,166	4	(9,631,176)	26
	<b>840,607,902</b>	<b>100</b>	<b>(16,956,024)</b>		<b>873,118,076</b>	<b>100</b>	<b>(16,558,216)</b>	

# Notes to Interim Financial Statements (Continued)

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

### 3. Trade receivables (continued)

As at 30 June 2015, those individually significant and assessed for impairment individually were as follows:

	<b>Book value</b>	<b>Provisions for bad debts</b>	<b>Percentage</b>	<b>Reason</b>
Company 1	<u>6,927,040</u>	<u>(6,927,040)</u>	100%	Uncollectable

As at 31 December 2014, those individually significant and assessed for impairment individually were as follows:

	<b>Book value</b>	<b>Provisions for bad debts</b>	<b>Percentage</b>	<b>Reason</b>
Company 1	<u>6,927,040</u>	<u>(6,927,040)</u>	100%	Uncollectable

During the current period, provision for bad debts was RMB397,808 (31 December 2014: RMB1,989,407), and there was no recovery or reversal of provision for bad debts (31 December 2014: nil).

During the current period, there were no trade receivables that had been written off (31 December 2014: nil).

As at 30 June 2015 and 31 December 2014, there were no trade receivables that were derecognised due to the transfer of financial assets.

# Notes to Interim Financial Statements (Continued)

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

### 4. Prepayments

An aging analysis of the prepayments is as follows:

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Balance	Ratio (%)	Balance	Ratio (%)
Within one year	636,093,636	93	605,876,337	94
One to two years	35,131,541	5	35,064,880	5
Two to three years	9,524,170	1	1,232,762	–
Over three years	7,623,585	1	6,789,094	1
	<b>688,372,932</b>	<b>100</b>	<b>648,963,073</b>	<b>100</b>

Prepayments aged over one year were mainly unsettled prepayments for the material and equipment purchase. The goods were not yet delivered which resulted in the corresponding prepayments not being settled.

### 5. Other receivables

An aging analysis of other receivables is as follows:

	30 June 2015 Unaudited	31 December 2014 Audited
Within one year	115,433,111	121,958,079
One to two years	39,860,492	21,256,089
Two to three years	563,490,363	653,561,416
Over three years	69,343,474	15,437,153
	<b>788,127,440</b>	<b>812,212,737</b>
Less: Provisions for bad debts	<b>556,634,800</b>	<b>556,634,800</b>
	<b>231,492,640</b>	<b>255,577,937</b>

The movements of provision for bad debts against other receivables for the period are disclosed in Note V.16.

# Notes to Interim Financial Statements (Continued)

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

### 5. Other receivables (continued)

Other receivables balance is analyzed as follows:

	30 June 2015 (Unaudited)				31 December 2014 (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	777,843,867	99	(550,376,448)	71	795,422,639	98	(550,376,448)	69
Other insignificant but assessed for impairment individually	10,283,573	1	(6,258,352)	61	16,790,098	2	(6,258,352)	37
	<b>788,127,440</b>	<b>100</b>	<b>(556,634,800)</b>		<b>812,212,737</b>	<b>100</b>	<b>(556,634,800)</b>	

As at 30 June 2015, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	(i)
Company 2	127,685,367	(127,685,367)	100%	(i)
Company 3	37,243,732	(37,243,732)	100%	(i)
Company 4	132,186,434	(132,186,434)	100%	(i)
Company 5	92,302,582	(20,302,582)	22%	(iv)
Company 6	76,821,224	(76,821,224)	100%	(ii)
Company 7	17,079,513	(17,079,513)	100%	(ii)
Company 8	34,783,463	(34,783,463)	100%	(ii)
Company 9	4,069,419	(4,069,419)	100%	(ii)
Company 10	9,051,133	(9,051,133)	100%	(ii)
Company 11	7,396,979	(7,396,979)	100%	(ii)
Company 12	5,216,988	(5,216,988)	100%	(ii)
Company 13	10,056,058	(10,056,058)	100%	(ii)
Company 14	5,143,596	(5,143,596)	100%	(ii)
Company 15	2,400,000	(2,400,000)	100%	(iii)
	<b>622,376,448</b>	<b>(550,376,448)</b>		

# Notes to Interim Financial Statements (Continued)

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

### 5. Other receivables (continued)

As at 31 December 2014, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	(i)
Company 2	127,685,367	(127,685,367)	100%	(i)
Company 3	37,243,732	(37,243,732)	100%	(i)
Company 4	132,186,434	(132,186,434)	100%	(i)
Company 5	92,302,582	(20,302,582)	22%	(iv)
Company 6	76,821,224	(76,821,224)	100%	(ii)
Company 7	17,079,513	(17,079,513)	100%	(ii)
Company 8	34,783,463	(34,783,463)	100%	(ii)
Company 9	4,069,419	(4,069,419)	100%	(ii)
Company 10	9,051,133	(9,051,133)	100%	(ii)
Company 11	7,396,979	(7,396,979)	100%	(ii)
Company 12	5,216,988	(5,216,988)	100%	(ii)
Company 13	10,056,058	(10,056,058)	100%	(ii)
Company 14	5,143,596	(5,143,596)	100%	(ii)
Company 15	2,400,000	(2,400,000)	100%	(iii)
	<u>622,376,448</u>	<u>(550,376,448)</u>		

(i): The companies were original steel trading suppliers of the Company, which were in operating difficulties. Management has assessed that the present value of estimated future cash flows for the receivables due from those companies were lower than the carrying amounts, and a provision for the bad debts were consequently measured as such differences in 2013. At the end of 2014, the fair value of the assets which pledged the receivables has been changed, the management assessed that it was difficult for the Company to collect the receivables as second in line pledgee, therefore, full provision for the bad debts were made.

(ii): The companies were original steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd ("Shanghai Trading"), a subsidiary of the Company. The management of the Group has assessed that it was difficult to collect the receivables because that the companies were in operating difficulties, and made a full provision for the bad debts.

# Notes to Interim Financial Statements (Continued)

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

### 5. Other receivables (continued)

(iii): As the customer was in operating difficulty, the management has assessed that it was difficult to collect the receivables and made a full provision for the bad debts.

(iv): As at 30 June 2015, the book value of the receivables due from the debtor is RMB92,302,582, and the provision for the bad debts is RMB20,302,582. As at 30 June 2015, management had assessed that no more provision need to be made for the receivables.

During the current period, there was no provision for bad debt (2014: RMB75,244,560) and there was no recovery or reversal of provision for bad debt (2014: RMB14,447,189).

There was no provision for bad debt that was written off during the current period (2014: nil).

Other receivables were analyzed by nature as follows :

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Prepayment for trading	<b>607,989,546</b>	603,688,484
Payment on behalf of other companies	<b>50,719,451</b>	50,719,451
Prepaid guarantee for steel futures transaction	<b>35,441,438</b>	63,733,481
Prepayment of customs duties and VAT	<b>20,356,627</b>	22,575,508
Tax rebates	<b>6,437,911</b>	8,157,911
Others	<b>67,182,467</b>	63,337,902
	<b>788,127,440</b>	812,212,737
Less: Provision for bad debts	<b>556,634,800</b>	556,634,800
	<b>231,492,640</b>	255,577,937

# 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 2015, the top five largest other receivables were as follows:

	Balance	Ratio in other receivables (%)	Nature	Payment date	Balance of provision
Company 1	132,186,434	17	current account	Two to three years	132,186,434
Company 2	127,685,368	16	current account	Two to three years	127,685,368
Company 3	92,302,582	12	current account	Two to three years	20,302,582
Company 4	76,821,224	10	current account	Two to three years	76,821,224
Company 5	60,939,960	8	current account	Two to three years	60,939,960
	<b>489,935,568</b>	<b>63</b>			<b>417,935,568</b>

As at 31 December 2014, the top five largest other receivables were as follows:

	Balance	Ratio in other receivables (%)	Nature	Payment date	Balance of provision
Company 1	132,186,434	16	current account	Two to three years	132,186,434
Company 2	127,685,368	16	current account	Two to three years	127,685,368
Company 3	92,302,582	11	current account	Two to three years	20,302,582
Company 4	76,821,224	9	current account	Two to three years	76,821,224
Company 5	60,939,960	8	current account	Two to three years	60,939,960
	<b>489,935,568</b>	<b>60</b>			<b>417,935,568</b>

# 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 2015, 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	<u>6,437,911</u>	More than three years	Note

As at 31 December 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	<u>8,137,911</u>	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, the management discussed with the government, and is expected to be received in 2015.

The balances of other receivables as at 30 June 2015 and 31 December 2014 did not contain any amount derecognised due to transfer of financial assets.

# Notes to Interim Financial Statements (Continued)

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

### 6. Inventories

	30 June 2015 (Unaudited)			31 December 2014 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	3,768,141,268	(79,625,507)	3,688,515,761	4,353,192,496	(126,475,398)	4,226,717,098
Spare parts	1,484,561,080	(59,731,807)	1,424,829,273	1,535,046,957	(60,031,494)	1,475,015,463
Finished goods	2,863,871,520	(119,527,064)	2,744,344,456	2,176,685,871	(54,862,983)	2,121,822,888
Work in progress	762,066,930	(69,578,639)	692,488,300	888,303,710	(27,565,874)	860,737,836
	<b>8,878,640,798</b>	<b>(328,463,008)</b>	<b>8,550,177,790</b>	<b>8,953,229,034</b>	<b>(268,935,749)</b>	<b>8,684,293,285</b>

The movements of impairment provision against inventories for the period are disclosed in Note V.16.

At the end of reporting period, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under the normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the current period, the Group had no reversal of impairment provision against inventories (for the six months ended 30 June 2014: nil).

### 7. Loans and advances to customers

	30 June 2015 Unaudited	31 December 2014 Audited
Loans	623,000,000	574,900,000
Discounted bills	33,535,458	75,208,138
	<b>656,535,458</b>	<b>650,108,138</b>
Less : Bad debt provision for loans and advances	13,112,500	16,904,861
	<b>643,422,958</b>	<b>633,203,277</b>

The movement of the provision for bad debts against loans and advances to customers for the current period is disclosed in Note V.16.

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

### 7. Loans and advances to customers (continued)

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 2.5% of its closing balance (for the period ended 30 June 2014: 2.5%). As at 30 June 2015, 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 2015 and 31 December 2014 are stated in Note X.6 to the financial statements.

### 8. Other current assets

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Advance payment of income tax	<b>427,018,209</b>	306,924,902
Deductible VAT input tax	<b>319,920,956</b>	358,549,536
Total	<b>746,939,165</b>	665,474,438

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Available-for-sale equity instruments	<b>126,722,160</b>	126,772,160

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Available-for-sale financial assets (continued)

	Book value			Provision for impairment				Cash dividend (%)		
	Opening balance	Addition	Decrease	Ending balance	Opening balance	Addition	Decrease		Ending balance	
Henan Longyu Energy Co., Ltd.	10,000,000	-	-	10,000,000	-	-	-	-	0.66	-
China MCC17 Group Co., Ltd.	8,554,800	-	-	8,554,800	-	-	-	-	1.56	-
Shanghai LuoJing Ore Quay Co., Ltd	88,767,360	-	-	88,767,360	-	-	-	-	12	-
Beijing Lianye Parameter Monitoring Company (Note)	50,000	-	(50,000)	-	-	-	-	-	-	-
Beijing Zhonglian Steel Ecommerce Co., Ltd	1,000,000	-	-	1,000,000	-	-	-	-	3.4	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5	-
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd	15,000,000	-	-	15,000,000	-	-	-	-	15	-
Guogji (Beijing) Lightweight of Automotive Technology Institute Co. Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.9	-
	<u>126,772,160</u>	<u>-</u>	<u>(50,000)</u>	<u>126,722,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>

Note : The company was liquidated in the first half of 2015.

As at 30 June 2015, 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 2015 (Unaudited)

	Movements during the period							Closing Balance	Impairment at the end of the year
	Opening Balance	Increase during the year	Decrease/ transfer Out during the year	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received during the year		
Joint ventures									
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	311,422,276	-	-	38,637,324	-	-	-	350,059,600	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	542,669	-	-	-	-	-	-	542,669	-
Associates									
Henan JinMa Energy Co., Ltd ("Henan Jinma Energy") (Note 1)	207,497,916	37,623,600	-	(4,738,550)	-	-	-	240,382,966	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	245,813,223	-	-	18,667,519	-	-	-	264,480,742	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	30,977,774	-	-	817,702	-	-	-	31,795,476	-
Anhui Xinchuang Economize Resource Co., Ltd ("Xinchuang Economize Resource")	30,967,723	-	-	1,971,184	-	-	-	32,938,907	-
Ma-steel Rail Transportation Co., Ltd. ("Ma-Steel Rail Transportation") (Note 2)	171,476,241	-	(165,930,369)	(5,545,872)	-	-	-	-	-
Jiyuan Jinyuan Chemical Co., Ltd ("Jiyuan Chemicals") (Note 1)	45,794,148	-	(37,623,600)	(8,170,548)	-	-	-	-	-
Anhui Linhuan Chemical Co., Ltd ("Anhui Linhuan Chemical") (Note 3)	43,200,000	28,800,000	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical Co., Ltd ("Ma-Steel OCI Chemical") (Note 4)	-	27,737,594	-	(1,098,194)	-	-	-	26,639,400	-
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking")	1,893,043	-	-	573,482	-	-	-	2,466,525	-
	1,089,585,013	94,161,194	(203,553,969)	41,114,047	-	-	-	1,021,306,285	-

# 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)

Note 1 : On 29 May 2015, Henan Jinma Energy becomes the immediate parent company of Jinyuan Chemicals. Since Henan Jinma Energy and Jinyuan Chemical had identical shareholding, all shareholders used their respective shares in Jinyuan Chemicals to fulfill capital increment in Henan Jinma Energy at the amount of RMB104,510,000 proportionately, among which the Company used its original 36% shares in Jinyuan Chemicals to contribute to the capital increment at the amount of RMB37,623,600 to Henan Jinma Energy. After the capital increment, Jinyuan Chemicals becomes a wholly owned subsidiary of Henan Jinma Energy, and the shareholding in Henan Jinma Energy by the shareholders remains unchanged. The Company holds 36% share of Henan Jinma Energy and no longer owned shares in Jinyuan Chemical directly.

Note 2 : On 28 May 2015, the Company acquired another 50% equity of MaSteel Rail Transportation from Jinxi Axle Company Limited. After the deal, the Company owns 100% share in Ma-Steel Rail Transportation. Therefore, the Company begins to account Ma-Steel Rail Transportation as a subsidiary in cost method rather than equity method, and MaSteel Rail Transportation has been incorporated into the consolidation scope of the Group thereafter. See Note XI. 2.

Note 3 : On 2 February 2015, the Company paid RMB28,800,000 as capital injection to Anhui Linhuan Chemicals. According to the articles of association of Anhui Linhuan Chemicals, the Company has fulfilled the capital contribution to Anhui Linhuan Chemicals as agreed by 30 June 2015.

Note 4 : In February 2015, the Company jointly established Ma-Steel OCI Chemicals with OCI (China) Investment Co., Ltd., with the registered capital of USD47,125,000, among which the Company committed to contribute the capital in cash and land use right. According to the articles of association of Ma-Steel OCI Chemicals, the capital contribution of the Company is USD18,850,000, and both the proportion of capital contribution and shareholding is 40%. On 11 March 2015, the Company contributed RMB27,737,594, which was equal to USD4,503,075 at the exchange rate of the payment date.

According to articles of association of Ma-Steel OCI Chemicals, the Company holds two-fifths of seats in the Board of Directors and is bestowed 40% voting right accordingly. The Company exerts significant influence over the investee by taking part in its decision-making, and applies equity method for accounting the long term equity investment.

\* All investments in jointly-controlled entities and associates accounted for under the equity method are unlisted companies.

# 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 2014 (Audited)

	Movements during the period									
	Opening Balance	Increase during the year	Decrease during the year	Investment		Cash dividend		Provision for impairment	Closing Balance	Impairment at the end of the year
				income under the equity method	Other comprehensive income	Other equity movement	during the year			
Joint ventures										
BOC-Ma Steel	313,268,792	-	-	72,066,471	-	2,087,013	(76,000,000)	-	311,422,276	-
MASTEEL-CMI	551,944	-	-	(9,275)	-	-	-	-	542,669	-
Associates										
Henan JinMa Energy	187,806,274	-	-	19,691,642	-	-	-	-	207,497,916	-
Shenglong Chemical	213,088,920	-	-	32,283,993	-	440,310	-	-	245,813,223	-
Shanghai Iron and Steel Electronic	37,966,695	-	-	5,011,079	-	-	(12,000,000)	-	30,977,774	-
Xinchuang Economize Resource	25,530,298	-	-	5,157,181	-	280,244	-	-	30,967,723	-
MaSteel Rail Transportation (Note 1)	126,765,329	45,000,000	-	(289,088)	-	-	-	-	171,476,241	-
Jinyuan Chemicals	41,555,808	-	-	4,238,340	-	-	-	-	45,794,148	-
Anhui Linhuan Chemical (Note 2)	-	43,200,000	-	-	-	-	-	-	43,200,000	-
Masteel Auto-parking	3,531,385	-	-	(1,638,342)	-	-	-	-	1,893,043	-
	950,065,445	88,200,000	-	136,512,001	-	2,807,567	(88,000,000)	-	1,089,585,013	-

Note 1 : On 13 March 2014, the Company paid the capital of RMB45,000,000 to Ma Steel Rail Transportation, according to the articles of association, the Company completed capital contribution as at 31 December 2014.

Note 2 : In December 2014, the Company acquired 12% interest of Anhui Linhuan Chemical from Huaibei Coal Mining Inc ("Hbcoal Inc"). Thus, the Company had a stake in Anhui Linhuan Chemical together with Hbcoal Inc., Anhui Guohua Investment Group and Jiangsu Huaxin Energy Co., Ltd. As at 31 December 2014, the investment amount of Anhui Linhuan Chemical was RMB43,200,000, the proportion of shareholding was 12% accordingly. The Company had rights of participating in the decision-making of Anhui Linhuan Chemical financial and management policy but had no control or joint control over Anhui Linhuan Chemical, therefore the Company accounts Anhui Linhuan Chemical as its associate.

# Notes to Interim Financial Statements (Continued)

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

### 11. Investment properties

Investment properties measured under the cost method:

#### 30 June 2015 (Unaudited)

	<b>Buildings</b>
Cost:	
At 1 January 2015	65,463,072
Addition	–
Transferred from fixed assets (note)	3,536,169
	<hr/>
At 30 June 2015	68,999,241
	<hr/> <hr/>
Accumulated depreciation:	
At 1 January 2015	2,558,862
Provided during the year	912,360
Transferred from fixed assets (note)	994,450
	<hr/>
At 30 June 2015	4,465,672
	<hr/> <hr/>
Provision for impairment:	
1 January 2015 and 30 June 2015	–
	<hr/> <hr/>
Net carrying amount:	
At 30 June 2015	64,533,569
	<hr/> <hr/>
At 1 January 2015	62,904,210
	<hr/> <hr/>

Note: The investment properties transferred from fixed assets represent a self-owned office vacant plant and apartment leased under an operating lease agreement by Holly Industrial, a subsidiary of the Company.

