2015 Annual Report

H Share Code: 323
A Share Code: 600808

MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

1. The board of directors (the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

2. All members of the Board attended the board meeting.

3. Ernst & Young Hua Ming LLP audited and issued a standard unqualified opinion on the annual financial statements of the Company.

4. Mr. Ding Yi, representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the annual report.

5. Profit distribution plan or plan for the capitalization of capital reserve during the reporting period considered by the Board of Directors.

   In view of the relatively large loss suffered by the Company in 2015, the Board suggests that no dividends shall be distributed for the year of 2015 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

6. Risk relating to forward-looking statements

   The report analyzes major risks faced by the Company. Please refer to "Potential risks" of "Discussion and Analysis on Future Development of the Company" in Section 4 "Report of the Board" for details. Forward-looking statements, contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.

7. No appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.

8. There is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.

9. The Company has no significant risk that needs to draw special attention of investors.

I. Definitions

I. DEFINITIONS

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

Definitions of common terms		
The Company and Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	The Company and its subsidiaries
The Group Company	means	Magang (Group) Holding Company Limited
Board of Directors or the 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
MIIT	means	The Ministry of Industry and Information Technology of the People's Republic of China
CISA	means	China Iron and Steel Association
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Masteel Financial	means	Magang Group Finance Co. Ltd.
Hefei Co	means	Ma Steel (Hefei) Iron & Steel Co., Ltd.
Environmental Protection Company	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited
Changjiang Steel	means	Anhui Changjiang Steel Co.,Ltd
Changzhou Runhe	means	Changzhou Runhe Real Estate Development Co., Ltd.
Rail Transportation Co.	means	Maanshan Jinxi Rail Transit Equipment Co., Ltd., renamed to Magang Rail Transportation Equipment Co. Ltd. in August 2015
Magang Investment Limited	means	Magang Group Investment Limited, a wholly owned subsidiary of the Group Company
reporting period	means	From 1 January 2015 to 31 December 2015

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

The Company was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies.

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

	Company Secretary	**Representative for Securities Affairs**
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
The Company's website	http://www.magang.com.cn (A Shares); http://www.magang.com.hk (H Shares)
Email address	mggfdms@magang.com.cn

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

The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Hong Kong Stock Exchange on 3 November 1993. The Company issued RMB denominated ordinary shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the SSE in three batches on 6 January, 4 April and 6 September in the following year.

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	00323

6. OTHER RELATED INFORMATION

	Company name	Ernst & Young Hua Ming LLP
Name of the auditors appointed by the Company (PRC)	Office address	Level 16, Ernst Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing, China
	Names of the audtiors who signed the report	An Xiuyan, Chen Yan

7. THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS

7.1 Major Accounting Data

Unit: RMB

Major accounting data	**2015**	2014	Increase/ Decrease compared to previous year (%)	2013
Revenue	**45,108,926,739**	59,820,938,286	–24.59	73,848,883,383
Net profit attributable to equity holders	**–4,804,299,674**	220,616,025	–2,277.67	157,220,198
Net profit excluding non-recurring gains or losses attributable to equity holders	**–5,129,504,672**	–154,967,147	3,210.06	–445,730,363
Net cash flows from operating activities	**5,865,332,053**	2,912,853,829	101.36	5,091,358,555

	As at the end of 2015	As at the end of 2014	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2013
Net assets attributable to equity holders of the Company	**18,455,838,015**	23,295,565,989	–20.78	23,131,445,621
Total assets	**62,454,465,955**	68,511,174,810	–8.84	71,821,618,000
Total share capital at the end of the period	**7,700,681,186**	7,700,681,186	0.00	7,700,681,186

II. Company Introduction and Major Financial Indicators (continued)

7.2 Major Financial Indicators

Unit: RMB

Major accounting data	2015	2014	Increase/ Decrease compared to the end of previous year (%)	2013
Net assets attributable to equity holders	**18,455,838,015**	23,295,565,989	–20.78	23,131,445,621
Total assets	**62,454,465,955**	68,511,174,810	–8.84	71,821,618,000
Total share capital at the end of the period	**7,700,681,186**	7,700,681,186	0.00	7,700,681,186
Basic profit per share (RMB/share)	**–0.624**	0.029	–2,251.72	0.020
Diluted profit per share (RMB/share)	**–0.624**	0.029	–2,251.72	0.020
Basic losses per share excluding non-recurring gains or losses (RMB/share)	**–0.666**	–0.020	3,230.00	–0.058
Return on net assets (weighted average) (%)	**–23.01**	0.95	Decreased by 23.96 percentage points	0.68
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**–24.57**	–0.67	Decreased by 23.90 percentage points	–1.93