# Notes to Interim Financial Statements (Continued)

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

### 11. Investment properties (continued)

Investment properties measured under the cost method (continued):

31 December 2014 (Audited)

	Buildings
Cost:	
At 1 January 2014	65,211,049
Addition	50,761
Transferred from fixed assets (note)	201,262
	<hr/>
At 31 December 2014	65,463,072
	<hr/> <hr/>
Accumulated depreciation:	
At 1 January 2014	798,573
Provided during the year	1,705,447
Transferred from fixed assets (note)	54,842
	<hr/>
At 31 December 2014	2,558,862
	<hr/> <hr/>
Provision for impairment:	
1 January 2014 and 31 December 2014	–
	<hr/> <hr/>
Net carrying amount:	
At 31 December 2014	62,904,210
	<hr/> <hr/>
At 1 January 2014	64,412,476
	<hr/> <hr/>

Note: The investment properties transferred from fixed assets represent a self-owned office and vacant plant leased under an operating lease by Holly Industrial, a subsidiary of the Company.

\* The Group's investment properties are located in Mainland China, and are held under medium term leases.

# Notes to Interim Financial Statements (Continued)

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

### 12. Fixed assets

#### 30 June 2015 (Unaudited)

	Plants and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land ownership	Total
Cost:						
At 1 January 2015	26,083,777,337	51,931,863,074	393,384,036	237,114,334	10,787,241	78,656,926,022
Acquisition	-	17,797,933	1,805,199	306,760	-	19,909,892
Purchase	2,635,471	14,199,476	1,791,710	1,707,560	-	20,334,217
Transfer from construction in progress (Note V.13)	17,619,454	93,970,100	7,970,951	-	-	119,560,505
Disposal	(20,175,022)	(5,822,759)	(8,844,259)	-	-	(34,842,040)
Exchange realignment	(884,784)	(2,058,406)	(220,850)	(93,557)	(847,428)	(4,105,025)
At 30 June 2015	<u>26,082,972,456</u>	<u>52,049,949,418</u>	<u>395,886,787</u>	<u>239,035,097</u>	<u>9,939,813</u>	<u>78,777,783,571</u>
Accumulate depreciation:						
At 1 January 2015	11,231,030,025	29,844,694,588	316,767,843	223,076,706	-	41,615,569,162
Acquisition	-	609,725	311,599	119,934	-	1,041,258
Provided during the period	422,858,988	1,249,623,800	15,023,192	1,916,097	-	1,689,422,077
Disposal	(10,388,610)	(5,043,314)	(8,680,162)	-	-	(24,112,086)
Exchange realignment	(42,242)	(471,608)	(43,180)	(13,976)	-	(571,006)
At 30 June 2015	<u>11,643,458,161</u>	<u>31,089,413,191</u>	<u>323,379,292</u>	<u>225,098,761</u>	<u>-</u>	<u>43,281,349,405</u>
Impairment:						
At 1 January 2015	-	-	-	-	-	-
Write-back	-	-	-	-	-	-
30 June 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying amount:						
At 30 June 2015	<u>14,439,514,295</u>	<u>20,960,536,227</u>	<u>72,507,495</u>	<u>13,936,336</u>	<u>9,939,813</u>	<u>35,496,434,166</u>
At 1 January 2015	<u>14,852,747,312</u>	<u>22,087,168,486</u>	<u>76,616,193</u>	<u>14,037,628</u>	<u>10,787,241</u>	<u>37,041,356,860</u>

# Notes to Interim Financial Statements (Continued)

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

### 12. Fixed assets (continued)

31 December 2014 (Audited)

	Plants and buildings	machinery and equipment	Motor vehicles	Office equipment	Land ownership	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	69,443,215	187,335,430	13,016,059	2,790,884	10,787,241	283,372,829
Transfer from construction in progress (Note V.13)	3,258,384,418	6,518,299,157	19,672,066	244,058	-	9,796,599,699
Reclassifications (i)	(170,832,914)	160,617,581	688,876	9,526,457	-	-
Disposal (ii)	(137,424,202)	(253,594,179)	(4,487,126)	(80,176)	-	(395,585,683)
Transferred from						
investment real estate	(201,262)	-	-	-	-	(201,262)
Other transfer out	(6,214,385)	(14,484,950)	-	-	-	(20,699,335)
At 31 December 2014	<u>26,083,777,337</u>	<u>51,931,863,074</u>	<u>393,384,036</u>	<u>237,114,334</u>	<u>10,787,241</u>	<u>78,656,926,022</u>
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 year	956,966,825	2,587,055,762	27,178,635	25,867,464	-	3,597,068,686
Reclassifications	(38,376,218)	41,901,338	468,781	(3,993,901)	-	-
Disposal	(83,402,618)	(218,765,694)	(4,253,223)	(42,291)	-	(306,463,826)
Transferred from						
investment real estate	(54,842)	-	-	-	-	(54,842)
Other transfer out	-	-	-	-	-	-
At 31 December 2014	<u>11,231,030,025</u>	<u>29,844,694,588</u>	<u>316,767,843</u>	<u>223,076,706</u>	<u>-</u>	<u>41,615,569,162</u>
Impairment:						
At 1 January 2014	-	-	-	-	-	-
Write-back	-	-	-	-	-	-
At 31 December 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying amount:						
At 31 December 2014	<u>14,852,747,312</u>	<u>22,087,168,486</u>	<u>76,616,193</u>	<u>14,037,628</u>	<u>10,787,241</u>	<u>37,041,356,860</u>
At 1 January 2014	<u>12,674,725,589</u>	<u>17,899,186,853</u>	<u>71,120,511</u>	<u>23,387,677</u>	<u>-</u>	<u>30,668,420,630</u>

# Notes to Interim Financial Statements (Continued)

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

### 12. Fixed assets (continued)

- (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 completed, the detailed amount of fixed assets can be determined, the reclassification adjustment is made.
- (ii) The disposal of fixed assets in 2014 was mainly due to the company sold and scrapped part of fixed assets.

As at 30 June 2015, there were buildings and structures within the Group at the cost of RMB1,390,682,084 without ownership certificates, as the formalities were in process (31 December 2014: RMB1,418,058,337).

As at 30 June 2015, certain of the Group's production equipment with a net carrying amount of RMB32,354,094 (31 December 2014: RMB45,662,645) was pledged to secure bank loans amounting to RMB6,000,000 (31 December 2014: RMB12,000,000). The details are disclosed in Note V.46.

### 13. Construction in progress

	30 June 2015 (Unaudited)			31 December 2014 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Product quality projects	1,134,690,413	-	1,134,690,413	804,193,622	-	804,193,622
Energy-saving and environment protection projects	544,705,556	-	544,705,556	436,691,290	-	436,691,290
Equipment advancement and other modification projects	1,723,383,089	-	1,723,383,089	1,505,024,957	-	1,505,024,957
Other projects	255,598,115	-	255,598,115	85,140,313	-	85,140,313
	<b>3,658,377,173</b>	<b>-</b>	<b>3,658,377,173</b>	<b>2,831,050,182</b>	<b>-</b>	<b>2,831,050,182</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 2015 (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	11,657,593	804,193,622	379,335,383	(48,838,592)	1,134,690,413	Internally generated funds	70
2. Energy-saving and environment protection projects	2,470,865	436,691,290	127,811,504	(19,797,238)	544,705,556	Internally generated funds	40
3. Equipment advancement and other modification projects	3,514,612	1,505,024,957	268,629,229	(50,271,097)	1,723,383,089	Internally generated funds	87
4. Other projects	N/A	85,140,313	171,111,380	(653,578)	255,598,115	Internally generated funds	N/A
		2,831,050,182	946,887,496	(119,560,505)	3,658,377,173		
Less: Impairment		-	-	-	-		
		<u>2,831,050,182</u>	<u>946,887,496</u>	<u>(119,560,505)</u>	<u>3,658,377,173</u>		

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Construction in progress (continued)

31 December 2014 (Audited)

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (Note V.12) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	10,533,620	6,958,116,296	2,890,776,658	(9,044,699,332)	804,193,622	Internally generated funds	80
2. Energy-saving and environment protection projects	2,324,350	356,021,360	235,970,649	(155,300,719)	436,691,290	Internally generated funds	38
3. Equipment advancement and other modification projects	3,280,255	1,188,835,449	532,253,733	(216,064,225)	1,505,024,957	Internally generated funds	94
4. Other projects	N/A	226,842,103	238,833,633	(380,535,423)	85,140,313	Internally generated funds	N/A
		8,729,815,208	3,897,834,673	(9,796,599,699)	2,831,050,182		
Less: Impairment		-	-	-	-		
		<u>8,729,815,208</u>	<u>3,897,834,673</u>	<u>(9,796,599,699)</u>	<u>2,831,050,182</u>		

# Notes to Interim Financial Statements (Continued)

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

### 13. Construction in progress (continued)

As at 30 June 2015, the movements of construction in progress were as follow:

Name of projects	Average percentage of completion (%)	Accumulated interest capitalization RMB	The capitalized interest expense in current year RMB (Note)	The interest capitalization rate (%)
Product quality projects	70	2,466,793	2,466,793	4.2
Energy-saving and environment protection projects	40	155,347	155,347	2.4
Equipment advancement and other modification projects	87	1,281,342	1,281,342	5.7
Other projects	N/A	1,873,253	1,873,253	2.5
		<u>5,776,735</u>	<u>5,776,735</u>	

As at 31 December 2014, the movements of Construction in progress were as follow:

Name of projects	Average percentage of completion (%)	Accumulated interest capitalization RMB	The capitalized interest expense in current year RMB	The interest capitalization rate (%)
Product quality projects	80	4,742,113	4,742,113	7.4
Energy-saving and environment protection projects	38	–	–	–
Equipment advancement and other modification projects	94	–	–	–
Other projects	N/A	–	–	–
		<u>4,742,113</u>	<u>4,742,113</u>	

Note: The balance represents capitalization of borrowing costs contained by construction in process at 30 June 2015 and 31 December 2014 respectively.

# Notes to Interim Financial Statements (Continued)

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

### 14. Intangible assets

30 June 2015 (Unaudited)

	Concession assets (i)	Land use rights	Mining rights	Total
Cost:				
At 1 January 2015	135,813,675	2,157,031,549	148,050,244	2,440,895,468
Additions	-	94,582,816	-	94,582,816
Disposal	-	-	-	-
Exchange realignment	-	-	(9,386,293)	(9,386,293)
At 30 June 2015	<u>135,813,675</u>	<u>2,251,614,365</u>	<u>138,663,951</u>	<u>2,526,091,991</u>
Accumulated depreciation:				
At 1 January 2015	16,909,355	562,486,091	35,039,446	614,434,892
Provided during the period	4,227,339	27,115,930	8,025,541	39,368,810
Disposal	-	-	-	-
Exchange realignment	-	-	(2,484,214)	(2,484,214)
At 30 June 2015	<u>21,136,694</u>	<u>589,602,021</u>	<u>40,580,773</u>	<u>651,319,488</u>
Impairment:				
At 1 January 2015 and At 30 June 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying amount:				
At 30 June 2015	<u>114,676,981</u>	<u>1,662,012,344</u>	<u>98,083,178</u>	<u>1,874,772,503</u>
At 1 January 2015	<u>118,904,320</u>	<u>1,594,545,458</u>	<u>113,010,798</u>	<u>1,826,460,576</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 14. Intangible assets (continued)

31 December 2014 (Audited)

	Concession Assets (i)	Land use rights	Mining rights	Total
Cost:				
At 1 January 2014	136,781,479	2,178,895,585	159,256,154	2,474,933,218
Additions	92,991	42,314,265	934,850	43,342,106
Disposal	-	(64,178,301)	-	(64,178,301)
Other decrease	(1,060,795)	-	-	(1,060,795)
Exchange realignment	-	-	(12,140,760)	(12,140,760)
At 31 December 2014	<u>135,813,675</u>	<u>2,157,031,549</u>	<u>148,050,244</u>	<u>2,440,895,468</u>
Accumulated depreciation:				
At 1 January 2014	8,672,433	532,398,635	33,682,905	574,753,973
Provided during the year	8,544,943	46,845,123	4,077,593	59,467,659
Disposal	-	(16,757,667)	-	(16,757,667)
Other decrease	(308,021)	-	-	(308,021)
Exchange realignment	-	-	(2,721,052)	(2,721,052)
At 31 December 2014	<u>16,909,355</u>	<u>562,486,091</u>	<u>35,039,446</u>	<u>614,434,892</u>
Impairment:				
At 1 January 2014 and At 31 December 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying amount:				
At 31 December 2014	<u>118,904,320</u>	<u>1,594,545,458</u>	<u>113,010,798</u>	<u>1,826,460,576</u>
At 1 January 2014	<u>128,109,046</u>	<u>1,646,496,950</u>	<u>125,573,249</u>	<u>1,900,179,245</u>

# 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.

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

### 15. Deferred tax assets/liabilities

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Impairment provisions of assets	174,119,660	43,529,915	261,376,120	65,344,030
Sales incentive	249,117,472	62,279,368	83,623,905	20,905,976
Salary payable	197,328,768	49,332,192	182,715,516	45,678,879
Government grants	279,671,832	69,917,958	265,851,900	66,462,975
Deductible tax losses	865,912,028	216,478,007	1,620,713,736	405,178,434
Others	128,894,992	32,223,748	177,090,116	44,272,529
	<b>1,895,044,752</b>	<b>473,761,188</b>	<b>2,591,371,293</b>	<b>647,842,823</b>

# Notes to Interim Financial Statements (Continued)

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

### 15. Deferred tax assets/liabilities (continued)

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combination not under common control	133,529,688	33,382,422	132,765,680	33,191,420

As at 30 June 2015 and 31 December 2014, unrecognised deferred tax assets were as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Deductible temporary differences	143,208,502	143,208,502
Deductible tax losses	1,457,457,604	978,927,794
	<b>1,600,666,106</b>	<b>1,122,136,296</b>

Unrecognised deferred tax assets arising from deductible tax losses will expire in the following years:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
To expire in 2016	233,247,027	233,247,027
To expire in 2017	3,094,807,521	2,439,124,244
To expire in 2018	483,216,836	483,216,836
To expire in 2019	781,213,612	760,123,067
To expire in 2020	1,237,345,421	-

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

### 15. Deferred tax assets/liabilities (continued)

The Group has not recognised the deferred tax assets related to the above deductible temporary differences and unused tax losses, because it is highly probable that future taxable profit will not be available to be utilized.

Based on the current rules and regulations of taxation and preferential tax policy committed by local tax authorities or the Group deserved to have, the Group estimated the amount of income tax and deferred tax. In business activities, there were uncertainties of tax treatments for several transactions and issues. Therefore, if the final recognised results of issues in tax treatments are different from the initial amount, the differences will pose influences on the amount of income tax and deferred tax, which were recognised in the above time periods accordingly.

Uncovered deficit and other temporary deductible differences, such as non-deductible provision for trade receivables before tax, inventories, fixed assets, construction in progress and so on, the deferred tax assets are recognised to the extent that the deficit covered by taxable profit which would probably generate in future or the deductible temporary differences that could be reversed. The deferred tax assets are recognised based on the significant judgment by the management after considering when and how much taxable profit would generate and its tax planning.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Asset impairment provisions

30 June 2015 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	590,097,877	397,808	(3,792,361)	-	-	586,703,324
Including: Trade receivables	16,558,216	397,808	-	-	-	16,956,024
Other receivables	556,634,800	-	-	-	-	556,634,800
Loans and advances to customers	16,904,861	-	(3,792,361)	-	-	13,112,500
Provisions for inventories (I)	268,935,749	370,670,670	-	(311,143,411)	-	328,463,008
Including: Raw materials	126,475,398	144,463,023	-	(191,312,914)	-	79,625,507
Work in progress	27,565,874	73,957,585	-	(31,944,829)	-	69,578,630
Finished products	54,862,983	152,250,062	-	(87,585,981)	-	119,527,064
Spare parts	60,031,494	-	-	(299,687)	-	59,731,807
	<u>859,033,626</u>	<u>371,068,478</u>	<u>(3,792,361)</u>	<u>(311,143,411)</u>	<u>-</u>	<u>915,166,332</u>

# Notes to Interim Financial Statements (Continued)

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

### 16. Asset impairment provisions (continued)

31 December 2014 (Audited)

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back/ Write-off	Other movements	
Provisions for bad debts	519,509,840	84,676,217	(14,447,189)	-	359,009	590,097,877
Including: Trade receivables	14,209,800	1,989,407	-	-	359,009	16,558,216
Other receivables	495,837,429	75,244,560	(14,447,189)	-	-	556,634,800
Loans and advances						
to customers	9,462,611	7,442,250	-	-	-	16,904,861
Provisions for inventories (i)	624,719,863	700,259,851	-	(1,073,425,535)	17,381,570	268,935,749
Including: Raw materials	522,727,311	492,557,646	-	(890,978,796)	2,169,237	126,475,398
Work in progress	13,601,442	120,369,881	-	(115,588,223)	9,182,774	27,565,874
Finished products	25,170,409	87,332,324	-	(63,669,309)	6,029,559	54,862,983
Spare parts	63,220,701	-	-	(3,189,207)	-	60,031,494
	<u>1,144,229,703</u>	<u>784,936,068</u>	<u>(14,447,189)</u>	<u>(1,073,425,535)</u>	<u>17,740,579</u>	<u>859,033,626</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.
- (ii) The change is caused by the business combination, which is the MG-VALDUNES S.A.S, the wholly subsidiary of the Group, acquired the total assets of VALDUNES S.A.S at the end of 2014.

# Notes to Interim Financial Statements (Continued)

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

### 17. Customer deposits

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Demand deposits	<b>1,779,858,256</b>	964,818,850
Notice deposit	<b>27,500,000</b>	162,800,000
Time deposits	<b>184,700,000</b>	72,000,000
	<b><u>1,992,058,256</u></b>	<u>1,199,618,850</u>

The information of customer deposits for shareholders who held 5% or more of voting shares and the related parties at 30 June 2015 and 31 December 2014 are disclosed in Note VI.6.

### 18. Repurchase agreements

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Bills	<b>90,896,113</b>	—

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)

### 19. Short term loans

	<b>30 June 2015 (Unaudited)</b>	31 December 2014 (Audited)
Unsecured loans	<b>1,926,238,497</b>	1,574,576,377
Short-term financing bonds (i)	<b>5,000,000,000</b>	5,000,000,000
Guaranteed loans (ii)	<b>6,000,000</b>	12,000,000
Pledged loans (iii)	<b>199,901,548</b>	–
Inward documentary bills and usance letter of credit(iv)	<b>4,632,304,304</b>	5,471,818,517
	<b>11,764,444,349</b>	12,058,394,894

- (i) On 23 August 2012, the Group signed a 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 which could be issued at intervals. The first bond (12 Magang 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 Magang 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. These two bonds were repaid in 2013 and 2014, respectively. The third bond (14 Ma'an gangtie CP001) was issued on 22 August 2014, amounting to RMB5,000,000,000 with the interest rate of 5.56% per annum and a maturity of one year, which will be repaid on 26 August 2015.
- (ii) As at 30 June 2015, the Group's short-term guaranteed loans amounting to RMB6,000,000 were secured by production equipment (31 December 2014: RMB12,000,000). Details are disclosed in Note V.46.
- (iii) As at 30 June 2015, the Group's pledged loans amounting to RMB199,901,548 were secured by bank acceptance bills (31 December 2014: nil).
- (iv) As at 30 June 2015, the trust receipt loans of the Group not settled yet was amounted to RMB 4,632,304,304 (31 December 2014: RMB5,471,818,517).

As at 30 June 2015, the interest rates of the above short-term loans ranged from 1.31%-7.20% (31 December 2014: 1.68%-7.20%).

# Notes to Interim Financial Statements (Continued)

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

### 19. Short term loans (continued)

As at 30 June 2015, the Group had an expired outstanding short term loan, which is as follows:

	Amount	Overdue nature	Due date	Annual interest rate	Purpose	Reasons for expired	Expected repayment date
China Everbright Bank Shanghai Baoshan Branch	48,500,500	Principal overdue	2014.11.20	6.00%	Business borrowing	Financial strain	Extension
Bank of Nanjing Shanghai Branch	29,738,497	Principal and interest overdue	2015.01.03	5.60%	Business borrowing	Financial strain	Extension
Maanshan Rural Commercial Bank	22,000,000	Principal and interest overdue	2015.6.17	6.00%	Business borrowing	Financial strain	Extension

The expired outstanding short term loan above is an unsecured loan borrowed by the Company's subsidiary, Shanghai Trading. Shanghai Trading is negotiating with the bank for extension of the expired outstanding short term loan.

The details of pledge and collateral for pledged loans and guaranteed loans are disclosed in Note V.46.

### 20. Bills payable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Bank acceptance bills	<b>4,945,216,744</b>	4,785,906,077
Commercial acceptance bills	<b>13,500,000</b>	17,000,000
	<b>4,958,716,744</b>	4,802,906,077

As at 30 June 2015 and 31 December 2014, the ageing of the Group's bills payable was all within six months.

# Notes to Interim Financial Statements (Continued)

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

### 21. Accounts payable

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Within one year	<b>6,620,653,699</b>	6,549,854,820
One to two years	<b>37,771,521</b>	71,503,745
Two to three years	<b>10,075,989</b>	5,021,121
Over three years	<b>53,998,059</b>	52,908,758
	<hr/> <b>6,722,499,268</b> <hr/>	<hr/> 6,679,288,444 <hr/>

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 2015 and 31 December 2014 are stated in Note X.6 to the financial statements.

At 30 June 2015, the accounts payable with material amounts (over RMB 2 million) aged more than one year are as follows :

Name of the company	Amount due	Reason for non-settlement
Company 1	19,000,000	Note
Company 2	10,111,310	Note
Company 3	7,917,184	Note
Company 4	4,935,168	Note
Company 5	4,755,173	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)

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

### 22. Payroll and employee benefits payable

30 June 2015

	Opening balance	Increase during the year	Payment during the year	Closing balance
Short-term employee benefits	288,200,550	1,748,307,971	(1,700,586,914)	335,921,607
Post-employment benefits (Defined contribution plans)	8,425,484	340,350,755	(305,378,775)	43,397,464
Supplementary retirement benefits (i)	2,451,178	–	(87,312)	2,363,866
	<u>299,077,212</u>	<u>2,088,658,726</u>	<u>(2,006,053,001)</u>	<u>381,682,937</u>

- (i) MG-VALDUNES S.A.S. provides retired workers with supplementary benefits, including supplementary pension allowance, medical expenses and supplementary medical insurance, which are regarded as defined benefit plans. The present value of the defined benefit plans is equal to the discounted value of the estimated future cash outflow. The discounted rate is determined by the interest rate of government bonds of which maturity is close to the payment date of the defined benefit plans. The payroll and employee benefits payable with the maturity of more than one year are recognised in long-term compensation.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*CONTINUED*)

### 22. Payroll and employee benefits payable (*continued*)

Short-term employee benefits:

**30 June 2015**

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	227,148,455	1,309,016,387	(1,315,881,307)	220,283,535
Welfare	21,900,908	99,672,985	(62,153,813)	59,420,080
Social insurance	879,915	131,320,763	(128,898,902)	3,301,776
Including: Medical insurance	74,900	102,434,910	(100,625,322)	1,884,488
Work-related injury insurance	810,674	23,236,148	(22,729,189)	1,317,633
Maternity insurance	(5,659)	5,649,705	(5,544,391)	99,655
Housing fund	24,578,790	163,529,076	(162,247,139)	25,860,727
Labor union fee and employee education fee	13,692,482	44,768,760	(31,405,753)	27,055,489
	<u>288,200,550</u>	<u>1,748,307,971</u>	<u>(1,700,586,914)</u>	<u>335,921,607</u>

# Notes to Interim Financial Statements (Continued)

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

### 22. Payroll and employee benefits payable (continued)

Defined contribution plans:

**30 June 2015**

	Opening balance	Increase during the year	Payment during the year	Closing balance
Pension insurance	(134,056)	259,849,897	(229,870,559)	29,845,282
Unemployment insurance	(53,790)	29,798,740	(24,900,298)	4,844,652
Supplementary pension scheme	8,613,330	50,702,118	(50,607,918)	8,707,530
	<u>8,425,484</u>	<u>340,350,755</u>	<u>(305,378,775)</u>	<u>43,397,464</u>

Long-term compensation :

	<b>30 June 2015 (Unaudited)</b>	31 December 2014 (Audited)
Supplementary retirement benefit	<b>29,312,237</b>	28,328,924
Less : Supplementary retirement benefit (current portion)	<b>2,363,866</b>	2,451,178
	<u><b>26,948,371</b></u>	<u>25,877,746</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 23. Taxes payable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Value-added tax	<b>23,536,686</b>	28,355,340
Corporate income tax	<b>35,797,990</b>	88,225,997
City construction and maintenance tax	<b>33,301,348</b>	35,096,903
Other taxes	<b>79,398,090</b>	85,105,756
	<b>172,034,114</b>	236,783,996

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

### 24. Interest payable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Interest payables for short-term loans	<b>227,745,920</b>	87,070,075
Installment interest payables for long-term loans repay at due date	<b>11,762,555</b>	12,085,145
Interest payables for corporate bond	<b>114,076,603</b>	47,470,586
Interest payables for medium term note	-	-
	<b>353,585,078</b>	146,625,806

At 30 June 2015, the Group had outstanding interest RMB629,907, which is the outstanding interest of Shanghai Trading (a subsidiary of the company) because of financial constraint (31 December 2014: nil), please refer to Note V.19.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 25. Dividends payable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Other shareholders	<b>7,328,392</b>	7,210,819

### 26. Other payables

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Payable to construction, maintenance and inspection fee	<b>211,815,148</b>	196,103,192
Accrued interest expense for letter of credit	<b>155,352,827</b>	173,054,060
Sales incentive	<b>129,353,299</b>	83,623,905
Service fees payable	<b>41,601,642</b>	39,680,171
Technology project fees received	<b>35,844,338</b>	36,091,410
Withholding social welfare and housing fund	<b>40,263,465</b>	41,481,319
Others(i)	<b>164,454,562</b>	257,385,053
	<b>778,685,281</b>	827,419,110

- (i) In March 2015, the High Court of Anhui province ruled that Shanghai Trading Co., Ltd. shall pay Xinxing Development RMB11,481,692 of the contract amount, the accrued interest and court acceptance fee of RMB186,380 accordingly, which is amounting to RMB13,419,376 in total and accounted as other payables in the current period.

# Notes to Interim Financial Statements (Continued)

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

### 26. Other payables (continued)

At 30 June 2015, other payables with material amounts aged more than one year are as follows :

	Amount due	Reason for non-settlement
Company 1	2,029,700	Note
Company 2	2,000,000	Note
Company 3	2,000,000	Note
Company 4	2,000,000	Note
Company 5	1,600,000	Note
	<u>9,629,700</u>	

Note: The Group's other payables aged over one year was mainly the deposits of the contracts of unsettled construction and material purchase. Since the contracts had not yet reached the settlement date, the payments were not settled.

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

	30 June 2015 Unaudited	31 December 2014 Audited
Long term loans due within one year (Note V.29)	<u>1,752,064,448</u>	<u>2,231,683,000</u>

# Notes to Interim Financial Statements (Continued)

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

### 28. Accrued liabilities

30 June 2015 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pending litigation or arbitration	1,986,172	91,011	(412,194)	1,664,989
Pending onerous contract (i)	12,114,813	653,638	(666,731)	12,101,720
Others	-	159,735	-	159,735
	<u>14,100,985</u>	<u>904,384</u>	<u>(1,078,925)</u>	<u>13,926,444</u>

(ii) The accrued liabilities of pending onerous contract was caused by the Company's subsidiary MG-WALDUNES S.A.S. signed sales orders with third parties previously, and the management estimated the cost of executing those orders would exceed agreed price. Therefore the accrued liabilities were estimated at RMB12,101,720 as at 30 June 2015.

### 29. Long term loans

	30 June 2015 Unaudited	31 December 2014 Audited
Guaranteed loans	3,024,066,432	1,625,889,200
Unsecured loans	5,018,200,000	3,743,243,254
Pledged loans	-	970,000,000
	<u>8,042,266,432</u>	<u>6,339,132,454</u>

As at 30 June 2015, the interest rates of the above long-term loans ranged from 2.4% to 6.15% (31 December 2014: 2.4% – 6.15%)

# Notes to Interim Financial Statements (Continued)

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

### 29. Long term loans (continued)

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Within one year	<b>1,752,064,448</b>	2,231,683,000
One to two years (including two years)	<b>7,644,780,096</b>	4,718,989,094
Three to five years (including five years)	<b>374,988,288</b>	1,575,107,520
Over five years	<b>22,498,048</b>	45,035,840
	<b>9,794,330,880</b>	8,570,815,454

### 30. Bonds payable

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Corporate bonds – 5 years	<b>2,334,866,409</b>	2,332,666,298

# Notes to Interim Financial Statements (Continued)

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

### 30. Bonds payable (continued)

As at 30 June 2015, the bonds payable balance is as follows:

Unaudited	Issue date	Term to maturity	Amount on offer	Opening Balance	Current	Current period	Amortization of discount	Current period Repayment	Closing Balance
					period issuance	accrued interest			
Corporate bond - 5 Years	2011/08	5 years	2,340,000,000	2,332,666,298	-	66,606,016	2,200,111	-	2,334,866,409

As at 31 December 2014, the bonds payable balance is as follows:

Unaudited	Issue date	Term to maturity	Amount on offer	Opening Balance	Current	Current period	Amortization of discount	Current period Repayment	Closing Balance
					period issuance	accrued interest			
Medium-term Note payable									
2011 second issue	2011/11	3 years	2,800,000,000	2,797,432,500	-	145,733,000	2,567,500	2,800,000,000	-
Corporate bond - 3 Years	2011/08	3 years	3,160,000,000	3,153,397,580	-	115,030,926	6,602,420	3,160,000,000	-
Corporate bond - 5 Years	2011/08	5 years	2,340,000,000	2,328,266,077	-	134,316,000	4,400,221	-	2,332,666,298
			8,300,000,000	8,279,096,157	-	395,079,926	13,570,141	5,960,000,000	2,332,666,298

# Notes to Interim Financial Statements (Continued)

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

### 30. Bonds payable (*continued*)

#### *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 Magang 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 Magang 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 Magang 01) due within three years with an interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11 Magang 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 was RMB5,453,788,000. Among them, 11 Magang 01 repaid in 2014, 11 Magang 02 will be due on 25 August 2016.

The interest for the period of the above bonds was included in interest payable.

# Notes to Interim Financial Statements (Continued)

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

### 31. 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 2015 Unaudited</b>	31 December 2014 Audited
At 1 January 2015	<b>1,186,358,849</b>	609,637,532
Additions	<b>68,290,112</b>	991,425,981
Included in non-operating income	<b>(63,938,381)</b>	(414,704,664)
At 30 June 2015	<b>1,190,710,580</b>	1,186,358,849

### 32. Share capital

30 June 2015 (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 2015		Increase/(decrease) during the period			At 30 June 2015	
	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	77.5
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

# Notes to Interim Financial Statements (Continued)

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

### 32. Share capital (continued)

\* 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.

31 December 2014 (Audited)	At 1 January 2014		Increase/(decrease) during the period			At 31 December 2014	
	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	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

# Notes to Interim Financial Statements (Continued)

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

### 33. Capital reserve

#### 30 June 2015 (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 2014 (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)

### 34. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June			
	2015 Unaudited		2014 Unaudited	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	22,932,692,635	22,086,428,702	27,968,590,418	26,967,044,526
Other operating income	514,828,058	537,862,328	895,761,580	855,889,885
	<b>23,447,520,693</b>	<b>22,624,291,030</b>	28,864,351,998	27,822,934,411

\* 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.

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Sale of products	23,363,065,541	28,745,019,237
Rendering service	41,343,241	54,332,930
Others	43,111,911	64,999,831
	<b>23,447,520,693</b>	28,864,351,998

# Notes to Interim Financial Statements (Continued)

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

### 35 Selling expenses

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Employee benefits	20,665,700	17,972,704
Transportation fees	247,545,979	185,308,727
Insurance premium	6,814,523	6,515,338
Others	24,703,916	21,467,567
	<u>299,730,118</u>	<u>231,264,336</u>

### 36. Administrative expenses

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Employee benefits	274,452,591	251,526,452
Depreciation	16,909,872	24,732,073
Office expenses	115,030,154	104,791,871
Auditors' remuneration	3,485,507	4,710,050
Other taxes	218,549,328	80,146,437
Others	194,544,744	132,373,542
	<u>822,972,196</u>	<u>598,280,425</u>

# Notes to Interim Financial Statements (Continued)

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

### 37. Financial expenses

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Interest expenses (i)	614,530,384	671,964,044
Less: Interest income	50,105,262	32,442,168
Less: Capitalised interest	5,776,735	5,465,733
Exchange (gain)/loss	(10,923,858)	2,685,647
Others	18,134,809	56,745,837
	<b>565,859,338</b>	<b>693,487,627</b>

Note: The Group's interest expenses include interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note).

\* The interest expense of the Groups included interest of bank loans that expires within five years, other borrowings' interest, interest of corporate bonds and MTN (Medium-term Note) and the interest for bank loans that does not need to repay within five years.

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Interest expense :		
Interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years	614,036,619	671,964,044
Interest on bank loans which will not expire within five years	493,765	—
	<b>614,530,384</b>	<b>671,964,044</b>

# Notes to Interim Financial Statements (Continued)

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

### 38. Asset impairment loss

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
(Reversal)/Provision of bad debts	(3,394,553)	455,938
Including: Trade receivables	397,808	–
Other receivables	–	(1,465,000)
Loans and advances	(3,792,361)	1,920,938
Provision for inventories	370,670,670	343,864,457
	<b>367,276,117</b>	<b>344,320,395</b>

### 39. Investment income

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Long term equity investment income under the equity method	41,114,047	67,142,483
Long term equity investment income from available for sale financial assets	–	7,194,839
Long term equity investment income from the fair-value measurement of the newly acquired subsidiary's shares held before acquisition (Note)	2,413,629	–
Long term equity investment income from financial assets measured at fair value through profit or loss	–	6,486
Long term equity investment income from disposal of available for sale financial assets	(48,310)	–
Long term equity investment income from disposal of financial assets measured at fair value through profit or loss	–	–
Other investment income	625,118	–
	<b>44,104,484</b>	<b>74,343,808</b>

# Notes to Interim Financial Statements (Continued)

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

### 39. Investment income (continued)

Note: The company acquired 50% share of MaSteel Rail Transportation in the current period, the company re-measured the 50% share held by the Company before acquisition at fair value, the difference is recognised as investment income. See Note VI 2 for detail about the acquisition.

During the current period, the Group's investment income from listed companies and unlisted companies were RMB625,118 and RMB43,479,366, respectively (30 June 2014: the investment income from listed companies and unlisted companies were RMB6,486 and RMB74,337,322, respectively).

### 40. Income tax

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Mainland China:		
Current income tax expense	22,397,313	41,987,993
Adjustments in respect of current tax of previous periods	230,764	(2,885,448)
Deferred tax income	169,913,039	(37,775,340)
Hong Kong current income tax expense (ii)	–	–
Overseas current income tax expense	6,167,787	17,342,126
Overseas deferred income tax expense	4,359,598	–
	<b>203,068,501</b>	<b>18,669,331</b>

# Notes to Interim Financial Statements (Continued)

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

### 40. Income tax (continued)

Relationship between income tax and loss before tax:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Loss before tax	(1,157,235,038)	(744,826,164)
Tax at the applicable tax rate of 25% (i)	(289,308,760)	(186,206,541)
Effect of different tax rates of subsidiaries	(2,471,494)	1,852,952
Expenses not deductible for tax	38,576,541	31,254,470
Adjustments in respect of current tax of previous periods	230,764	(2,885,448)
Other tax concessions	(2,276,530)	(2,578,954)
Income not subject to tax	(1,089,398)	(1,839,864)
Unrecognised deductible temporality difference and tax losses	471,376,926	195,925,171
Profits and losses attributable to jointly-controlled entities and associates	(11,969,548)	(16,852,457)
Tax charge at the Group's effective rate	<u>203,068,501</u>	<u>18,669,329</u>

(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.