8. MAJOR FINANCIAL DATA BY QUARTER IN 2015

Unit: RMB'000

	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Operating revenue	11,747,681	11,699,840	11,278,859	10,382,547
Net profit attributable to equity holders of the Company	–595,419	–641,173	–1,338,790	–2,228,918
Net profit excluding non-recurring gains or losses attributable to equity holders of the Company	–667,837	–677,899	–1,416,826	–2,366,943
Net cash flows from operating activities	2,300,178	2,328,090	–1,594,708	2,831,772

9. NON-OPERATING ITEMS AND EXPENSES

Unit: RMB

Non-operating items	2015	2014	2013
Gains/(losses) from disposal of non-current assets	**32,965,870**	–82,179,597	433,638,305
Government subsidies recognized in current gains/losses (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	**259,052,828**	438,439,583	359,274,671
In addition to effective hedging business related to normal operations of the Company, changes in fair value of trading financial assets and trading financial liabilities held, as well as the return on investment generated from the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	**22,195,527**	564,160	–77,790
Return on investments generated from the revaluation of the shareholdings in the newly acquired subsidiaries held on the purchase date at fair value	**4,160,631**	–	–
Non-operating income and expenses other than the above items	**–12,682,505**	–2,407,250	–5,894,377
Amortisation of deferred income	**87,185,350**	100,182,129	93,435,954
Other investment income	**–7,349,908**	–809,831	16,661
Impact of minority interests	**–391,055**	–869,063	–205,668
Impact of income tax	**–59,931,740**	–77,336,960	–277,237,195
Total	**325,204,998**	375,583,171	602,950,561

10. ITEMS AT FAIR VALUE THROUGH PROFIT OR LOSS

Unit: RMB

Item	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the profit for the reporting period
Financial assets at fair value through profit or loss	1,073,490	1,005,271,054	1,004,197,564	9,249,009
Total	1,073,490	1,005,271,054	1,004,197,564	9,249,009

11. OTHERS

The Group's Major Accounting and Financial Data for Last Five Years (RMB Million)

Accounting Data (Indicators)	**2015**	2014	2013	2012	2011
Operating revenue	**45,109**	59,821	73,849	74,404	86,854
Gross profit	**–4,727**	512	322	–3,746	320
Net profit	**–5,104**	264	208	–3,801	204
Basic earnings per share (RMB/share)	**–0.624**	0.029	0.020	–0.502	0.011
Diluted earnings per share (RMB/share)	**–0.624**	0.029	0.020	–0.502	0.011

Major Accounting Data	**At the end of 2015**	At the end of 2014	At the end of 2013	At the end of 2012	At the end of 2011
Total Assets	**62,454**	68,511	71,822	76,011	81,225
Total Liabilities	**41,713**	42,622	46,123	50,499	51,768
Net Assets	**20,741**	25,889	25,699	25,512	29,457

III. Overview of the Company's Businesses

1. ANALYSIS OF THE COMPANY'S MAJOR BUSINESSES AND OPERATION MODEL AND INDUSTRY PERFORMANCE DURING THE REPORTING PERIOD

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are production and sales of iron and steel products; the main production processes include iron making, steelmaking, steel rolling, etc. Major product of the Company is steel, which can be roughly divided into three types, i.e. plates, long products and wheels and axles.

Plates: Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanized plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used as automobile plates, home electrical appliances plates, high-grade construction plates, and plates for businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, the national standard of the PRC, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six ship classification societies from China, the United Kingdom, Germany, the United States, France and Norway.

Long products: Major products include section steel and wire rod. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under the Japanese JIS standards and accredited by European Union CE mark certification. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the "Golden Cup Prize of Quality Metal Products". The stable corten steel has passed the on-site review of China Railways Product Certification Center ("CRCC"). High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed "The First Lot of Quality Products Exempted from Inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a "Reliable and

Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong. Hot-rolled reinforcing steel and hot-rolled wire rods have been endorsed by the quality control system certification and product certification of the UK Certification Authority for Reinforcing Steels (CARES).

Wheels and axles: Major products include train wheels, axles and rings. which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honour of "Famous Brand of China". The Company owns the core technology and patent of train wheels used for high-speed railroads. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9000: 2000 quality system, the AAR issued by the North American Railway Committee, the DB of Deutsche Bahn AG and RISAS (former GM/RT2470 and GM/RT2005) issued by British Rail.

During the reporting period, the major businesses, main products and the usages, operation modes, major driving factors of performance did not experience substantial changes.

During the reporting period, the iron and steel industry to which the Company belongs was at its maturity stage, in which time the market demand experienced a transformation from increase to reduction. Although some enterprises reduced output or stopped production, the influence of reduced output could not offset the impact of declined demand and the overcapacity contradiction was still highlighted.

2. ANALYSIS OF THE CHANGE IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

During the Reporting period, there was no material change in the Company's assets.

Of which, overseas assets amounted to RMB5,398 million, accounting for 8.6% of total assets.