# Notes to Interim Financial Statements (Continued)

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

### 41. 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:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Profit		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<u>(1,236,592,427)</u>	<u>(730,266,178)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<u>7,700,681,186</u>	<u>7,700,681,186</u>

During the first half of 2015 and 2014, 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)

### 42. Other comprehensive income

Closing balance of other comprehensive income of parent company in statement of financial position :

	1 January 2014 (Audited)	Increase/ (decrease)	31 December 2014 (Audited)	Increase/ (decrease)	30 June 2015 (Unaudited)
Exchange differences arising from foreign currency translation	(72,208,059)	(64,951,421)	(137,159,480)	(42,104,235)	<b>(179,263,715)</b>

Amount of other comprehensive income of parent company in the statement of profit or loss and other comprehensive income : :

#### 30 June 2015 (Unaudited)

	Amount before tax	Company income tax	Amount after tax
Exchange differences arising from foreign currency translation	<b>(42,104,235)</b>	–	<b>(42,104,235)</b>
Less: Recorded in other comprehensive income originally, rolled out and included in current profit or loss	–	–	–
	<b>(42,104,235)</b>	–	<b>(42,104,235)</b>

#### 31 December 2014 (Audited)

	Amount before tax	Company income tax	Amount after tax
Exchange differences arising from foreign currency translation	(64,951,421)	–	(64,951,421)
Less: Recorded in other comprehensive income originally, rolled out and included in current profit or loss	–	–	–
	<b>(64,951,421)</b>	–	<b>(64,951,421)</b>

# Notes to Interim Financial Statements (Continued)

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

### 43. Note to the cash flow statement

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Cash received relating to other operating activities:		
Specific subsidies granted by the government	23,521,504	6,516,240
Others	1,012,830	14,869,361
	<u>24,534,334</u>	<u>21,385,601</u>

Cash paid relating to other operating activities:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Supporting services	104,475,049	105,028,723
Safety production reserve	52,426,744	33,684,365
Travel and entertainment expense	26,146,821	25,764,166
Security expenses	25,363,791	35,133,908
Environmental improvement fee	25,107,688	15,151,800
Research and development fee	20,196,349	12,169,048
Flood prevention fund	12,324,469	13,635,017
Packing fee	10,398,796	10,400,007
Others	115,505,275	115,503,161
	<u>391,944,982</u>	<u>366,470,195</u>

Cash received relating to other investing activities:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Government special funding	32,445.774	3,280,763
	<u>32,445.774</u>	<u>3,280,763</u>

# Notes to Interim Financial Statements (Continued)

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

### 44. Supplements to cash flows

(1) Reconciliation of net loss to cash flow from operating activities:

	<b>For the six months ended 30 June</b>	
	<b>2015</b>	2014
	<b>Unaudited</b>	Unaudited
Net loss	<b>(1,360,303,539)</b>	(763,495,495)
Add: (Reversal of provision)/provision for bad debts	<b>397,808</b>	(1,465,000)
Provision for inventories	<b>370,670,670</b>	343,864,457
(Reversal of provision)/provision for loans and advances to customers	<b>(3,792,361)</b>	1,920,938
Depreciation of fixed assets	<b>1,689,422,077</b>	1,917,139,539
Amortisation of investment properties	<b>912,360</b>	869,950
Amortisation of intangible assets	<b>39,368,810</b>	30,313,192
Amortisation of deferred income	<b>(63,643,381)</b>	(48,585,751)
(Gains)/loss on disposal of non-current assets	<b>(660,487)</b>	520,880
(Decrease)/increase in special reserves	<b>48,189,337</b>	3,196,002
Financial expenses	<b>547,724,528</b>	634,056,143
Investment income	<b>(44,104,484)</b>	(74,343,808)
Loss on fair value changes	<b>–</b>	19,730
Decrease/(Increase)in deferred tax assets	<b>174,081,635</b>	(35,920,660)
Increase/(decrease) in deferred tax liabilities	<b>191,002</b>	(1,854,680)
(Increase)/decrease in inventories	<b>(235,871,547)</b>	22,886,523
Decrease/(increase) in receivables from operating activities	<b>1,811,402,614</b>	(420,907,144)
Increase/(decrease) in payables from operating activities	<b>1,654,282,936</b>	(220,171,215)
Net cash flows from operating activities	<b>4,628,267,978</b>	1,388,043,601

# Notes to Interim Financial Statements (Continued)

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

### 44. Supplements to cash flows (continued)

(2) Acquisition or disposal of subsidiaries and other business units:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Acquisition price of subsidiaries and other business units	170,087,995	109,097,300
Cash on acquisition of subsidiaries and other units	170,087,995	109,097,300
Less : Cash and cash equivalents held by acquired subsidiaries and other operation units	96,899,472	—
Net cash paid on acquisition of a subsidiaries and other operating units	<u>73,188,523</u>	<u>109,097,300</u>

(3) Net movement of cash and cash equivalents:

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Cash equivalents closing balance	6,267,199,836	4,533,376,759
Less: Cash equivalents opening balance	2,709,836,299	1,814,518,125
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net increase of cash and cash equivalents	<u>3,557,363,537</u>	<u>2,718,858,634</u>

# Notes to Interim Financial Statements (Continued)

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

### 44. Supplements to cash flows (continued)

(3) Net movement of cash and cash equivalents: (continued)

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Cash		
Including: Cash on hand	172,143	252,009
Balances with financial institutions without restriction	6,267,027,693	4,533,124,750
Other balances without restriction	—	—
Cash and Cash equivalents ending balance	<u>6,267,199,836</u>	<u>4,533,376,759</u>

The above opening and closing balance of cash and cash equivalents included the mandatory reserves deposited in central bank.

### 45. Dividend\*

The board of directors does not recommend the payment of any dividends for the six months ended 30 June 2015 (30 June 2014:nil).

# Notes to Interim Financial Statements (Continued)

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

### 46. The pledge of assets

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited	
Cash and bank balances (Note V.1)	<b>1,711,740,961</b>	1,944,715,220	(i)
Bills receivable (Note V.2)	<b>2,552,084,882</b>	4,723,683,840	(ii)
Inventory (Note V.6)	<b>26,190,716</b>	–	(iii)
Fixed Assets (Note V.12)	<b>32,354,094</b>	45,662,645	(iv)
	<b>4,322,370,653</b>	6,714,061,705	

- (i) As at 30 June 2015, the Group's cash and bank balances amounting to RMB1,711,740,961 have been pledged to banks (31 December 2014: RMB1,944,715,220) as security for trade facilities and performance bonds, and time deposits of USD1,000,000, equivalent to RMB6,151,080 (31 December 2014: USD1,000,000, equivalent to RMB6,153,420) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB418,328,912 (31 December 2014: RMB863,127,872).
- (ii) As at 30 June 2015, all entrusted bills of the Company in Ma'anshan Branch of Industrial and Commercial Bank of China were pledged as security to obtain bank long-term loans of RMB980,000,000, which are long-term loan due within one year (31 December 2014: RMB970,000,000), see 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 2015, the balance of which was RMB2,386,806,482 (31 December 2014: RMB3,991,221,307). The Company has no bank acceptance bills were pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2014: RMB474,863,786). Besides, certain of the Group's bank acceptance bills amounting to RMB165,278,400 were pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2014: RMB257,598,747).
- (iii) As at 30 June 2015, the inventory carrying amount of RMB26,190,716 of the Group's subsidiary Masteel Jinhua has been seized due to trade disputes.
- (iv) As at 30 June 2015, certain of the Group's production equipment with a net carrying amount of RMB32,354,094 (31 December 2014: RMB45,662,645) was pledged as security to acquire bank loans amounting to RMB6,000,000 (31 December 2014: RMB12,000,000).

# Notes to Interim Financial Statements (Continued)

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

### 47. Monetary items denominated in foreign currency

	30 June 2015 (Unaudited)			31 December 2014 (Audited)		
	Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Cash and Bank balances						
USD	348,973,073	6.1136	2,133,481,779	196,368,672	6.1190	1,201,579,904
EUR	21,854,234	6.8699	150,136,402	30,144,838	7.4556	224,747,854
AUD	27,905,535	4.6993	131,136,481	28,918,247	5.0174	145,094,412
HKD	2,967,319	0.7886	2,340,028	279,413	0.7889	220,429
JPY	70,659	0.0501	3,540	101,010	0.0514	5,189
			<u>2,417,098,230</u>			<u>1,571,647,788</u>
Trade Receivables						
USD	25,309,160	6.1136	154,730,081	37,618,795	6.1190	230,189,407
EUR	12,826,234	6.8699	88,114,943	10,759,013	7.4556	80,214,900
AUD	4,814,150	4.6993	22,623,134	3,452,475	5.0174	17,322,448
			<u>265,468,158</u>			<u>327,726,755</u>
Other Receivables						
HKD	313,364	0.7886	247,119	34,781,148	0.7889	27,438,848
EUR	1,428,953	6.8699	9,816,764	4,849,516	7.4556	36,156,053
AUD	124,466	4.6993	584,903	136,648	5.0174	685,619
			<u>10,648,786</u>			<u>64,280,520</u>
Accounts payable						
AUD	59,974	4.6993	281,837	69,889	5.0174	350,661
EUR	8,383,269	6.8699	57,592,220	7,962,132	7.4556	59,362,471
HKD	5,443,342	0.7886	4,292,620	42,355,222	0.7889	33,414,035
			<u>62,166,677</u>			<u>93,127,167</u>

# Notes to Interim Financial Statements (Continued)

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

### 47. Monetary items denominated in foreign currency (continued)

	30 June 2015 (Unaudited)			31 December 2014 (Audited)		
	Original currency	Exchange rate	Convert into RMB	Original currency	Exchange rate	Convert into RMB
Other payables						
AUD	1,363,653	4.6993	6,408,214	3,704,070	5.0174	18,584,803
HKD	196,998,259	0.7886	155,352,827	219,361,212	0.7889	173,054,060
EUR	750,385	6.8699	5,155,072	8,957,351	7.4556	66,782,428
			<u>166,916,113</u>			<u>258,421,291</u>
Deposits received						
EUR	960,913	6.8699	6,601,375	-	7.4556	-
HKD	982,800	0.7886	775,036	-	0.7889	-
			<u>7,376,411</u>			<u>-</u>
Short-term borrowing						
USD	757,704,839	6.1136	4,632,304,304	894,234,110	6.1190	5,471,818,517
EUR	-	6.8699	-	289,051	7.4556	2,155,049
			<u>4,632,304,304</u>			<u>5,473,973,566</u>
Long-term borrowings within one year						
USD	52,680,000	6.1136	322,064,448	157,000,000	6.1190	960,683,000
Long-term borrowing						
USD	223,120,000	6.1136	1,364,066,432	126,800,000	6.1190	775,889,200

# Notes to Interim Financial Statements (Continued)

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## VI. CHANGE IN THE SCOPE OF CONSOLIDATION

### 1. Newly established subsidiaries

During the first half year of 2015, the Company established the following subsidiaries, and has included them in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Investment amount
Ma'anshan Oubang Color-coated Technology Co., Ltd (Masteel Oubang Color-coated) (Note)	2015/5	RMB50,000,000	67%	Cash	–

Note: In February 2015, the Company entered into investor agreement with Jiangsu Oubang Plastic Co., Ltd (“Jiangsu Oubang”), to jointly fund Masteel Oubang Color-coated in May 2015. As at 30 June 2015, both sides have not contributed capital. According to the investor agreement, the Company owned 67% share of Masteel Oubang Color-coated, the Company judged to have control power of Masteel Oubang Color-coated, which was included into the scope of consolidation since the establishment date.

### 2. Subsidiaries acquired in business combination involving entities under common control

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Investment amount
Ma'steel Rail Transportation Co., Ltd	2012/3	RMB30,000,000	100%	Cash	RMB30,000,000

On 28 May 2015, the Company entered into the share purchase agreement with Jinxi Axle Company Limited at a cash consideration of RMB170,090,000. By the end of May 2015, the Company has paid the consideration. Therefore, Masteel Rail Transportation became a wholly-owned subsidiary and was renamed to MaSteel Rail Transportation Equipment Co., Ltd (“MaSteel Rail Transportation”) after the completion of the acquisition.

MaSteel Rail Transportation's business scope mainly includes the research and development, manufacturing, maintenance and trading of whole spectrum of railway axles, bus axle, urban rail transportation axle, high-speed train axle and locomotive axle and railway transportation equipment and related technical advisory services; Wholesale and retail of railway vehicle parts, metallic material, building material, chemical products (except dangerous and precursor chemicals), hardware and electrical equipment, lubricant grease, equipment and house rental; Import and export business of all kinds of self or agent of goods and technologies(except restricted and prohibited by government)

# Notes to Interim Financial Statements (Continued)

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## VI. CHANGE IN THE SCOPE OF CONSOLIDATION (CONTINUED)

### 2. Subsidiaries acquired in business combination involving entities under common control (Continued)

Based on the accessible and timeliness of the financial information, management set the acquisition date on 31 May 2015. MaSteel Rail Transportation's financial information (including the book value and fair value of the identifiable assets and liabilities on the acquisition date) is as follows:

	31 May 2015 Fair value RMB	31 May 2015 Book value RMB
Cash and bank balances	96,899,472	96,899,472
Trade receivables	7,711,204	7,711,204
Bills receivable	23,536,200	23,536,200
Inventories	683,628	683,628
Other receivables	4,048,485	4,048,485
Prepayments	2,049,959	2,049,959
Other current assets	7,029,499	7,029,499
Fixed assets	18,865,307	18,868,634
Construction in progress	71,883,353	64,438,026
Intangible assets	86,042,475	85,169,223
Other non-current assets	27,505,885	27,505,885
Total assets	346,255,467	337,940,215
Accounts payable	62,190	62,190
Bills payable	600,000	600,000
Deposit received	381,704	381,704
Payroll and benefits payable	140,550	140,550
Taxes payable	1,605,297	1,605,297
Other payables	3,289,736	3,289,736
Total liabilities	6,079,477	6,079,477
Net assets	340,175,990	331,860,738

The Company paid cash consideration of RMB170,087,995 in the acquisition, which is equal to the fair value of the acquired shares.

The revenue, profit and cash flow generated by Ma-steel Rail Transportation from the acquisition date to 30 June 2015 were not significant to the Group.

The transaction cost of the acquisition is about RMB265 thousand, which was recorded in current profit or loss.

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

The details of subsidiaries are as follows:

Subsidiaries acquired by establishment or investment	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity(%)	
					Direct	Indirect
Anhui Masteel K.Wah New Building Materials Co., Ltd.	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	-
Ma Steel (Wuhu)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	27.3
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	-	92
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.66	-
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD4,800,000	91	-
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	26.39
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,000,000	90	-
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	-
MG Trading and Development GmbH ("MG Trading")	Germany	Germany	Trading	EUR153,388	100	-
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)")	Australia	Australia	Mine production and sale	AUD21,737,900	100	-
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	-
(Hefei) Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	-	100
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	-	100
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	61	25.48

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. Interests in subsidiaries (Continued)

The details of subsidiaries are as follows: (Continued)

Subsidiaries acquired by establishment or investment (Continued)	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	-
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	Anhui, PRC	Anhui, PRC	Trading	RMB100,000,000	100	-
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	-
Shanghai Trading	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	-
Ma Steel (Hefei) materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	-
Ma' Anshan (Guangzhou) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB 10,000,000	100	-
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	-	100

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. Interests in subsidiaries (Continued)

The details of subsidiaries are as follows: (Continued)

Subsidiaries acquired by establishment or investment (Continued)	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	-	100
Anhui Chang Jiang Iron and Steel Metal Co., Ltd. ("Chang Jiang Iron and Steel Metal")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	-	100
MG-VALDUNES S.A.S. ("MG-VALDUNES")	French	French	Manufacturing	EUR 40,200,000	100	-
Masteel Oubang Color-coated (i)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB33,500,000	67	-

#### Subsidiaries acquired not under common control

Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	-
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	-
MaSteel Rail Transportation (ii)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB300,000,000	100	-

#### Subsidiaries acquired under common control

Masteel Group Financial Co., Ltd. ("Masteel Financial")	Anhui, PRC	Anhui, PRC	Financial services	RMB1,000,000,000	91	-
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# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. Interests in subsidiaries (Continued)

- i The new subsidiary was jointly funded by the Company and Jiangsu Oubang Color-coated, the proportions of both shareholding and vote of the Company are 67%. Please refer to Note VI, 1.
- ii In May 2015, the Company gained 50% share of MaSteel Rail Transportation through public trading, which was held by Jinxi Axle Company Limited, as at 30 June 2015, the Company held 100% shareholding and voting right of MaSteel Rail Transportation. Please refer to Note VI, 2

Subsidiaries including significant maternal non-controlling are as follows:

	<b>30 June 2015 (Unaudited)</b>	31 December 2014 (Audited)
The proportion of equity held by non-controlling shareholders:		
Ma Steel (Hefei)	<b>29%</b>	29%
Anhui Changjiang Iron and Steel	<b>45%</b>	45%
Masteel Financial	<b>9%</b>	9%
	<hr/> <hr/>	<hr/> <hr/>
Profit attributable to non-controlling shareholders:		
Ma Steel (Hefei)	<b>(78,834,082)</b>	2,218
Anhui Chang Jiang Iron and Steel	<b>(31,080,898)</b>	38,639,545
Masteel Financial	<b>4,955,310</b>	10,695,227
	<hr/> <hr/>	<hr/> <hr/>
Dividends paid to non-controlling shareholders:		
Anhui Chang Jiang Iron and Steel	<b>—</b>	17,250,970
	<hr/> <hr/>	<hr/> <hr/>
Cumulative balance of non-controlling interests at the end of the reporting period :		
Ma Steel (Hefei)	<b>882,322,070</b>	960,651,510
Anhui Chang Jiang Iron and Steel	<b>1,070,955,065</b>	1,107,248,899
Masteel Financial	<b>128,329,357</b>	123,374,047
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# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. Interests in subsidiaries (Continued)

The main financial information of the above subsidiaries is as follows. The amounts listed below are the amounts without combination offset.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
<b>30 June 2015 (Unaudited)</b>			
Current assets	1,339,967,613	1,715,837,575	1,086,786,331
Non-current assets	4,011,135,183	4,552,542,865	5,109,337,759
Total assets	<u>5,351,102,796</u>	<u>6,268,380,440</u>	<u>6,196,124,090</u>
Current liabilities	(1,637,151,607)	(3,856,741,232)	(4,769,873,596)
Non-current liabilities	(671,461,292)	(31,739,064)	(368,750)
Total liabilities	<u>(2,308,612,899)</u>	<u>(3,888,480,296)</u>	<u>(4,770,242,346)</u>
Revenue	2,592,177,840	3,000,516,983	126,613,222
Net Profit/(Loss)	(271,841,663)	(69,068,662)	55,058,998
Total comprehensive income	<u>(271,841,663)</u>	<u>(69,068,662)</u>	<u>55,058,998</u>
Net cash flows (used in)/from operating activities	<u>(117,606,428)</u>	<u>137,004,257</u>	<u>151,017,937</u>
<b>31 December 2014 (Audited)</b>			
Current assets	1,479,942,018	1,756,207,510	1,381,922,412
Non-current assets	4,081,619,809	4,639,675,138	6,377,373,154
Total assets	<u>5,561,561,827</u>	<u>6,395,882,648</u>	<u>7,759,295,566</u>
Current liabilities	(1,576,101,221)	(3,902,138,118)	(6,388,247,820)
Non-current liabilities	(672,869,191)	(33,191,420)	(225,000)
Total liabilities	<u>(2,248,970,412)</u>	<u>(3,935,329,538)</u>	<u>(6,388,472,820)</u>
Revenue	4,917,761,207	9,625,460,442	365,406,944
Net Profit	7,648	85,865,656	118,835,859
Total comprehensive income	<u>7,648</u>	<u>85,865,656</u>	<u>118,835,859</u>
Net cash flows from/(used in) operating activities	<u>199,929,220</u>	<u>594,812,496</u>	<u>(694,125,423)</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 2. Interests in joint ventures and associates

	Place of incorporation	Place of registration	Business nature	Registered capital	Percentage of equity(%)		Accounting method
					Directly	Indirectly	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	-	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	-	Equity method
Associates							
Henan JinMa Energy (i)	Henan, PRC	Henan, PRC	Manufacturing	RMB326,730,000	36	-	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	32	-	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	-	Equity method
Xinchuang Economize Resource	Anhui, PRC	Anhui, PRC	Service industry	RMB100,000,000	20	-	Equity method
Anhui Linhuan Chemical (ii)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	-	Equity method
Intelligent Parking (iii)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB20,700,000	-	25	Equity method
Ma OCI Chemical (iv)	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	-	Equity method

- i: On 29 May 2015, Henan Jinma Energy becomes the immediate parent company of Jinyuan Chemicals. Since Henan Jinma Energy and Jinyuan Chemical had identical shareholding, all shareholders used their respective shares in Jinyuan Chemicals to fulfill capital increment in Henan Jinma Energy at the amount of RMB104,510,000 proportionately, among which the Company used its original 36% shares in Jinyuan Chemicals to contribute to the capital increment at the amount of RMB37,623,600 to Henan Jinma Energy. After the capital increment, Jinyuan Chemicals becomes a wholly owned subsidiary of Henan Jinma Energy, and the shareholding in Henan Jinma Energy by the shareholders remains unchanged. The Company holds 36% share of Henan Jinma Energy and no longer owned shares in Jinyuan Chemical directly. See Note V. 10.
- ii: The Company has significant influence over Anhui Linhuan Chemical by appointing a director.
- iii: The Company indirectly owned the associate through controlling the subsidiary Masteel HK, the percentage of equity is consistent with voting right.
- iv: In September 2014, the Company signed joint venture contract with OCI (China) Investment., Ltd. ("OCI (China) Investment"). In February 2015, the Company jointly funded to establish Chinese-foreign joint venture Ma-Steel OCI Chemical with OCI (China) Investment, and registered capital is USD47,125,000. According to the contract, the Company owned 40% equity and voting right. See Note V.10.