3. ANALYSIS OF THE COMPANY'S CORE COMPETITIVENESS DURING THE REPORTING PERIOD

As of 31 December 2015, the Company possessed 799 valid patents, and 1,245 valid technical secrets (non-patented technology). Patents, technical secrets and know-how constitute the Company's core technology system. The Company has developed its own core technology in train wheels (especially high-speed EMU wheels and high-power locomotive wheels), high-strength automotive sheet, efficient and energy-saving construction steel, marine engineering H-shaped steel, high-grade hot-rolled steel, high-grade electrical steel and other key products, embodying a competitive advantage compared with similar companies. Among which, the efficient and energy-saving construction steel, railway wheels, high-speed EMU wheels, high-power locomotive wheel, axle steel and other steel products hold the leading technological position in China.

IV. Report of The Board

4.1 CHAIRMAN STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2015.

First of all, on behalf of the Board, I would like to express my heartfelt thanks to all shareholders and various sectors of society for their concern for and support to the Company.

In 2015, China witnessed further slowdown in economic growth with its GDP increasing by 6.9% YoY, down 0.4 percentage point from the previous year, representing a new low since 1992. The impetus of economic growth to steel consumption gradually weakened, and the steel consumption lost momentum significantly (source: CISA). According to the CISA statistics, the crude steel output was 804 million tonnes in 2015, which represented a YoY fall of 2.33% and was the first decline in production since 1981. The apparent consumption of domestic crude steel dropped for the second consecutive year to 700 million tonnes, representing a YoY fall of 5.44% with the rate of decrease was 1.4% higher from the previous year. The iron and steel industry continued to be plagued by overcapacity problems and showed no signs of improvement. The steel prices declined for four consecutive years with greater rate of decline was recorded in 2015. The consolidated steel price index dropped from 81.91 points at the beginning of the year to 56.37 points, representing a decrease of 25.54 points or 31.1%. The economic efficiency of steel enterprises continued to decline, leading to industry-wide losses.

In the face of unprecedented pressure in the market, the Company adhered to the policy of "Completely promote lean operation and stimulate the staff's vitality". It strived to survive and maintain its market position through measures to lower costs and boost efficiency, while proactively adjusted its operating strategies to promptly respond to the changing market conditions, whereby maintaining the stability of its production and operation. Despite the relentless efforts made by the entire staff, the operating results remained unsatisfactory and the Group recorded a substantial loss. The external factors attributed to the widespread losses in the market arising from the plummeting of steel prices, while the internal factors included inadequate competitiveness of its products, low labour productivity, high labour costs, and low value added from non-steel products. All these factors seriously hampered the competitiveness and profitability of the Group.

In accordance with the PRC Accounting Standards, the Group achieved operating revenue of RMB45,109 million in 2015, representing a YoY fall of 24.59%. It returned to a loss and recorded net loss attributable to the equity holders of the Company of RMB4,804 million. The basic earnings per share were RMB-0.6239, representing a YoY fall of 2,252%. As at the end of the reporting period, the Group's total assets amounted to RMB62,454 million, representing a YoY fall of 8.84%. Net assets attributable to the equity holders of the Company were RMB18,456 million, representing a YoY fall of 20.78%. As at the end of the reporting period, the Group's gearing ratio was 66.79%, representing an increase of 4.58 percentage points when compared with the previous year.

In view of the relatively large loss suffered by the Company in 2015, the board of directors suggests that no dividends shall be distributed for the year of 2015 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

Pursuant to the approval by the shareholders' general meeting, the Company issued two tranches of RMB2 billion three-year medium-term notes (a total amount of RMB 4 billion) in July and August 2015, respectively with the coupon rate of 5.07% and 4.80%, respectively for the purpose of replenishing its working capital.

In accordance with the MIIT's requirements of eliminating obsolete production facilities and excess capacity, and to facilitate the restructuring of Hefei Co., the Company approved of the plan for Hefei Co. to shut down the steel smelting plant and long plate production line in late December, which affected the iron production capacity of 1.2 million tonnes, steel production capacity of 1.36 million tonnes and rolled steel production capacity of 1.5 million tonnes.

For a long period of time, the Company has been committed to promoting comprehensive and cohesive development between its business, the society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". In 2015, the Company invested nearly RMB300 million in the construction of projects for sintering and pelletizing desulfurization as well as thermoelectric desulfurization and denitration and took many concurrent measures to ensure all desulfurization and denitration projects were completed and put into operation by the end of the year. The total emissions of sulfur dioxide were reduced by 3,510 tonnes over the same period of the last year, which reached the emission reduction target for 2015 regarding the total amount of pollutant.

Looking ahead into 2016, the iron and steel industry is one of the key sectors that the government intends to eliminate their excess capacity and carrying out supply-side reform. A number of policies are expected to be launched to eliminate excess capacity of the iron and steel industry and optimize its market structure. However, excess capacity problems cannot be resolved overnight. It is a long-term task to overcome these problems. The market will continue to see oversupply issue in the short term. With increasing economic downward pressure and lower downstream demand, the steel prices are unlikely to rebound significantly. Therefore, the market conditions will remain challenging for enterprises.