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 3. Interests in joint ventures and associates (Continued)

BOC-Ma Steel, one of the Group's important joint ventures, was accounted for using the equity method.

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

	<b>30 June 2015</b>	31 December 2014
Current assets	<b>391,344,144</b>	303,106,681
Including: Cash and cash equivalents	<b>322,988,452</b>	232,754,244
Non-current assets	<b>363,831,682</b>	387,735,999
<b>Total assets</b>	<b>755,175,826</b>	690,842,680
Current liabilities	<b>55,056,626</b>	67,998,135
Non-current liabilities	–	–
<b>Total liabilities</b>	<b>55,056,626</b>	67,998,135
Non-controlling interests	–	–
Equity attributable to the parent company	<b>700,119,200</b>	622,844,545
The Group's share of net assets	<b>350,059,600</b>	311,422,273
Adjustment	–	–
The carrying value of the investment	<b>350,059,600</b>	311,422,273
Revenue	<b>290,689,796</b>	574,214,269
Financial expenses – Interest income	<b>3,334,432</b>	4,901,552
Financial expenses – Interest expenses	–	–
Income tax expenses	<b>25,859,167</b>	52,300,714
Net profit	<b>77,274,656</b>	148,306,966
Net profit from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	<b>77,274,656</b>	148,306,966
Dividends received	–	–

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 3. Interests in joint ventures and associates (Continued)

As the strategic partners of the Group, Henan JinMa Energy and Shenglong Chemical engaged in coke production are the Group's significant associates and are accounted for using the equity method.

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:

	Henan JinMa Energy	Shenglong Chemical
<b>30 June 2015</b>		
Current assets	1,128,908,388	948,579,662
Non-current assets	965,344,019	1,588,389,368
Total assets	<u>2,094,252,407</u>	<u>2,536,969,030</u>
Current liabilities	1,353,797,111	1,710,466,711
Non-current liabilities	66,546,867	-
Total liabilities	<u>1,420,343,978</u>	<u>1,710,466,711</u>
Non-controlling interests	6,177,969	-
Equity attributable to the parent company	<u>667,730,460</u>	<u>826,502,319</u>
The Group's share of net assets	240,382,966	264,480,742
Adjustment	-	-
The carrying value of the investment	<u>240,382,966</u>	<u>264,480,742</u>
Revenue	1,297,846,524	1,607,534,531
Income tax expenses	1,175,217	11,200,492
Net profit	1,211,984	58,335,997
Other comprehensive income	-	-
Total comprehensive income	1,211,984	58,335,997
Dividends received	-	-

# Notes to Interim Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 3. Interests in joint ventures and associates (Continued)

	Henan JinMa Energy	Shenglong Chemical	MaSteel Rail Transportation
31 December 2014			
Current assets	1,027,213,183	764,083,433	166,700,959
Non-current assets	776,166,510	1,660,633,529	189,780,344
Total assets	1,803,379,693	2,424,716,962	356,481,303
Current liabilities	1,221,126,900	1,656,550,643	13,528,821
Non-current liabilities	–	–	–
Total liabilities	1,221,126,900	1,656,550,643	13,528,821
Non-controlling interests	5,869,699	–	–
Equity attributable to the parent company	576,383,094	768,166,319	342,952,482
The Group's share of net assets	207,497,916	245,813,223	171,476,241
Adjustment	–	–	–
The carrying value of the investment	207,497,916	245,813,223	171,476,241
Revenue	2,687,156,956	3,779,668,715	72,587,011
Income tax expenses	26,830,528	30,593,167	698
Net profit	80,491,585	90,021,796	2,094
Other comprehensive income	–	–	–
Total comprehensive income	80,491,585	90,021,796	2,094
Dividends received	–	–	–

# Notes to Interim Financial Statements (Continued)

30 June 2015

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 3. Interests in joint ventures and associates (Continued)

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

	<b>30 June 2015</b>	31 December 2014
Joint ventures		
The carrying value of the Group's investments	<b>542,669</b>	542,669
<b>For the six months ended 30 June</b>		
	<b>2015</b>	2014
Total shown as below (calculated according to the equity percentage)		
Net loss	–	(1,087)
Net profit from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	–	(9,275)
<b>For the six months ended 30 June</b>		
	<b>30 June 2015</b>	31 December 2014
Associates		
The carrying value of the Group's investments	<b>165,840,308</b>	152,832,688
<b>For the six months ended 30 June</b>		
	<b>2015</b>	2014
Total shown as below (calculated according to the equity percentage)		
Net (loss)/profit	<b>(11,452,246)</b>	12,768,258
Net profit from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	<b>(11,452,246)</b>	12,768,258

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

### 1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period date are as follows:

**30 June 2015**

#### Financial Assets

	Financial assets measured at fair value through profit or loss				Total
	Designated as such Upon initial recognition	Held for trading	Loans and receivables	Available-for-sale financial assets	
Cash and bank balances	-	-	7,978,940,797	-	7,978,940,797
Bills receivable	-	-	5,939,429,030	-	5,939,429,030
Trade receivables	-	-	823,651,878	-	823,651,878
Other receivables	-	-	231,492,640	-	231,492,640
Interest receivable	-	-	1,056,415	-	1,056,415
Loans and advances to customers	-	-	643,422,958	-	643,422,958
Available-for-sale financial assets	-	-	-	126,722,160	126,722,160
	-	-	15,617,993,718	126,722,160	15,744,715,878

#### Financial Liabilities

	Financial assets measured at fair value through profit or loss			Total
	Designated as such upon initial recognition	Held for trading	Other financial liabilities	
Short-term loans	-	-	11,764,444,349	11,764,444,349
Borrowing funds	-	-	500,000,000	500,000,000
Customer deposits	-	-	1,992,058,256	1,992,058,256
Repurchase agreements	-	-	90,896,113	90,896,113
Bills payable	-	-	4,958,716,744	4,958,716,744
Accounts payable	-	-	6,722,499,268	6,722,499,268
Interest payable	-	-	353,585,078	353,585,078
Dividends payable	-	-	7,328,392	7,328,392
Other payables	-	-	778,685,281	778,685,281
Non-current liabilities due within one year	-	-	1,752,064,448	1,752,064,448
Long term loans	-	-	8,042,266,432	8,042,266,432
Bonds payable	-	-	2,334,866,409	2,334,866,409
	-	-	39,297,410,770	39,297,410,770

# Notes to Interim Financial Statements (Continued)

30 June 2015

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 1. Classification of financial instruments (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period date are as follows:

31 December 2014

Financial Assets	Financial assets measured at fair value through profit or loss				Total
	Designated as such Upon initial recognition	Held for trading	Loans and receivables	Available-for-sale financial assets	
Cash and bank balances	-	-	4,654,551,519	-	4,654,551,519
Financial assets measured at fair value through profit or loss	1,126,460	(52,970)	-	-	1,073,490
Bills receivable	-	-	8,483,607,113	-	8,483,607,113
Trade receivables	-	-	856,559,860	-	856,559,860
Other receivables	-	-	255,577,937	-	255,577,937
Interest receivable	-	-	1,898,994	-	1,898,994
Loans and advances to customers	-	-	633,203,277	-	633,203,277
Available-for-sale financial assets	-	-	-	126,772,160	126,772,160
	<u>1,126,460</u>	<u>(52,970)</u>	<u>14,885,398,700</u>	<u>126,772,160</u>	<u>15,013,244,350</u>

Financial Liabilities

Financial Liabilities	Financial assets measured at fair value through profit or loss			Total
	Designated as such upon initial recognition	Held for trading	Other financial liabilities	
Short-term loans	-	-	12,058,394,894	12,058,394,894
Borrowing funds	-	-	500,000,000	500,000,000
Customer deposits	-	-	1,199,618,850	1,199,618,850
Bills payable	-	-	4,802,906,077	4,802,906,077
Accounts payable	-	-	6,679,288,444	6,679,288,444
Interest payable	-	-	146,625,806	146,625,806
Dividends payable	-	-	7,210,819	7,210,819
Other payables	-	-	827,419,110	827,419,110
Non-current liabilities due within one year	-	-	2,231,683,000	2,231,683,000
Long term loans	-	-	6,339,132,454	6,339,132,454
Bonds payable	-	-	2,332,666,298	2,332,666,298
	<u>-</u>	<u>-</u>	<u>37,124,945,752</u>	<u>37,124,945,752</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 2. Offsetting of financial instruments

For the six months period ended 30 June 2015, there is no offsetting arrangements for accounts receivable (31 December 2014: nil)

### 3. Transfer of financial assets

#### *Financial assets transferred but not yet fully derecognised*

As at 30 June 2015, the Group endorsed to its suppliers (but not yet fully derecognised) bank acceptance bills and discounted to its banks bank acceptance bills with a carrying amount of RMB178,796,832 and RMB99,901,548 respectively for settlement of accounts payable. As the Group is of the opinion that the Group has retained substantially all their risks and rewards, including the default risk associated, the Group continues to recognise them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserves the rights to use them, including the rights to sell, transfer or pledge to any other third party. As at 30 June 2015, the carrying amount of accounts payable settled by the Group through them or short-terms borrowings secured amounted to RMB178,796,832 and RMB99,901,548, respectively (31 December 2014: RMB232,701,532 and RMB16,121,328, respectively).

#### *Transferred financial assets fully derecognised but with continuing involvement*

As of 30 June 2015, the Group endorsed to its suppliers (and fully derecognised) bank acceptance bills and discounted to its banks bank acceptance bills with a carrying amount of RMB2,078,043,975 and RMB642,279,379 respectively (31 December 2014: RMB3,028,705,946 and RMB243,937,566 respectively) for settlement of accounts payable. As of 30 June 2015, their maturity period ranged from 1 to 12 months. Pursuant to relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if relevant acceptance bank defaults. As the Group is of the opinion that the Group has transferred substantially all their risks and rewards, the Group has derecognised them and the settled accounts payable associated therewith. The maximum exposure to loss from the Group's Continuing Involvement and repurchase and the undiscounted cash flows equal to their carrying amounts. The Group is of the opinion that the fair value of the Continuing Involvement is insignificant.

As of the six months ended 30 June 2015, no gains or losses were recognised on their dates of transfer. No income or expenses were recognised for the current year or on an accumulative basis as a result of the Group's Continuing Involvement in derecognised financial assets. Endorsements were incurred basically evenly during the year.

# Notes to Interim Financial Statements (Continued)

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk

The Group's principal financial instruments comprise interest-bearing bank borrowings, other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade receivables and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk. The Group's risk management policies are outlined below.

#### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the other major financial assets of the Group, which comprise cash and bank balances, available-for-sale financial assets, other receivables, interest receivable, dividends receivable, loans and advances to customers, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had a certain concentration of credit risk as 7% (2014: 6%) and 28% (2014: 24%) of the Group's trade receivables were due from the Group's largest customer and five largest customers respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.3 and V.5 to the financial statements.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

#### Credit risk (continued)

As at 30 June 2015, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

	Total	Not overdue	Overdue	
			Less than six months	Over six months
Trade receivables	823,651,878	731,511,357	47,470,740	44,669,781
Bills receivable	5,939,429,030	5,939,429,030	–	–
Available-for-sale financial assets	126,722,160	126,722,160	–	–
Interest receivable	1,056,415	1,056,415	–	–
Other receivables	231,492,640	208,698,044	12,147,944	10,646,652
Loans and advances to customers	643,422,958	643,422,958	–	–

As at 31 December 2014, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

	Total	Not overdue	Overdue	
			Less than six months	Over six months
Trade receivables	856,559,860	632,472,324	186,587,479	37,500,057
Bills receivable	8,483,607,113	8,483,607,113	–	–
Available-for-sale financial assets	126,772,160	126,772,160	–	–
Interest receivable	1,898,994	1,898,994	–	–
Other receivables	255,577,937	244,760,396	3,759,696	7,057,845
Loans and advances to customers	633,203,277	633,203,277	–	–

As at 30 June 2015, the accounts receivable and other receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

As at 30 June 2015, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

#### Liquidity risk

The Group applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flows of the Group into consideration.

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. The Group's policy is that no more than 80% of the borrowings should be due within 12 months according to the book value in the financial statements. As at 30 June 2015, 63% of the Group's debts are due within 12 months (2014: 69%).

The maturity profile of the Group's financial liabilities as at the end of reporting period date is as follows:

#### 30 June 2015

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	11,764,444,349	-	-	-	-	11,764,444,349
Customer deposits	1,992,058,256	-	-	-	-	1,992,058,256
Deposit funds	500,000,000	-	-	-	-	500,000,000
Bills payable	4,958,716,744	-	-	-	-	4,958,716,744
Trade payables	6,722,499,268	-	-	-	-	6,722,499,268
Interest payable	353,585,078	-	-	-	-	353,585,078
Dividends payable	7,328,392	-	-	-	-	7,328,392
Other payables	778,685,281	-	-	-	-	778,685,281
Repurchase agreements	90,896,113	-	-	-	-	90,896,113
Non-current liabilities	-	-	-	-	-	-
due within one year	1,752,064,448	-	-	-	-	1,752,064,448
Long term loans	-	7,644,780,096	284,996,096	89,992,192	22,498,048	8,042,266,432
Bonds payable	-	2,334,866,409	-	-	-	2,334,866,409
Interest of interest-bearing liabilities	832,278,187	182,772,233	10,685,478	5,102,278	29,981	1,030,868,157
	<u>29,752,556,116</u>	<u>10,162,418,738</u>	<u>295,681,574</u>	<u>95,094,470</u>	<u>22,528,029</u>	<u>40,328,278,927</u>

# Notes to Interim Financial Statements (Continued)

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

#### Liquidity risk (continued)

31 December 2014

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	12,058,394,894	-	-	-	-	12,058,394,894
Customer deposits	1,199,618,850	-	-	-	-	1,199,618,850
Borrowing funds	500,000,000	-	-	-	-	500,000,000
Bills payable	4,802,906,077	-	-	-	-	4,802,906,077
Trade payables	6,679,288,444	-	-	-	-	6,679,288,444
Interest payable	146,625,806	-	-	-	-	146,625,806
Dividends payable	7,210,819	-	-	-	-	7,210,819
Other payables	827,419,110	-	-	-	-	827,419,110
Non-current liabilities						
due within one year	2,231,683,000	-	-	-	-	2,231,683,000
Long term loans	-	4,718,989,094	1,485,035,840	90,071,680	45,035,840	6,339,132,454
Bonds payable	-	2,332,666,298	-	-	-	2,332,666,298
Interest of						
interest-bearing liabilities	874,583,856	267,671,461	29,771,430	7,031,345	552,540	1,179,610,632
	<u>29,327,730,856</u>	<u>7,319,326,853</u>	<u>1,514,807,270</u>	<u>97,103,025</u>	<u>45,588,380</u>	<u>38,304,556,384</u>

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

#### Market risk

##### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's net profit/(loss) (through the impact on floating rate borrowings) and equity.

	Increase/(decrease) in basis points	Increase/(decrease) in net profit
For the six months ended 30 June 2015		
RMB	50	(629,108)
USD	50	(58,238)
RMB	(50)	629,108
USD	(50)	58,238
31 December 2014		
RMB	50	(21,150,000)
USD	50	(6,512,146)
RMB	(50)	21,150,000
USD	(50)	6,512,146

# Notes to Interim Financial Statements (Continued)

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

*Market risk (Continued)*

Exchange rate risk

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

The businesses of the Group are principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings were denominated in United States dollars, Euros and Japanese yen. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in Notes V.47 to the financial statements, respectively.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's net profit (due to changes in the fair values of monetary assets and liabilities).

# Notes to Interim Financial Statements (Continued)

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## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 4. Financial instruments risk (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

	Increase/(decrease) in exchange rate	Increase/(decrease) in net profit	Increase/(decrease) in equity (note)
<b>30 June 2015</b>			
Depreciation of RMB to USD	(1%)	(30,726,558)	–
Depreciation of RMB to EUR	(1%)	(344,963)	2,653,983
Depreciation of RMB to JPY	(1%)	27	–
Depreciation of RMB to AUD	(1%)	123,885	2,472,889
Depreciation of RMB to HK	(1%)	(1,195,389)	1,398,227
Appreciation of RMB to USD	1%	30,726,558	–
Appreciation of RMB to EUR	1%	344,963	(2,653,983)
Appreciation of RMB to JYP	1%	(27)	–
Appreciation of RMB to AUD	1%	(123,885)	(2,472,889)
Appreciation of RMB to HKD	1%	1,195,389	(1,398,227)
<b>31 December 2014</b>			
Depreciation of RMB to USD	(1%)	(43,324,661)	–
Depreciation of RMB to EUR	(1%)	1,596,141	3,144,526
Depreciation of RMB to JPY	(1%)	39	–
Depreciation of RMB to AUD	(1%)	1,220,639	2,293,460
Depreciation of RMB to HK	(1%)	(1,252,468)	1,265,060
Appreciation of RMB to USD	1%	43,324,661	–
Appreciation of RMB to EUR	1%	(1,596,141)	(3,144,526)
Appreciation of RMB to JYP	1%	(39)	–
Appreciation of RMB to AUD	1%	(1,220,639)	(2,293,460)
Appreciation of RMB to HKD	1%	1,252,468	(1,265,060)

Note: Surplus reserve is not included.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 5. Capital management

The main objective of the Group's capital management is to ensure the Group's ability to continue operations and to maintain healthy capital ratios in order to support business growth and maximize shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. During the first half of 2015 and the year of 2014, the capital management objectives, policies or procedures of the Group did not change.