In 2016, the Company will step up efforts to enhance its competitiveness, focus on spot and market, drive reform and motive the entire staff to maintain its market position, hence laying a solid foundation for the Company's development in the "13th Five-Year Plan" period:

- Adhere to deepen reform and innovation, drive the improvements in key areas including the cadre system, marketing, purchasing, and manufacturing to enhance the top-hierarchy design, attach great importance to systematic planning, strive to overcome structural and institutional barriers, and achieve the planned goals for reform.

- Emphasize the security of the cash flow, reduce operating costs, revitalize existing assets, improve capital efficiency, cut investment, lower expenditures in different areas, and promote the lean asset and light volume.

- Give full play to the leading role in marketing, innovate the marketing model, seize regional market, and promote the marketing efficiency; Give full play to the important supporting role of procurement in overall cost reduction, take advantage of the favorable condition of buyer's market, vigorously promote lean procurement and achieve the in-depth cost reduction.

- Concentrate superior resources to effectively organize the production. Schedule production by marginal contribution, concentrate superior resources to key furnaces, mills and production lines, promote the specialized production, and improve the level of lean manufacturing.

- Adhere to the system linkage and the in-depth cost reduction. Strengthen the systematic thinking and linkage awareness, and promote the cross-system, all-round, and multi-level benchmarking potential tapping, cost efficiency and benefit making.

In the coming year, the Board and senior management of the Company will defy any hardship in our way and work strenuously to lead the employees in a concerted effort. We hope and believe that with the support of the shareholders and various sectors of society, the Company will be able to make a great progress on various tasks.

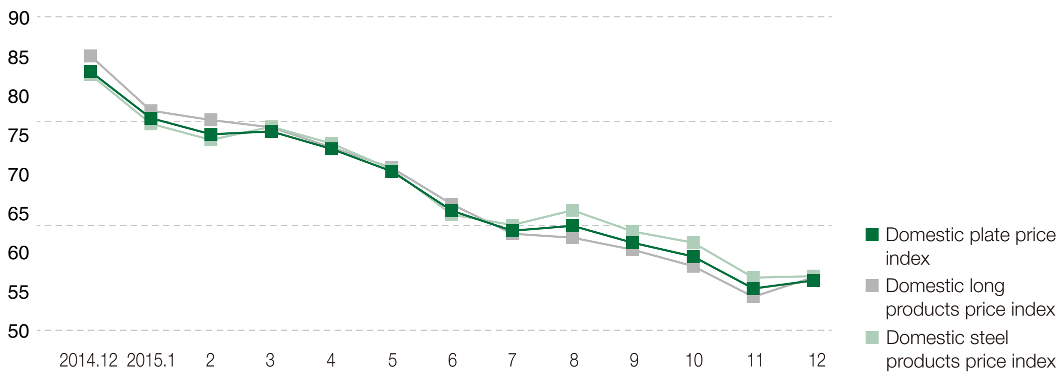
Ding Yi
Chairman

30 March 2016
Maanshan City, Anhui Province, the PRC

4.2 BUSINESS ENVIRONMENT

- **The steel product market**

In 2015, the prices of steel in domestic market experienced a cliff-fall. Over each month of the entire year, the China Steel Price Index (CSPI) was lower than in the corresponding month of the previous year, and the average monthly value of CSPI in 2015 was 66.43 points, a drop of 24.89 points or 27.26% from 2014.



Graph 1. Trend of price index for domestic steel products, long products and steel plates in 2015

In 2015, the prices of domestic long products and plates slumped. The prices of plates experienced relatively greater fluctuation in price than long products did.

- **The market of raw materials and fuels**

In 2015, the prices of iron ore and scrap were generally on a downward trend. According to Chinese Custom's statistics, the average CIF price of imported iron ore nationwide was US$60.48/ton, down by 39.7% from the previous year.

Moreover, the impact of continued decline of steel prices was greater than that of its raw materials, directly resulting in difficulties in production and operation of iron and steel enterprises.

Since competition in the domestic market is increasingly intense, iron and steel enterprises are endeavoring to expand into overseas markets. In 2015, China's net export of steel continued to grow. According to Customs' statistics, the annual accumulated export of steel amounted to 112,400,000 tonnes, an increase of 19.9% from the same period last year; while the accumulated import of steel totaled 12,780,000 tonnes, a reduction of 11.4% from last year. The net export of equivalent crude steel was about 103,380,000 tonnes, increasing by 18,970,000 tonnes, or 22.5%, compared to last year. At the same time, however, with the rise of international trade protectionism, there were more anti-dumping, anti-subsidy cases against China's iron and steel products; the year 2015 saw 37 cases in total, equal to the sum from the previous two years' numbers, thus increasing the difficulty of exporting.