During the first half of 2015 and the year of 2014, the selling price of the main product adversely influenced the Group's operating profit. In addition, the Group ensures sufficient operating cash flow through bank loan.

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt, and the target gearing ratio for the Group is between 50% and 60%. Net debt includes deposits, amounts from selling of financial assets, bank loans, bill payable, bonds payable, accounts payable, payroll, interest payable, dividends payable and other payables, minus cash and bank balances. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period is as follows:

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 5. Capital management (Continued)

	30 June 2015	31 December 2014
Borrowing funds	500,000,000	500,000,000
Customer deposits	1,992,058,256	1,199,618,850
Repurchase agreements	90,896,113	–
Short term loans	11,764,444,349	12,058,394,894
Bills payable	4,958,716,744	4,802,906,077
Accounts payable	6,722,499,268	6,679,288,444
Payroll and benefits payable	381,682,937	299,077,212
Interest payable	353,585,078	146,625,806
Dividends payable	7,328,392	7,210,819
Other payables	778,685,281	827,419,110
Non-current liabilities due within one year	1,752,064,448	2,231,683,000
Long term loans	8,042,266,432	6,339,132,454
Bonds payable	2,334,866,409	2,332,666,298
Long term payroll	26,948,371	25,877,746
Less: Cash and bank balances	7,978,940,797	4,654,551,519
Net liabilities	<u>31,727,101,281</u>	<u>32,795,349,191</u>
Capital attributable to owners of the parent	<u>22,012,631,920</u>	<u>23,295,565,989</u>
Adjusted capital	<u>22,012,631,920</u>	<u>23,295,565,989</u>
Capital and net liabilities	<u><u>53,739,733,201</u></u>	<u><u>56,090,915,180</u></u>
Gearing ratio	<u>59%</u>	<u>58%</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## IX. DISCLOSURE OF FAIR VALUE

### 1. Financial assets and liabilities measured at fair value

30 June 2015

Recurring fair value measurement for:  
Financial assets at fair value  
through profit or loss

Inputs used by fair value measurement				Total
Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant Unobservable inputs Level 3		
-	-	-	-	-

### 2. Financial assets and liabilities disclosed at fair value

30 June 2015

Long term loans  
Bonds payable

Inputs used by fair value measurement				Total
Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant Unobservable inputs Level 3		
-	8,042,266,432	-	-	8,042,266,432
-	2,334,866,409	-	-	2,334,866,409

### 3. Valuation of fair value

*Fair value of financial assets*

The carrying amounts and fair values of the Group's financial instruments are as follows, excluding the financial instruments that the difference between the fair values and carrying amount is very small and the equity instruments that there is no price and its fair value cannot be reliably measured in the active market:

	Carrying amounts		Fair values	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Financial liabilities				
Long term loans	8,042,266,432	6,339,132,454	8,042,266,432	6,339,132,454
Bonds payable	2,334,866,409	2,332,666,298	2,334,866,409	2,332,666,298

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

### 3. Valuation of fair value (Continued)

#### *Fair value of financial assets (Continued)*

Management has assessed the fair value of cash and cash equivalents, bill receivable, accounts receivable, dividends receivable, interest receivable, other receivables, bills payables, accounts payables, interest payable, dividends payable, other payables, loans and advances, customer deposits, repurchase agreements, short-term loans, and other non-current liabilities due within one year. Since the residual terms of the above mentioned items are not long, the fair values are almost equal to the book values.

The policies and procedures for accounting financial instruments at fair value are developed by the Group's finance team led by the finance manager. The Group's finance team reports directly to the financial officer and the Audit Committee. At each balance sheet date, the finance team analyzes changes in the value of financial instruments and determines the main applicable inputs to the valuation. Valuations are subject to the approval of the financial officer. The finance team discusses the valuation process and results twice a year with the Audit Committee for interim and annual financial reporting.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions are used in estimating fair value.

The method of discounted cash flows is adopted to determine the fair value of long-term loans and medium-term bills payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As at 30 June 2015, the default risk for the long-term loans is evaluated as not significant; for corporate bonds payable, quoted market prices are adopted to determine their fair value.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 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	Anhui, PRC	Gao Haijian	Manufacturing	6,298,290,000	45.535	45.535	150509144

Maanshan Iron & Steel Company Limited is controlled by Masteel (Group) Holding Company Limited.

### 2. Subsidiaries

The details of the subsidiaries are stated in Note VII 1 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 VII 2 to the financial statements.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

Name	Relationship with the Company
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding
Anhui Masteel Advanced Technician Institute	Controlled by Holding
Masteel Engineering Technology (Group) Co., Ltd.(i)	Controlled by Holding
Anhui Masteel Luo He Mining Co., Ltd	Controlled by Holding
Masteel Refractory Materials Co., Ltd	Controlled by Holding
Masteel Automobile Transportation Service Co., Ltd	Controlled by Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by Holding
Anhui Masteel Dangerous Goods Transportation Co. Ltd.	Controlled by Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by Holding
Masteel Automation and Information Technology Co., Ltd.	Controlled by Holding
Anhui Xinchuang Economize Resource Co., Ltd.	Controlled by Holding
Anhui Metal Technology Institute	Controlled by Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Steel Logistics Park Co. Ltd.	Controlled by Holding
Maanshan Gang Chen Hydrogen Industry Co., Ltd	Controlled by Holding
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding
Maanshan Harbour Group Co., Ltd	Controlled by Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding
Maanshan Used Vehicle Trading Centre Co. Ltd.	Controlled by Holding
Maanshan Changjiang Shipping Agency	Controlled by Holding
Maanshan Yangtze River Logistics	Controlled by Holding
Maanshan China Ocean Shipping Tally	Controlled by Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by Holding
Masteel Group Mapping Co., Ltd.	Controlled by Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding
Masteel Green Energy Technology Development	Controlled by Holding

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

Name	Relationship with the Company
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding
Maanshan Yu Tai Property Management Co., Ltd	Controlled by Holding
Ma Steel United Electric Steel Roller Co. Ltd.	Controlled by Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding
Tongling Yuanda Co., Ltd.	Controlled by Holding
Anhui Zhengpu Harbor Co., Ltd	Controlled by Holding
Anhui Zhonglian Shipping Co. Ltd.(ii)	Controlled by Holding
Magang (Group) Investment Co., Ltd (iii)	Controlled by Holding
Anhui Xiangyun Technology Co., Ltd (iii)	Controlled by Holding
Hefei Dianbu River Harbour Co., Ltd (iii)	Controlled by Holding

(i) In the reporting period, Masteel Engineering Technology (Group) Co., Ltd merged Masteel Metallurgy Construction Co., Ltd, Masteel Equipment Maintenance Engineering Co., Ltd and Maanshan Masteel Steel Structure Technology Co., Ltd by merger. After the merger, the above three companies were disbanded and canceled.

(ii) Ma'anshan Zhonglian Shipping Co. Ltd was renamed as Anhui Zhonglian Shipping Co. Ltd"., controlled by the Holding.

(iii) The new established companies are controlled by the Holding.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

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

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

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

		For the six months ended 30 June			
		2015		2014	
		Unaudited		Unaudited	
		Percentage of similar		Percentage of similar	
		Amount	transactions	Amount	transactions
Note		RMB	%	RMB	%
	Holding (i)	1,194,385,109	20	1,621,425,669	15
	Ma Steel International Trade and Economic Co., Ltd ("Masteel International Trade") (i)	106,648,389	2	-	-
	Tongling Yuanda Co., Ltd. ("Tongling Yuanda") (i)	32,873,054	1	20,827,419	1
		<b>1,333,906,552</b>	<b>23</b>	<b>1,642,253,088</b>	<b>16</b>

- (i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 2 December 2014 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 Masteel International Trade, and the price is subject to negotiation.

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

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

		For the six months ended 30 June			
		2015		2014	
	Note	Amount RMB	Percentage of similar transactions %	Amount RMB	Percentage of similar transactions %
Holding	(ii)	2,641,519	–	22,864,656	2
Masteel Refractory Materials Co., Ltd.	(ii)	282,969,379	28	297,724,994	23
Anhui Xinchuang Economize Resource Co., Ltd.	(ii)	117,797,625	12	152,431,537	12
Masteel Automobile Transportation Service Co., Ltd.	(ii)	105,310,040	10	118,424,531	9
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	100,506,779	10	95,290,367	7
Maanshan Harbour Group Co., Ltd.	(ii)	98,032,945	10	83,465,113	6
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	77,607,775	8	–	–
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	76,887,078	8	83,339,755	6
Ma Steel International Trade	(ii)	41,291,946	4	–	–
Masteel Automation and Information Technology Co., Ltd	(ii)	39,632,590	4	81,621,286	6
Masteel Transportation Equipment Manufacturing Co., Ltd	(ii)	32,759,260	3	–	–
Maanshan Gang Chen Industry Co., Ltd.	(ii)	2,236,126	–	–	–
Masteel Equipment Maintenance Engineering Co., Ltd.	(ii)	–	–	122,225,241	9
Masteel Metallurgy Construction Co., Ltd.	(ii)	–	–	108,590,185	8
Others	(ii)	36,069,608	3	148,996,287	12
		<b>1,013,742,670</b>	<b>100</b>	<b>1,314,973,952</b>	<b>100</b>

(ii) The terms for the provision of certain services, including training, food and sanitary services, environmental and cleaning 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)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

		For the six months ended 30 June			
		2015		2014	
		Percentage of similar transactions		Percentage of similar transactions	
Note	Amount RMB	%	Amount RMB	%	
Holding	(iii)	-	-	-	-
Maanshan Gang Chen Industry Co., Ltd.	(iii)	981,489	97	9,178,051	99
Masteel Shen Ma Metal Co., Ltd.	(iii)	34,150	3	35,397	1
		<u>1,015,639</u>	<u>100</u>	<u>9,213,448</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			
		2015		2014	
		Percentage of similar transactions		Percentage of similar transactions	
Note	Amount RMB	%	Amount RMB	%	
Holding	(iv)	24,264,900	100	24,264,900	100

(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)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(5) Purchases of fixed assets and construction services

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
		RMB	%	RMB	%
	Note				
Holding	(iii)	-	-	-	-
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	158,692,829	15	16,799,600	-
Anhui Xinchuang Economize Resource Co., Ltd.	(iii)	49,815,703	5	28,643,866	-
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	20,632,064	2	-	-
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	7,033,774	1	5,790,660	-
Masteel Automation and Information Technology Co., Ltd.	(iii)	5,053,376	1	-	-
Masteel Group Kang Cheng Building and Installing Co., Ltd.	(iii)	264,394	-	418,400	-
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	235,499	-	-	-
Masteel Metallurgy Construction Co., Ltd.	(iii)	-	-	121,308,744	2
Ma Steel United Electric Steel Roller Co. Ltd.	(iii)	-	-	8,436,488	-
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	-	-	5,852,800	-
Ma Steel International Trade	(iii)	-	-	3,366,700	-
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	-	-	608,375	-
Others	(iii)	-	-	7,710,290	1
		<b>241,727,639</b>	<b>24</b>	<b>198,935,923</b>	<b>3</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)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
Holding	(iii)	2,767,026	1	15,656,810	7
Anhui Xinchuang Economize Resource Co., Ltd.	(iii)	26,502,947	14	51,122,276	23
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	15,487,144	8	–	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	15,133,274	8	64,888,355	29
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	6,807,917	4	8,329,832	4
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	5,504,858	3	–	–
Masteel Refractory Materials Co., Ltd.	(iii)	4,720,432	2	6,206,203	3
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	2,957,484	2	3,453,744	2
Masteel Automation and Information Technology Co., Ltd.	(iii)	2,086,531	1	3,131,914	1
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	1,343,980	1	5,652,182	2
Maanshan Gang Chen Industry Co., Ltd.	(iii)	784,666	–	1,159,281	1
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	99,749	–	–	–
Masteel Metallurgy Construction Co., Ltd.	(iii)	–	–	27,794,492	12
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	–	–	5,398,715	2
Others	(iii)	4,418,630	2	5,930,644	2
		<b>88,614,638</b>	<b>46</b>	<b>198,724,448</b>	<b>88</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)

30 June 2015

Renminbi Yuan

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

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

(7) Sale of steel products and related by products

		For the six months ended 30 June				
		2015		2014		
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions	
Note		RMB	%	RMB	%	
	Masteel Engineering Technology (Group) Co., Ltd.	(iv)	92,279,075	-	-	-
	Masteel Heavy Machinery Manufacturing Co., Ltd.	(iv)	10,633,056	-	31,689,393	-
	Maanshan Gang Chen Industry Co., Ltd.	(iv)	2,918,810	-	-	-
	Ma Steel International Trade	(iv)	901,066	-	48,893,911	-
	Masteel Metallurgy Construction Co., Ltd.	(iv)	-	-	160,787,768	1
	Maanshan Masteel Steel Structure Technology Co., Ltd.	(iv)	-	-	75,674,770	-
	Others	(iv)	-	-	3,374,501	-
			<b>106,732,007</b>	<b>-</b>	<b>320,420,343</b>	<b>1</b>

(iv) 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)

30 June 2015  
Renminbi Yuan

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

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

(8) Financial service costs paid to related parties

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Holding	6,008,655	55	3,251,481	47
	Masteel Engineering Technology (Group) Co., Ltd.	732,114	7	808,532	12
	Maanshan Gang Chen Industry Co., Ltd.	574,004	5	548,273	8
	Maanshan Iron & Steel Group Mining Co., Ltd.	572,405	5	–	–
	Maanshan Masteel Surface Engineering Technology Co., Ltd.	550,573	5	421,947	6
	Ma Steel International Trade	396,138	4	410,474	6
	Anhui Xinchuang Economize Resource Co., Ltd.	–	–	7,759	–
	Others	2,062,666	19	1,438,919	21
		<b>10,896,555</b>	<b>100</b>	<b>6,887,385</b>	<b>100</b>

(v) Masteel Financial took deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranged from 0.42% to 3.30% for the six months ended 30 June 2015 (for the six months ended 30 June 2014: 0.385% – 3.30%).

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

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

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

(9) Financial service income received from related parties

		For the six months ended 30 June			
		2015		2014	
		similar	Percentage of similar	Amount	Percentage of
		Amount	transactions	Amount	transactions
Note		RMB	%	RMB	%
Holding	(vi)	1,971,500	13	10,844,250	54
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	9,589,200	62	-	-
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	2,225,764	14	2,011,942	10
Anhui BRC & Masteel Weldmesh Co., Ltd	(vi)	950,472	6	633,278	3
Maanshan Gang Chen Industry Co., Ltd.	(vi)	613,600	4	6,510,308	32
Anhui Xinchuang Economize Resource Co., Ltd	(vi)	109,506	1	-	-
Masteel Engineering Technology (Group) Co., Ltd..	(vi)	75,360	-	-	-
Ma Steel International Trade	(vi)	75,000	-	-	-
Others	(vi)	-	-	160,122	1
		<b>15,610,402</b>	<b>100</b>	<b>20,159,900</b>	<b>100</b>

(vi) Masteel Financial realizes financial service income for the financial services it rendered to the Holding and its subsidiaries, including granting loans, bank acceptance bill discounting and entrusted loan. The lending rate is no lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was no lower than the benchmark charge stipulated by the People's Bank of China.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### (10) Rental income from associates

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Masteel Auto-parking (vii)	59,270	18	81,421	16

(vii) 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			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Masteel Auto-parking (vii)	7,476	-	7,476	-

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

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

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	Shenglong Chemical (viii)	47,398,176	13	-	-

(viii) 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)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

		For the six months ended 30 June				
		2015		2014		
		Percentage of similar transactions		Percentage of similar transactions		
Note		Amount RMB	%	Amount RMB	%	
	Shenglong Chemical	(viii)	-	-	606,317	-

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

#### (14) Sales of wheel product to associates

		For the six months ended 30 June				
		2015		2014		
		Percentage of similar transactions		Percentage of similar transactions		
Note		Amount RMB	%	Amount RMB	%	
	MaSteel Rail Transportation	(ix)	1,199,500	-	45,377,173	7

(ix) These transactions were made between the Group and Masteel Rail Transportation and were conducted in accordance with the terms mutually agreed between the parties. The Group has completed the acquisition of MaSteel Rail Transportation and MaSteel Rail Transportation becomes a wholly owned subsidiary. From June 2015, it has been included in the consolidation scope of the Group. The amount of transaction disclosed above is for that incurred in the first five months of 2015.

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

		For the six months ended 30 June				
		2015		2014		
		Percentage of similar transactions		Percentage of similar transactions		
Note		Amount RMB	%	Amount RMB	%	
	BOC-Ma Steel	(x)	1,250,000	100	625,000	100

(x) 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)

30 June 2015  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

		For the six months ended 30 June				
		2015		2014		
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions	
Note		RMB	%	RMB	%	
	BOC-Ma Steel	(x)	142,164,333	57	129,987,870	46

(x) 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 utilities and facilities from a jointly-controlled entity

		For the six months ended 30 June				
		2015		2014		
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions	
Note		RMB	%	RMB	%	
	BOC-Ma Steel	(x)	5,742,143	100	2,675,174	100

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

(18) Fee received for supply of steam from a jointly-controlled entity

		For the six months ended 30 June				
		2015		2014		
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions	
Note		RMB	%	RMB	%	
	BOC-Ma Steel	(x)	2,128,548	100	2,049,322	100

(x) 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)

30 June 2015

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

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

(19) Fees received for providing electricity and broadband from a joint venture

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	BOC-Ma Steel	16,307	100	-	-

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

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

		For the six months ended 30 June			
		2015		2014	
		Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Note		RMB	%	RMB	%
	BOC-Ma Steel	286,932,347	100	267,025,095	100

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

The transactions (i) to (x) 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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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

30 June 2015

Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding (xi)	The Company	2.462 billion	2012.2	2020.7	No as at the signing date of the report

31 December 2014

Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding (xi)	The Company	1.687 billion	2012.2	2020.7	No as at the signing date of the report

(xi) During the six months ended 30 June 2015, the Holding has guaranteed certain bank loans of the Group amounting approximately to RMB2.462 billion (2014: approximately RMB1.687 billion). The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB6.136 billion as at 30 June 2015 (December 31 2014: part of the Group's bank loans and bonds with warrants amounting approximately to RMB6.127 billion).