4.3 MAJOR BUSINESS PERFORMANCE IN THE REPORTING PERIOD

During the reporting period, the Group produced 18,010,000 tonnes of pig iron, a year-on-year increase of 0.22%; it produced 18,820,000 tonnes of crude steel and 18,270,000 tonnes of steel products, which were down by 0.30% and 0.16% respectively on a year-on-year basis (among these, the Company produced 13,240,000 tonnes of pig iron and 14,260,000 tonnes of crude steel, an increase of 1.22% and 0.21% respectively on a year-on-year basis; the Company produced 13,500,000 tonnes of steel products, a decrease of 0.05%). The Company's main work during the reporting period was as follows:

1. Focused on production and maintained stable operation. The iron-making system achieved continuously stable and balanced production by consolidation and improvement of blast furnace operation "physical examination" rules and external security early-warning mechanism; the steel rolling system gathered advantageous resources to support key production lines and to strengthen the connection of production and marketing, thus significantly increasing auto sheet book-to-bill ratio; having improved management and control system, the utility energy system promoted the economical operation of systematic energy with manufacturing units; by improving the ability to control equipment status, the equipment system supported highly-efficient and economic operation of production.

2. Spared no efforts in product structure adjustment. By expanding the proportion of highvalue-added products, the production and sales volume of auto sheet exceeded 1,500,000 tonnes and the company realized an increase of 200% in high grade silicon steel production (W470 above). With the APQP team, the Company endeavored to develop new products and realized batch production of high strength steel for auto like galvanized DP800 and bulk supply of oriented silicon steel hot-rolled material, tin plate base material and steel for axles of rail transit vehicles as well; the Company strengthened quality research and process control, established

red and yellow cards quality warning mechanism and responsibility retrospection mechanism, thus decrease the quality loss per ton product by 7.4% as compared with last year's same period; the Company enhanced intellectual property rights management and brand construction. As a result, three products were awarded "Gold Cup Award" of Physical Quality of Metallurgical Products, cold-rolled steel plate and steel strip were rated as "Products of Outstanding Quality in Metallurgical Industry" and one achievement was awarded the First Prize of Scientific Progress in Metallurgical Industry.

3. Continued benchmarking and cost reduction. The Company strengthened cost management control measures and promoted benchmarking of processes and production lines. Production cost was reduced by RMB1.05 billion compared with last year.

4. Strengthened marketing operation to create efficiency. Promoted integration of business procedures in the purchasing system, deepened concentrated and bulked bidding purchasing, insisted on low inventory operation and gave play to the supply chain system, thus respectively reducing inventories of imported iron ores and coals to 1.1 million tonnes and 0.27 million tonnes respectively. Having innovated the marketing model, the sales system, adjusted pricing strategy and grasped market orders, developed 321 new direct clients last year and increase the direct supply ratio of plates and strips to 55%; through expanding overseas markets and E-business sales channels for goods in stock, the Company exported 1.2 million tonnes of steel and sold 0.4 million tonnes of steel on E-business platforms.

5. Promoted orderly development of non-steel sectors. The Company accelerated the paces of joint venture and cooperation with steady advancement of OCI Chemical Project and Asco Special Steel Project.

6. Continued to vitalize the staff. The Company completed design and optimization of targeted personnel and realized comprehensive coverage of overall position performance assessment system; based on principles of "setting positions as necessary, selecting candidates for positions and commencing work with subjects", the Company hired 66 new senior technical supervisors; through employee substitution, bidding and improvement of labor projects, the Company cutback on external hiring and saved labor expense.

7. Optimized capital operation. The Company raised capital concentration level and realized concentrated notes management across the Group; reduced financing cost by developing financing channels, thus reducing the financial expense by RMB420 million than that in the budget; it also actively strived for support of capital policies.

8. Accelerated construction of key engineering projects. The following projects have been constructed and gone into operation: New District Coke Dry Quenching Project, Reforming of No. 3 Steel and Rolling Plant High-Speed Wire Line Project, Desulfurization of Sintering Fume Project and Desulfurization and Denitrification of Thermoelectric Pulverized Coal-Fired Boiler Fume Project.

9. Strengthened safe production responsibility mechanism, promoted the construction of safe production standardization and maintained stable status of safe production.

10. Strictly implemented rigid requirements of environmental protection, strengthened the efforts of environmental governance and orderly advanced the shutdown of smelt lines of Hefei Co., thus significantly improving environmental performance.

11. Actively promote outstanding performance management mode. The Company was rated as “National Pioneer Enterprise of Implementing Outstanding Performance Management Mode”; 2 achievements won the First Prize of Modernization Innovation Achievement in Metallurgy Enterprise Management.