#### (22) Borrowings from a related party

30 June 2015

Note	Borrowing amount	Start date	End date
Anhui Zhonglian Shipping Co. Ltd (xii)	RMB80,000,000	2015.03.27	2016.03.25
Anhui Zhonglian Shipping Co. Ltd (xii)	RMB30,000,000	2015.05.4	2016.05.3

31 December 2014

Note	Borrowing amount	Start date	End date
Anhui Zhonglian Shipping Co. Ltd (xii)	RMB50,000,000	2014.03.26	2015.3.26

(xii) On 27 March 2015 and 4 May 2015, Anhui Zhonglian Shipping Co. Ltd entrust Masteel Financial to provide the Company two short-term loans of RMB80,000,000 and RMB30,000,000 respectively with the annual interest rate 4.815%, and repay principal and interest on the expiration date. The company accrued interest RMB1,027,200 and RMB232,725, respectively, and not paid yet as at 30 June 2015. The entrusted loan borrowed in 2014 was paid on 26 March 2015.

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

- (23) *The balances of other receivables, prepayments, payables, and advance receipts are unsecured, interest-free and have no fixed terms of repayment.*
- (24) *The Group has not obtained any long-term entrusted loans from the Holding for the six months ended 30 June 2015 (31 December 2014: Nil).*
- (25) *According to the financial service agreement signed by Masteel Financial and the Holding on 16 December 2014, the upper limit balance of outstanding loan is RMB600 million, and other financial service charge should be no more than RMB60 million from 1 January 2015 to 31 December 2015. The annual cap was the highest demand for daily deposits, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement.*

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
<u>Trade receivables:</u>		
Holding and its subsidiaries		
Holding	<b>2,118,071</b>	2,816,544
Maanshan Jiahua Commodity Concrete Co., Ltd.	<b>15,187,170</b>	544,153
Ma Steel Powder Metallurgy Co., Ltd.	<b>6,506,981</b>	5,748,232
Masteel Heavy Machinery Manufacturing Co., Ltd.	<b>2,695,517</b>	3,812,030
Maanshan Masteel Steel Structure Technology Co., Ltd	–	6,119,222
Masteel Equipment Maintenance Engineering Co., Ltd.	–	1,753,486
Masteel Metallurgy Construction Co., Ltd.	–	179,410
Others entities controlled by Holding	<b>2,790,468</b>	1,960,360
	<b>29,298,207</b>	22,933,437
<u>Prepayments:</u>		
Holding and its subsidiaries		
Holding	<b>7,242,363</b>	1,005,813
Ma Steel United Electric Steel Roller Co. Ltd.	<b>29,483,617</b>	21,124,699
Masteel International Trade	<b>28,609,703</b>	6,327,020
Masteel Engineering Technology(Group) Co., Ltd.	<b>22,923,384</b>	–
Anhui Xinchuang Economize Resource Co., Ltd.	<b>8,461,000</b>	–
Others entities controlled by Holding	<b>3,583,108</b>	78,840
	<b>100,303,175</b>	28,536,372

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

	30 June 2015 Unaudited	31 December 2014 Audited
<u>Other receivables:</u>		
Holding and its subsidiaries		
Anhui Zhonglian Shipping Co. Ltd	–	50,000,000
Masteel Engineering Technology(Group) Co., Ltd.	20,490	–
	<u>20,490</u>	<u>50,000,000</u>
<u>Accounts payable:</u>		
Holding and its subsidiaries		
Holding	396,653,563	11,189,996
Anhui Xinchuang Economize Resource Co., Ltd.	70,060,216	45,141,666
Masteel Engineering Technology(Group) Co., Ltd.	68,218,966	106,696,086
Maanshan Masteel Surface engineering Technology Co., Ltd.	45,112,404	32,004,943
Masteel Heavy Machinery Manufacturing Co., Ltd.	42,877,839	28,793,993
Masteel Automation and Information Technology Co., Ltd	37,721,213	15,077,242
Masteel Shen Ma Metal Co., Ltd.	20,981,757	39,582,938
Masteel Automobile Transportation Service Co., Ltd.	19,473,342	22,706,589
Maanshan Iron & Steel Group Mining Co., Ltd.	12,696,729	2,667,027
Masteel International Trade	10,296,886	1,482,941
Maanshan Harbour Group Co., Ltd.	9,798,948	17,239,383
Masteel Metallurgy Construction Co., Ltd.	–	115,517,235
Masteel Equipment Maintenance Engineering Co., Ltd.	–	34,279,512
Others entities controlled by Holding	15,635,307	21,936,337
	<u>749,527,170</u>	<u>494,315,888</u>
Jointly-controlled entity of the Group		
BOC-Ma Steel	46,246,731	48,450,879
Associates of the Group		
Shenglong Chemical	207,497	207,497
Masteel Auto-parking	6,230	–
	<u>213,727</u>	<u>207,497</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

	30 June 2015 Unaudited	31 December 2014 Audited
<u>Deposits received:</u>		
Holding and its subsidiaries		
Holding	202,533	119,081
Maanshan Gang Chen Industry Co., Ltd.	81,663,776	81,976,436
Anhui BRC & Masteel Weldmesh Co., Ltd.	10,908,502	15,705,613
Masteel Metallurgy Construction Co., Ltd.	–	29,605,981
Others entities controlled by Holding	11,448,596	6,874,734
	<u>104,223,407</u>	<u>134,281,845</u>
Associates of the Group		
Henan Jinma Energy	–	121,475
Shenglong Chemical	350,473	–
	<u>350,473</u>	<u>121,475</u>
<u>Other payables:</u>		
Holding and its subsidiaries		
Holding	–	1,000
Masteel Engineering Technology(Group) Co., Ltd.	15,652,549	5,122,585
Masteel Automobile Transportation Service Co., Ltd.	7,421,325	9,012,556
Anhui Xinchuang Economize Resource Co., Ltd.	5,903,742	4,774,704
Maanshan Gang Chen Industry Co., Ltd.	5,741,742	1,148,836
Maanshan Masteel Electric Repair Co., Ltd	103,822	1,924,365
Masteel Equipment Maintenance Engineering Co., Ltd.	–	7,576,686
Masteel Metallurgy Construction Co., Ltd.	–	2,551,706
Maanshan Masteel Steel Structure Technology Co., Ltd.	–	1,936,153
Others entities controlled by Holding	2,536,487	653,824
	<u>37,359,667</u>	<u>34,702,415</u>
Jointly-controlled entity of the Group		
BOC-Ma Steel	–	70,000
	<u>–</u>	<u>70,000</u>

# Notes to Interim Financial Statements (Continued)

30 June 2015

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

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
<u>Bills Receivable:</u>		
Holding and its subsidiaries		
Masteel Metallurgy Construction Co., Ltd.	–	27,500,000
Maanshan Gang Chen Industry Co., Ltd.	<b>57,424,751</b>	146,890,062
Masteel Engineering Technology Co., Ltd.	<b>36,748,400</b>	–
Anhui Xinchuang Economize Resource Co., Ltd.	<b>4,955,560</b>	2,500,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	<b>450,000</b>	16,987,140
Maanshan Masteel Steel Structure Technology Co., Ltd.	–	8,192,625
Masteel Heavy Machinery Manufacturing Co., Ltd.	–	100,000
	<b>99,578,711</b>	202,169,827
Associate of the Group		
MaSteel Rail Transportation (Note)	–	17,300,000
<u>Loans and discount bills to customers:</u>		
The Holding and its subsidiaries		
The Holding	–	130,000,000
Maanshan Iron & Steel Group Mining Co., Ltd.	<b>461,672,958</b>	–
Masteel Engineering Technology (Group) Co., Ltd.	<b>29,250,000</b>	–
Anhui Masteel Luo He Mining Co., Ltd.	–	125,208,138
Anhui BRC & Masteel Weldmesh Co., Ltd.	–	40,000,000
Others	–	354,900,000
	<b>490,922,958</b>	650,108,138

# Notes to Interim Financial Statements (Continued)

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

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

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
<u>Customer deposits:</u>		
The Holding and its subsidiaries		
The Holding	<b>747,604,180</b>	661,677,218
Magang (Group) Investment Co., Ltd	<b>511,456,495</b>	–
Maanshan Iron & Steel Group Mining Co., Ltd.	<b>107,299,581</b>	–
Masteel Engineering Technology (Group) Co., Ltd.	<b>136,829,220</b>	86,435,768
Masteel Metallurgy Construction Co., Ltd.	–	–
Maanshan Gang Chen Industry Co., Ltd.	<b>20,920,547</b>	18,228,651
Others entities controlled by the Holding	<b>346,270,570</b>	343,868,215
	<b>1,870,380,593</b>	1,110,209,852
Jointly-controlled entity of the Group		
MaSteel Rail Transportation (Note)	–	1,007,522

The fee charged by Masteel Financial for the financing services and deposit transactions provided to the Group and its subsidiaries is determined based on negotiation between the two parties.

Note: In 2015, the Group acquired the 50% share of Maanshan Magang Jinxi Rail Transportation Co., Ltd held by Jinxi Axle Company Limited. After the transfer, the ownership of MaSteel Rail Transportation held by the Company has reached 100%, which has not belonged to associate in this financial period and renamed to Maanshan Magang Rail Transportation Equipment Co., Ltd..

\* As at 30 June 2015, among the current assets and current liabilities, the company's trade receivables from, account payables to subsidiaries are RMB1,292,903,649 (2014: RMB732,584,993) and RMB4,833,838,545 (2014: RMB6,103,757,192) respectively. All these receivables and payables have no interest, no pledge and will be paid in the future.

### 7. The commitment of the Group with related parties

As at 30 June 2015 and 31 December 2014, the Group did not have significant commitment in relation to related parties.

# Notes to Interim Financial Statements (Continued)

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## XI. COMMITMENTS AND CONTINGENCIES

### 1. The commitments of the Group are as follows :

	<b>30 June 2015 Unaudited RMB'000</b>	31 December 2014 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	<b>5,506,780</b>	6,734,321
Contracted, but not provided for	<b>6,863,236</b>	6,102,529
	<b>12,370,016</b>	12,836,850
Investment commitments		
Authorised, but not contracted for	–	–
Contracted, but not fully contributed	<b>136,873</b>	159,143

The group did not have matters that be accounted in the joint venture capital commitment this period (2014 : nil).

### 2. Contingencies

#### *Difference of corporate income tax*

The State Administration of Taxation issued “The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other nine companies listed overseas corporation” (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies approved by the State Council in 1993. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the “People’s Republic of China Administration of Tax Collection Law”.

The Company is one of the nine companies mentioned above and used a 15% preferential tax rate in the previous year. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which is adjusted from the original 15%. The company has not been recovered prior year income tax differences.

# Notes to Interim Financial Statements (Continued)

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## XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### 2. Contingencies (continued)

#### *Difference of corporate income tax (continued)*

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year's income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any preparation or adjustments related to additional tax, tax credits, deferred tax, penalties and interest.

#### *Pending litigation*

As at the date of issuance of the financial statement, the significant pending litigation of the Group and the Company is as follows:

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Shanghai Trading regarding a dispute over steel trading, and the relevant claim amounts were RMB11,477,659 and RMB34,345,800, respectively. As of the reporting data, the lawsuit is currently pending for a judicial decision by the intermediate court of Maanshan Municipality.

A individual sub-contractor of Qiu Guo launched litigation against Ma Steel (Hefei) regarding a 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 sub-contracted to Qiu Guo. Ma Steel (Hefei) has settled all the liabilities relevant to the project. The judgment of first trial rejected the litigation of plaintiff. The plaintiff was dissatisfied with the ruling and appealed with Higher People's Court in Anhui province. The case now is waiting for hearing.

Zhejiang Wukuang Yuda Import and Export Co., Ltd launched litigation against Ma Steel (Jinhua) Steel Processing and Distribution Co., Ltd. ("Ma Steel Jinhua") regarding dispute over losses in transaction, and the relevant claim amount was RMB7,680,000. This lawsuit was heard by the Court of Xiacheng District of Hangzhou in June 2014. In May 2015, the Court of Xiacheng District of Hangzhou dismissed the plaintiff's appeal. The plaintiff then appealed to the Intermediate Court of Hangzhou, Zhejiang Province, and the lawsuit is currently awaiting trial.

The management assessed the possible consequence of the above litigation. The Group believed that the impacts of the pending litigation are fully reflected in the consolidated financial report based on available data and information.

Apart from the above, the Group does not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

# Notes to Interim Financial Statements (Continued)

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## XII. POST BALANCE SHEET EVENTS

### Issuance of Middle Term Financing Bill

On 7 July 2015, the Company issued the first stage medium-term note of RMB2 billion in Chinese Inter-bank Bond Market, the term is 3 years from 9 July 2015 to 9 July 2018. On 4 August 2015, the Company issued the second stage medium-term note of RMB2 billion, the term is 3 years from 6 August 2015 and 6 August 2018. As at the reporting date, the raised fund has been received.

### Acquisition for Hefei Steel Plates

On 25 August 2015, the board of directors approved Hefei Steel Plates, the wholly owned subsidiary of Ma Steel (Hefei), and the Company to acquire 100% share of Hefei Water Supply, which is the other wholly owned subsidiary of Ma Steel (Hefei) and 71% share of Hefei Steel Plates respectively. Therefore, the Company will hold 71% share of Hefei Steel Plates directly and the rest of 29% share will be held by Hefei Industrial Investment Holding Co., Ltd, that the ownership structure of Hefei Steel Plates will remain the same as Ma Steel (Hefei) after the acquisition completed. As at the reporting date, the acquisition is unfinished.

### Holding of the controlling shareholder

On July 24, 2015, the Company received letter from the Holding, the letter stated that, the Holding plans to overweight A shares at the price of RMB409 million through its wholly-owned subsidiary of Ma'anshan Iron and Steel Group Investment Limited. The Holding is committed that it will not sell the shares within six months after the overweight is completed. As of the report date, the overweight is in progress.

As of the date of approval of the financial statements, the Group has no subsequent events required to be disclosed other than the above-stated.

# Notes to Interim Financial Statements (Continued)

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## XIII. 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 2015 Unaudited</b>	31 December 2014 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>5,782,534</b>	6,407,534
	<b>9,532,534</b>	10,157,534

### 2. Operating segment information

*Operating segment*

The Group divides its operation into two 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 its subsidiaries except for Masteel Financial,
- Financial service: Masteel Financial.

The Group did not consider financial service as individual reportable segments, as Masteel Financial mainly offers financial service to internal companies within the Group. Therefore, the Group focuses on the production and sale of steel and it is unnecessary for the Group to disclose more detailed operating segment information.

# Notes to Interim Financial Statements (Continued)

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## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. Operating segment information (continued)

*Other information*

#### Products and service information

External operating income

	For the six months ended 30 June	
	2015	2014
	Unaudited	Unaudited
Sale of steel products	21,868,666,090	26,505,766,957
Sale of steel billets and pig iron	312,867,822	447,844,013
Sale of coke by-products	259,279,825	500,456,377
Others	491,878,898	514,523,071
	<u>22,932,692,635</u>	<u>27,968,590,418</u>

*Geographical information*

External operating income

	For the six months ended 30 June	
	2015	2014
	Unaudited	Unaudited
The PRC	20,961,884,860	26,790,198,483
Overseas	1,970,807,775	1,178,391,935
	<u>22,932,692,635</u>	<u>27,968,590,418</u>

Non-current assets

	For the six months ended	
	30 June	31 December
	2015	2014
	Unaudited	Audited
The PRC	42,014,234,109	42,622,288,089
Overseas	227,911,747	229,068,752
	<u>42,242,145,856</u>	<u>42,851,356,841</u>

The non-current asset information above is based on the locations of assets and excludes deferred tax assets.

# Notes to Interim Financial Statements (Continued)

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## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. Operating segment information (continued)

*Other information (continued)*

*Major customer information*

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

### 3. Other financial information \*

	Group		Company	
	30 June 2015 Unaudited	31 December 2014 Audited	30 June 2015 Unaudited	31 December 2014 Audited
Current assets	25,603,483,605	24,885,202,986	19,680,883,945	19,513,095,013
Less: Current liabilities	32,212,278,204	32,704,550,056	23,873,165,630	25,444,155,376
Net current liabilities	(6,608,794,599)	(7,819,347,070)	(4,192,281,685)	(5,931,060,363)

	Group		Company	
	30 June 2015 Unaudited	31 December 2014 Audited	30 June 2015 Unaudited	31 December 2014 Audited
Total assets	68,319,390,649	68,511,174,810	58,134,018,379	58,467,539,306
Less: Current liabilities	32,212,278,204	32,704,550,056	23,873,165,630	25,444,155,376
Net total assets less current liabilities	36,107,112,445	35,806,624,754	34,260,852,749	33,023,383,930

# Notes to Interim Financial Statements (Continued)

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## XIV. 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 aging analysis of trade receivables is as follows:

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Within one year	<b>1,772,736,531</b>	1,261,672,931
One to two years	<b>48,697,791</b>	34,257,970
Two to three years	<b>174,972</b>	10,394,544
Over three years	<b>8,597,158</b>	8,364,459
	<b>1,830,206,452</b>	1,314,689,904
Less: Provisions for bad debts	<b>13,382,203</b>	13,382,203
	<b>1,816,824,249</b>	1,301,307,701

Trade receivable balance is analyzed as follows:

	30 June 2015 (Unaudited)				31 December 2014 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Balance	Ratio (%)	Balance	Ratio (%)	Balance	Ratio (%)
Individually significant and assessed for impairment individually	1,809,159,621	99	(6,927,040)	0	1,300,365,130	99	(6,927,040)	1
Individually insignificant but assessed for impairment individually	21,046,831	1	(6,455,163)	31	14,324,774	1	(6,455,163)	45
	<b>1,830,206,452</b>	<b>100</b>	<b>(13,382,203)</b>		<b>1,314,689,904</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 XIV.4.

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. Trade receivables (continued)

As at 30 June 2015, those individually significant and assessed for impairment individually were as follows:

	Book value	Provisions for bad debts	Percentage	Reason
Company 1	<u>6,927,040</u>	<u>(6,927,040)</u>	100%	Uncollectable

As at 31 December 2014, those individually significant and assessed for impairment individually were as follows:

	Book value	Provisions for bad debts	Percentage	Reason
Company 1	<u>6,927,040</u>	<u>(6,927,040)</u>	100%	Uncollectable

During the current period, there was no provision for bad debts (2014: nil), and there was no recovery or reversal of provision for bad debts (2014: nil).

During the current period, there were no trade receivables that had been written off (2014: nil).

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables

An aging analysis of the other receivables is as follows:

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Within one year	<b>164,434,349</b>	37,591,747
One to two years	<b>35,494,015</b>	19,302,449
Two to three years	<b>385,903,234</b>	483,867,376
Over three years	<b>59,686,234</b>	6,350,420
	<b>645,517,832</b>	547,111,992
Less: Provisions for bad debts	<b>385,288,989</b>	385,288,989
	<b>260,228,843</b>	161,823,003

The movements of provision for bad debts against other receivables for the period are disclosed in Note XIV.4.