(1) ANALYSIS OF PRINCIPAL OPERATIONS

Analysis of the change in items of the financial statements

Unit: RMB’000

Items	Amount in the reporting period	Amount in the previous year	Change (%)
Revenue	45,108,927	59,820,938	–24.59
Cost of sales	45,488,441	55,840,223	–18.54
Selling expenses	635,860	512,506	24.07
Administrative expenses	1,538,610	1,310,839	17.38
Financial expenses	813,036	1,243,663	–34.63
Assets impairment losses	1,619,390	770,489	110.18
Investment income	93,725	149,599	–37.35
Non-operating income	384,060	540,901	–29.00
Non-operating expenses	17,538	86,867	–79.81
Income tax	377,912	248,069	52.34
Net cash flows from operating activities	5,865,332	2,912,854	101.36
Net cash flows (used in)/from investing activities	–3,621,073	1,326,247	–373.03
Net cash flows from/(used in) financing activities	–1,554,872	–3,344,296	–53.51
Research and development expenditure	672,210	822,563	–18.28

The YoY decline of revenue is mainly attributed to the price decline of steel products in 2015.

Cost of sales decreased by 18.54% compared with last year, mainly because the price of raw material and fuel continued to drop and the Group took measures to reduce cost and improve production efficiency.

Assets impairment losses increased by 110% compared with last year. It is mainly because more inventory provision was made by the Group based on the market condition.

Investment income decreased by 37% compared with last year, mainly because the investment income from associates and joint ventures decreased in current year.

Non-operating income decreased by 29% compared with last year. It is mainly because in prior year, the Group received land compensation from Hefei government and charged part of deferred income to profit. Additionally, the Group received tax refund in prior year.

Non-operating expenses decreased by 80% compared with last year. It is mainly because in prior year, the Group's subsidiary in Hefei disposed some land use right and fixed assets, causing loss of RMB83 million.

Income tax expense increased by 52% compared with last year, mainly because deferred tax assets related to prior year's tax losses were written off.

Financial position and exchange risks

As at 31 December 2015, the total loans of the Group amounted to RMB16,194 million. Except for foreign currency loans amounting to US$678 million, all other loans were denominated in Renminbi. Except for US dollar loans amounted to US$641 million with fixed interest rates and US dollar loans of US$36.80 million at LIBOR plus premium, among the Renminbi-denominated loans of the Group, loans amounting to RMB3,012 million carried fixed interest rates and loans amounting to RMB8,780 million carried floating interest rates. The Company issued RMB2 billion medium term notes in July and August 2015, respectively, with total issue amount reaching RMB4 billion.

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 RMB54,082 million.

As at 31 December 2015, the Group's cash and bank balances amounted to RMB5,143 million and bills receivable amounted to RMB4,689 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.

1. ANALYSIS OF SALES AND COST

During the reporting period, the amount of our group's total sales to the top five customers was RMB4,202 million, accounting for 9% of our group's annual sales; the amount of our group's total purchase from the top five suppliers was RMB5,639 million, accounting for 25% of our group's annual purchase. Amongst the key suppliers mentioned above, Magang (Group) Holding Co., Ltd. is the controlling shareholder of our company. Beyond that, in 2015, there were no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in our company) having any beneficial interests in the top five suppliers or customers of our company.

(i) Analysis of principle operation by Industry, Product and Region

Unit: RMB million

Principal operation by industry						
Industry	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with previous year (%)	Increase/ (decrease) of cost of sales when compared with previous year (%)	Increase/ (decrease) of gross profit margin when compared with previous year (%)
Iron and Steel	42,853	43,230	–0.88	–24.08	–18.99	Decreased by 6.34 percentage points

Principal operation by industry						
Product	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with previous year (%)	Increase/ (decrease) of cost of sales when compared with previous year (%)	Increase/ (decrease) of gross profit margin when compared with previous year (%)
Long products	17,474	17,951	–2.73	–33.86	–30.99	Decreased by 4.27 percentage points
Steel plates	22,826	23,011	–0.81	–17.10	–8.40	Decreased by 9.58 percentage points
Wheels and Axles	1,611	1,358	15.70	–1.10	0.07	Decreased by 0.99 percentage points

Unit: RMB million

Principal operation by region						
Region	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with previous year (%)	Increase/ (decrease) of cost of sales when compared with previous year (%)	Increase/ (decrease) of gross profit margin when compared with previous year (%)
Anhui	18,686	19,600	–4.89	–26.52	–18.02	Decreased by 10.88 percentage points
Jiangsu	6,547	6,554	–0.11	–27.61	–23.66	Decreased by 5.18 percentage points
Shanghai	6,314	6,043	4.29	–14.69	–10.47	Decreased by 4.51 percentage points
Shanghai	6,314	6,043	4.29	–14.69	–10.47	Decreased by 4.51 percentage points
Zhejiang	2,793	2,790	0.11	–28.40	–24.02	Decreased by 5.76 percentage points
Guangdong	1,312	1,326	–1.07	72.40	87.82	Decreased by 8.30 percentage points
Other Mainland regions	5,624	5,406	3.88	–46.46	–44.26	Decreased by 3.80 percentage points
Overseas and Hong Kong	3,833	3,769	1.67	37.98	49.62	Decreased by 7.65 percentage points

Analysis of principal operation by Industry, Products and Regions

During the reporting period, our group's revenue from principal operation was RMB44,009 million, wherein the iron & steel income was RMB42,853 million, accounting for 97% of the principal operation revenue.

(ii) Analysis of Production and Sales Volumes

Product	Production Volume (thousand tonnes)	Sales Volume (thousand tonnes)	Inventory (thousand tonnes)	Year-on-year increase/ decrease of production volume (%)	Year-on-year increase/ decrease of sales volume (%)	Year-on-year increase/ decrease of inventory (%)
Long Products	8,969	8,945	111	–4.60	–4.98	23
Steel plates	9,126	9,074	83	3.87	3.07	232
Wheels and Axles	174	174	7	–7.45	–7.45	0

Notes on production

To adapt to the adjustments on the company's organization and production modes, "Section Steel", "Wire rod & Bar" and "Special Steel" under "Main Products" in the prior year annual report were combined into "Long Products".

(iii) Analysis of cost

Unit: RMB million

Industry	Cost components	Amounts in 2015	% of total cost in 2015 (%)	Amounts in 2014	% of total cost in 2014 (%)	Change in proportion of amount in 2015 against amount in 2014 (%)
Iron and Steel	Raw materials	30,252	66.51	40,006	71.64	–24.38
Iron and Steel	Salary	3,410	7.50	3,888	6.96	–12.29
Iron and Steel	Depreciation	3,365	7.40	3,551	6.36	–5.24
Iron and Steel	Fuels	4,145	9.11	4,006	7.17	3.47
Iron and Steel	Others	2,058	4.52	1,913	3.43	7.58

2. EXPENSES

- Selling expenses increased by 24.07% compared with last year, mainly because of the increase in transportation cost.

- Administrative expenses increased by 17.38% compared with last year, mainly because of the increase in land use tax.

- Financial expenses decreased by 34.63% compared with last year, mainly because in current year the People's Bank of China lowered interest rate, therefore the Company's interest expenditure decreased. Moreover, the Company's exchange gain increased because of the appreciation of US dollars against RMB.

3. RESEARCH AND DEVELOPMENT (R&D) EXPENDITURE

R&D expenditure breakdown

Unit: RMB Million

Expensed R&D expenditure in 2015	672.21
Capitalized R&D expenditure in 2015	–
Total R&D expenditure	672.21
Total R&D expenditure as a share of revenue (%)	1.49
Number of the Company's R&D staff	3,732
Percentage of R&D staff number to the Company's total number of employees (%)	9.46
Percentage of capitalized R&D expenditure (%)	–

Notes:

The R&D expenditure of the Company was mainly related to various research projects of Anhui Province undertaken by the Company, new products, and technique and quality improvement projects. The following projects have been completed: the key scientific and technological project of Anhui Province – "High Strength Cold-Rolled Series Dual-Phase Steel and Application Technologies", Anhui Provincial international scientific and technological cooperation project – "Development of Quasi-High-Speed Wheels Exported to South Korea", Anhui Provincial special development plan for key scientific instruments – "Key Technical Development and Application Research of New Type of Continuous Annealing and Galvanization Procedures Test System" and Anhui Provincial key scientific and technological project – "Research and Development of Steel for Fasteners of Rail Transit Mobile Equipment". The Company has made breakthroughs in the research and development of low-noise wheels, manufacturing of multiple units wheels of domestic standards, high grade silicon steel and high strength automobile sheets.

4. CASH FLOWS

The cash net inflows arising from operating activities is RMB5,865,332,053. Its major difference with the net profit in the report period should be mainly attributed to the inventory impairment provision and depreciation accrued in 2015, which were amounting to RMB1.6 billion and RMB3.4 billion respectively, and a RMB2.7 billion decrease in operating receivables.

- The net cash inflows from operating activities was RMB5,865,332,053, representing an increase of 101% as compared with last year, mainly because of increase in operating payables and decrease in operating receivables and inventory.

- Net cash outflows from investment activities was RMB3,621,073,001, representing an increase of 373% compared with last year. It is mainly because in prior year, the Company received proceeds from non-principal assets disposal and land compensation from Hefei government. Additionally, in current year, the Company invested more in financial products issued by banks.

- Net cash outflows from financing activities was RMB1,554,872,283, representing a decrease of 54% from last year. It is because fewer bank loans and bonds fell due during the year of 2015 as compared with last year.