Other receivable balance is analyzed as follows:

	30 June 2015 (Unaudited)				31 December 2014 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Rate (%)	Amount	Ratio (%)	Balance	Rate (%)	Amount	Ratio (%)
Individually significant and assessed for impairment								
Individually	628,392,819	97	(380,758,075)	61	527,576,896	96	(380,758,075)	72
Individually insignificant but assessed for impairment								
Individually	17,125,013	3	(4,530,914)	26	19,535,096	4	(4,530,914)	23
	<b>645,517,832</b>	<b>100</b>	<b>(385,288,989)</b>		<b>547,111,992</b>	<b>100</b>	<b>(385,288,989)</b>	

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables (continued)

As at 30 June 2015, other receivables that are individually significant and assessed for impairment individually are as follows:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	Note
Company 2	127,685,367	(127,685,367)	100%	Note
Company 3	37,243,732	(37,243,732)	100%	Note
Company 4	132,186,434	(132,186,434)	100%	Note
Company 5	92,302,582	(20,302,582)	22%	Note
Company 6	2,400,000	(2,400,000)	100%	Note
	<b>452,758,075</b>	<b>(380,758,075)</b>	<b>84%</b>	

As at 31 December 2014, other receivables that are individually significant and assessed for impairment individually are as follows:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	Note
Company 2	127,685,367	(127,685,367)	100%	Note
Company 3	37,243,732	(37,243,732)	100%	Note
Company 4	132,186,434	(132,186,434)	100%	Note
Company 5	92,302,582	(20,302,582)	22%	Note
Company 6	2,400,000	(2,400,000)	100%	Note
	<b>452,758,075</b>	<b>(380,758,075)</b>	<b>84%</b>	

Note : Provision for bad debts are accrued because long-term uncollected other receivables are less expected to recover.

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables (continued)

During the current period, there was no provision for bad debts accrued (2014: RMB75,244,560) and has no reversed provision for bad debt (2014: nil).

There was no provision for bad debt written off during the current period (2014: nil).

Other receivables classified by nature:

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Prepayment for trading	<b>583,358,076</b>	434,070,112
Prepaid guarantee for steel futures transaction	<b>35,441,438</b>	63,733,481
Prepayment of customs duties and VAT	<b>20,356,627</b>	22,575,508
Others	<b>6,361,691</b>	26,732,891
	<b>645,517,832</b>	547,111,992
Provision for bad debts	<b>385,288,989</b>	385,288,989
	<b>260,228,843</b>	161,823,003

As at 30 June 2015, the top five largest other receivables were as follows:

	<b>Balance</b>	<b>Ration (%)</b>	<b>Nature</b>	<b>Aging</b>	<b>Balance of Bad debt</b>
Company 1	<b>132,186,434</b>	<b>26</b>	<b>current account</b>	<b>2-3 years</b>	<b>132,186,434</b>
Company 2	<b>127,685,368</b>	<b>25</b>	<b>current account</b>	<b>2-3 years</b>	<b>127,685,368</b>
Company 3	<b>92,302,582</b>	<b>18</b>	<b>current account</b>	<b>2-3 years</b>	<b>20,302,582</b>
Company 4	<b>60,939,960</b>	<b>12</b>	<b>current account</b>	<b>2-3 years</b>	<b>60,939,960</b>
Company 5	<b>37,243,732</b>	<b>7</b>	<b>current account</b>	<b>2-3 years</b>	<b>37,243,732</b>
	<b>450,358,076</b>	<b>88</b>			<b>378,358,076</b>

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables (continued)

As at 31 December 2014, the top five largest other receivables were as follows:

	Balance	Ratio (%)	Nature	Aging	Balance of Bad debt
Company 1	132,186,434	24	current account	2-3 years	132,186,434
Company 2	127,685,368	23	current account	2-3 years	127,685,368
Company 3	92,302,582	17	current account	2-3 years	20,302,582
Company 4	60,939,960	11	current account	2-3 years	60,939,960
Company 5	37,243,732	7	current account	2-3 years	37,243,732
	<u>450,358,076</u>	<u>82</u>			<u>378,358,076</u>

### 3. Long term equity investments

	<b>30 June 2015 Unaudited</b>	31 December 2014 Audited
Long term investments under the equity method		
Joint ventures (i)	<b>350,602,269</b>	311,964,945
Associates (i)	<b>668,237,491</b>	775,727,025
Long term investments under the cost method		
Subsidiaries (ii)	<b>5,850,572,885</b>	5,514,554,521
	<b>6,869,412,645</b>	6,602,246,491
Less: Provision for impairment	<b>60,000,000</b>	60,000,000
Total	<b>6,809,412,645</b>	6,542,246,491

\* The above investments in joint ventures and associates under the equity method and the investments in subsidiaries and other entities under the cost method are all unlisted equity investments.

The movements of impairment provision for long term investments for the period are disclosed in Note XIV.4.

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

(i) Investments in jointly-controlled entities and associates

30 June 2015

	Movements during the period									
	Opening Balance	Investment			Cash dividend				Closing balance	Impairment at the end of the year
		Increase during the year	Decrease during the year	income under the equity method	Other comprehensive income	Other equity movement	received during the year	Provision for impairment		
Joint ventures										
BOC-Ma Steel	311,422,276	-	-	38,637,324	-	-	-	-	350,059,600	-
MASTEEL-CMI	542,669	-	-	-	-	-	-	-	542,669	-
Associates										
Henan JinMa Energy	207,497,916	37,623,600	-	(4,738,550)	-	-	-	-	240,382,966	-
Shenglong Chemical	245,813,223	-	-	18,667,519	-	-	-	-	264,480,742	-
Shanghai Iron and Steel Electronic	30,977,774	-	-	817,702	-	-	-	-	31,795,476	-
Xinchuang Economize Resource	30,967,723	-	-	1,971,184	-	-	-	-	32,938,907	-
MaSteel Rail Transportation	171,476,241	-	(165,930,369)	(5,545,872)	-	-	-	-	-	-
Jiyuan Jinyuan Chemical	45,794,148	-	(37,623,600)	(8,170,548)	-	-	-	-	-	-
Anhui Linhuan Chemical	43,200,000	28,800,000	-	-	-	-	-	-	72,000,000	-
Masteel OCI Chemical	-	27,737,594	-	(1,098,194)	-	-	-	-	26,639,400	-
	1,087,691,970	94,161,194	(203,553,969)	40,540,565	-	-	-	-	1,018,839,760	-

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

(i) Investments in jointly-controlled entities and associates (continued)

31 December 2014

	Movements during the period									
	Investment				Cash dividend			Provision for impairment	Impairment at the end of the year	
	Increase during the year	Decrease during the year	income under the equity method	Other Comprehensive income	Other equity movement	received during the year	Closing balance			
Opening Balance										
Joint ventures										
BOC-Ma Steel	313,268,792	-	-	72,066,471	-	2,087,013	(76,000,000)	-	311,422,276	-
MASTEEL-CMI	551,944	-	-	(9,275)	-	-	-	-	542,669	-
Associates										
Henan JinMa Energy	187,806,274	-	-	19,691,642	-	-	-	-	207,497,916	-
Shenglong Chemical	213,088,920	-	-	32,283,993	-	440,310	-	-	245,813,223	-
Shanghai Iron and Steel Electronic	37,966,695	-	-	5,011,079	-	-	(12,000,000)	-	30,977,774	-
Xinhuang Economize Resource	25,530,298	-	-	5,157,181	-	280,244	-	-	30,967,723	-
MaSteel Rail Transportation	126,765,329	45,000,000	-	(289,088)	-	-	-	-	171,476,241	-
Jiyuan Jinyuan Chemical	41,555,808	-	-	4,238,340	-	-	-	-	45,794,148	-
Anhui Linhuan Chemical	-	43,200,000	-	-	-	-	-	-	43,200,000	-
	946,534,060	88,200,000	-	138,150,343	-	2,807,567	(88,000,000)	-	1,087,691,970	-

# Notes to Interim Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (ii) Subsidiaries

30 June 2015

	Opening balance	Movements during the year			Closing balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement			
Masteel Jiahua	44,443,067	-	-	-	44,443,067	-	-
Masteel (Wuhu)	8,225,885	-	-	-	8,225,885	-	-
Masteel (Guangzhou)	80,000,000	-	-	-	80,000,000	-	-
Masteel (HK)	21,146,421	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	900,000	-	189,000
Masteel (Jinhua)	90,000,000	-	-	-	90,000,000	-	-
Masteel (Australia)	126,312,415	-	-	-	126,312,415	-	-
Masteel (Hefei)	1,775,000,000	-	-	-	1,775,000,000	-	-
Masteel (Hefei) Processing	73,200,000	-	-	-	73,200,000	-	-
Masteel (Yangzhou) Processing	116,462,300	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	100,000,000	-	-
Shanghai Trading	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	1,234,444,444	-	-
Masteel Financial	933,172,609	-	-	-	933,172,609	-	-
Hefei Materials	140,000,000	-	-	-	140,000,000	-	-
MG-VALDUNES S.A.S	336,695,298	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Nanjing	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	10,000,000	-	-
MaSteel Rail Transportation (i)	-	170,087,995	-	165,930,369	336,018,364	-	-
Masteel Oubang color-coated (ii)	-	-	-	-	-	-	-
	5,454,554,521	170,087,995	-	165,930,369	5,790,572,885	60,000,000	189,000

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (ii) Subsidiaries (continued)

31 December 2014

	Opening balance	Movements during the year			Closing balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement			
Masteel Jiahua	44,443,067	-	-	-	44,443,067	-	(3,080,000)
Masteel (Wuhu)	8,225,885	-	-	-	8,225,885	-	-
Masteel (Guangzhou)	80,000,000	-	-	-	80,000,000	-	(6,609,865)
Masteel (HK) (iii)	4,101,688	17,044,733	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	900,000	-	(7,383,853)
Masteel (Jinhua)	90,000,000	-	-	-	90,000,000	-	(6,934,692)
Masteel (Australia)	126,312,415	-	-	-	126,312,415	-	-
Masteel (Hefei)	1,775,000,000	-	-	-	1,775,000,000	-	-
Masteel (Hefei) Processing	73,200,000	-	-	-	73,200,000	-	-
Masteel (Yangzhou) Processing	116,462,300	-	-	-	116,462,300	-	(6,358,144)
Wuhu Technique	106,500,000	-	-	-	106,500,000	-	(1,231,361)
Masteel Scrap	100,000,000	-	-	-	100,000,000	-	-
Shanghai Trading	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	175,000,000	-	(1,143,730)
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	1,234,444,444	-	(21,084,519)
Yuyuan Logistics (iv)	-	-	-	-	-	-	-
Masteel Financial	933,172,609	-	-	-	933,172,609	-	-
Hefei Materials (v)	70,000,000	70,000,000	-	-	140,000,000	-	-
MG-VALDUNES S.A.S (vi)	-	336,695,298	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Wuxi Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Chongqing Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Nanjing (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Wuhan Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
Ma Steel Shanghai Sales (vii)	-	10,000,000	-	-	10,000,000	-	-
	4,960,814,490	493,740,031	-	-	5,454,554,521	60,000,000	(53,826,164)

# Notes to Interim Financial Statements (Continued)

30 June 2015

Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (ii) Subsidiaries (continued)

- i: On 28 May 2015, the Company Limited acquired 50% share of MaSteel Rail Transportation through public trading, which was held by Jinxi Axle Company Limited before with cash consideration of RMB170,087,995. After the deal, the Company holds 100% share of Ma-Steel Rail Transportation. The Company begins to account MaSteel Rail Transportation in equity method. See Note. VI.2.
- ii: On 18 May 2015, the Company jointly funded Masteel Oubang Color-coated with Jiangsu Oubang Plastic Co., Ltd. The registered capital of Masteel Oubang Color-coated is RMB50,000,000. The Company contributes RMB33,500,000, 67% capital contribution accordingly. As at 30 June 2015, both the Company and Jiangsu Oubang Plastic Co., Ltd have not contributed the capital. See Note VI.1.
- iii: In 2014, the Company acquired 11% shares of Ma Steel HK from Ma Steel International Trade and Economic Corporation, the purchase contribution was around RMB17,040,000.
- iv: In 2014, Masteel Yuyuan Logistics was declared bankrupt by the court.
- v: On 29 May 2014, the registered capital of Hefei Materials was increased by RMB100,000,000, among which the Company contributed RMB70,000,000 and Anhui Jianghuai Automobile Co.,Ltd. contributed the RMB30,000,000. After the capital increment, the registered capital of Hefei Materials is RMB200,000,000 and the shareholding structure remained unchanged.
- vi: On 16 May 2014, MG-VALDUNES S.A.S was founded in France by the Company with the registered capital of EUR200,000. On 11 July 2014, the paid-in capital was increased to EUR40,000,000 due to capital injection by the Company.
- vii: These subsidiaries were established by the Company in 2014.

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. Asset impairment provisions

	30 June 2015 (Unaudited)					Closing balance
	Opening Balance	Increase during the period	Decrease during the period			
			Reversal	Write-back	Write-off	
Provisions for bad debts	398,671,192	-	-	-	-	398,671,192
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	385,288,989	-	-	-	-	385,288,989
Provisions for inventories (i)	179,591,702	303,920,195	-	(227,849,717)	-	255,662,180
Including: Raw materials	90,011,279	105,457,388	-	(157,201,020)	-	38,267,647
Semi-finished goods	18,362,373	66,695,509	-	(31,924,102)	-	53,133,780
Finished goods	11,186,556	131,767,298	-	(38,424,908)	-	104,528,946
Spare parts	60,031,494	-	-	(299,687)	-	59,731,807
Provisions for long term equity investments	60,000,000	-	-	-	-	60,000,000
Including: Subsidiary	60,000,000	-	-	-	-	60,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<b>638,262,894</b>	<b>303,920,195</b>	<b>-</b>	<b>(227,849,717)</b>	<b>-</b>	<b>714,333,372</b>

- (i) Generally, the provision for inventories is assessed and accrued 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 2015

Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. Asset impairment provisions (continued)

	31 December 2014 (Audited)					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	323,426,632	75,244,560	-	-	-	398,671,192
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	310,044,429	75,244,560	-	-	-	385,288,989
Provisions for inventories (i)	600,646,153	630,282,660	-	(1,051,337,111)	-	179,591,702
Including: Raw materials	509,774,940	460,248,051	-	(880,011,712)	-	90,011,279
Semi-finished goods	12,334,950	120,349,153	-	(114,321,730)	-	18,362,373
Finished goods	18,202,582	49,685,456	-	(56,701,482)	-	11,186,556
Spare parts	60,333,681	-	-	(302,187)	-	60,031,494
Provisions for long term equity investments	330,000,000	-	-	-	(270,000,000)	60,000,000
Including: Subsidiary	330,000,000	-	-	-	(270,000,000)	60,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>1,254,072,785</u>	<u>705,527,220</u>	<u>-</u>	<u>(1,051,337,111)</u>	<u>(270,000,000)</u>	<u>638,262,894</u>

- (i) Generally, the provision for inventories is assessed and accrued 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 2015  
Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June			
	2015		2014	
	Unaudited		Unaudited	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	19,479,616,489	19,037,501,137	23,449,280,979	22,799,218,515
Other operating income	908,476,751	966,808,590	1,298,442,110	1,336,604,653
	<b>20,388,093,240</b>	<b>20,004,309,727</b>	<b>24,747,723,089</b>	<b>24,135,823,168</b>

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2015	2014
	Unaudited	Unaudited
Sale of products	20,380,454,623	24,739,660,006
Rendering service	7,638,617	8,063,083
Others	—	—
	<b>20,388,093,240</b>	<b>24,747,723,089</b>

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 6. Investment income

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Long term equity investment income under the equity method	40,540,565	67,409,827
Long term equity investment income under the cost method	189,000	–
Investment income from holding available for sale financial assets	–	7,352,969
Investment income from disposal available for sale financial assets	(48,310)	–
Investment income from financial assets measured at fair value through profit or loss	–	6,486
Long term equity investment income from disposal of financial assets measured at fair value through profit or loss	625,118	–
	<b>41,306,373</b>	<b>74,769,282</b>

\* For the six months ended 30 June 2015, the Group's investment income from listed companies and unlisted companies were RMB625,118 and RMB40,681,255, respectively (for the six months ended 30 June 2014: the investment income from listed companies and unlisted companies were RMB6,486 and RMB74,762,796, respectively).

# Notes to Interim Financial Statements (Continued)

30 June 2015  
Renminbi Yuan

## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 7. Cash flows from operating activities

	For the six months ended 30 June	
	2015 Unaudited	2014 Unaudited
Net loss	(1,167,799,369)	(724,254,718)
Add: Provision for inventories	303,920,195	343,864,457
Depreciation of fixed assets	1,286,089,000	1,609,752,030
Amortisation of investment properties	863,732	863,732
Amortisation of intangible assets	14,800,836	14,800,836
Amortisation of deferred income	(61,354,657)	(46,387,101)
(Gain)/Loss on disposal of non-current assets	(396,328)	329,534
Financial expenses	440,382,410	458,904,047
Investment income	(41,306,373)	(74,769,282)
Loss on fair value changes of financial assets held for trading	—	19,730
Decrease/(increase) in deferred tax assets	110,472,155	(1,724,653)
Decrease in inventories	(36,348,320)	453,277,289
(Increase)/decrease in receivables from operating activities	(727,710,840)	270,529,180
Increase in payables from operating activities	593,860,058	1,151,325,838
Net cash flows from operating activities	<b>715,472,499</b>	<b>3,456,530,919</b>

# Supplementary Information

30 June 2015

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>2015</b> <b>Unaudited</b>	2014 Unaudited
<b>Items of non-recurring gains or losses</b>		
Profit on disposal of non-current assets	660,487	–
Loss on disposal of non-current assets	–	(520,880)
Subsidy income	106,326,270	37,960,340
Amortisation of deferred income	63,643,381	48,585,751
Other non-operating expense and income items	(13,146,595)	13,429,316
(Gain)/Loss on fair value changes of financial assets held for trading	625,118	(19,730)
Investment income from financial assets measured at fair value through profit or loss	–	6,486
Other investment income	(7,385,938)	–
	<b>150,722,723</b>	<b>99,441,283</b>
Less: Income tax effect of non-recurring gains	<b>40,317,616</b>	26,076,368
Non-recurring gains attributable to minority shareholders	<b>1,262,024</b>	11,537,540
Net effect of non-recurring gains	<b>109,143,083</b>	<b>61,827,375</b>
<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>(1,236,592,427)</b>	(730,266,178)
Less: Net effect of non-recurring gains	<b>109,143,083</b>	61,827,375
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(1,345,735,510)</b>	(792,093,553)

## Supplementary Information (Continued)

30 June 2015

Renminbi Yuan

### 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2015 (Unaudited)

	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to equity holders of the parent	<u>(5.46)</u>	<u>(0.161)</u>	<u>(0.161)</u>
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	<u>(5.94)</u>	<u>(0.175)</u>	<u>(0.175)</u>

For the six months ended 30 June 2014 (Unaudited)

	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net loss attributable to equity holders of the parent	<u>(3.21)</u>	<u>(0.095)</u>	<u>(0.095)</u>
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	<u>(3.48)</u>	<u>(0.103)</u>	<u>(0.103)</u>

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.

## 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.

*Chairman:* **Ding Yi**

Submission date approved by the Board of Directors: 2015-8-25