(2) ANALYSIS OF ASSETS AND LIABILITIES

Assets and liabilities

Unit: RMB'000

Item	Closing balance of 2015	Percentage of closing balance of 2015 in total assets (%)	Closing balance of 2014	Percentage of closing balance of 2014 in total assets (%)	Year-on-year change (%)
Financial assets at fair value through profit or loss	1,005,271	1.61	1,073	0.00	93,587.88
Bills receivable	4,689,129	7.51	8,483,607	12.38	–44.73
Inventories	6,018,496	9.64	8,684,293	12.68	–30.70
Other current assets	948,518	1.52	665,474	0.97	42.53
Construction in process	4,245,763	6.80	2,831,050	4.13	49.97
Deferred income tax assets	330,408	0.53	647,843	0.95	–49.00
Deposits and balances from banks and other financial institution	–	–	500,000	0.73	–100.00
Customer deposits	1,901,390	3.04	1,199,619	1.75	58.50
Short-term loan	6,791,359	10.87	12,058,395	17.60	–43.68
Taxes payable	149,898	0.24	236,784	0.35	–36.69
Other payables					
Non-current liabilities due within one year	1,258,464	2.02	827,419	1.21	52.10
	5,084,859	8.14	2,231,683	3.26	127.85
Accrued liabilities	22,233	0.04	14,101	0.02	57.67
Bonds payable	3,979,667	6.37	2,332,666	3.40	70.61
Special reserve (Accumulated loss)/ retained profit	14,374	0.02	21,511	0.03	–33.18
	–1,368,605	–2.19	3,451,300	5.04	–139.65

- The financial assets at fair value through profit or loss increased by RMB 1 billion in current year, mainly due to the Company's investment in financial products issued by Ever-bright Bank.

- Bills receivable decreased by 45% as compared with last year. It is mainly because of the decrease of revenue.

- Inventories decreased by 31% as compared with last year. It is mainly because the prices of raw materials and fuels continued to decrease in current year. To improve inventory turnover and cost control, the Company lowered in the inventory level. Moreover, the provision for inventory impairment also increased from last year.

- Other current assets increased by 43% as compared with last year, mainly caused by the increase in input value-added tax.

- Construction in progress increased by 50% as compared with last year. It is mainly contributed by increased capital expenditure in projects related to new products, quality improvements, energy saving and environmental protection.

- Decrease in deferred tax assets is because deferred tax assets recognized in prior year for tax loss were written off in current year.

- Deposits and balances from banks and other financial institution decreased by 100%, because Masteel Financial received less deposits from other banks.

- Customer deposits increased by 58% as compared with last year, mainly because the Magang (Group) Holding Co., Ltd. deposited with Masteel Financial cash received from the disposal of the Company's shares in May 2015.

- Short term loans decreased by 44% as compared with last year. It is mainly because in August 2015 the Group repaid the short-term bonds issued in prior year. In current year, no short-term bonds were issued.

- Taxes payable decreased by 37% as compared with last year. It is mainly because the steel industry was under depression in current year and the Company, as well as majority of our subsidiaries experienced a loss, causing an decrease in taxes.

- Other payables increased by 52% as compared with last year. It is mainly because the Company changed the financing arrangement for overseas settlement. The Company entered into factoring agreement with banks. Therefore, the payables were recorded as due to third party banks.

- Non-current liabilities due within one year increased by 128% as compared with last year. It is mainly because the Group had non-current loan of RMB2.74 billion and five- year company bonds of RMB2.34 billion that would fall due in 2016.

- The increase in accrued liabilities is due to increased provision for MG Valdunes S.A.S's pending litigation and expected loss from sales contracts.

- Increase in bonds payable is mainly because the Company issued mid-term bonds of RMB 4 billion in current year, while the five-year company bonds at the end of last year was transferred to non-current liabilities due within one year.

- The decrease in special reserve at the end of current year is mainly due to the change in the special reserve for production safety appropiated by Changjiang Steel and Anhui Masteel Holly Industries Co., Ltd. and the reduction in surplus reserves for the Group's joint ventures and associates.

- The decrease of retained earnings is mainly due to the loss of the Group in current year.

(3) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

Industry Information

According to the statistics of China Iron and Steel Association, in 2015, the iron & steel industry completed fixed asset investments of RMB452.389 billion, with a YoY decrease of RMB72.623 billion, down by 13.83%; wherein, ironmaking investments had a YoY growth of 5.97%, steelmaking investments had a YoY fall of 1.26%, mine investments had a YoY fall of 19.2%, and steel processing investments declined by 16.09%. Presently, our country's crude steel production capacity is approximately 1.2 billion tonnes, and calculated by the production in 2015, the capacity utilization is less than 67%; under the impact of development inertance and gradual release of new capacity at the earlier stage, the capacity is still likely to increase further. In the steel market, product transportation from north to south remains a prominent issue, while East China and Central & Southern China are net inflow areas of steel products.

Company Information

The Company is located in Eastern China, which is an area with net inflow of steel products. During the reporting period, the production capacity and utilisation rates were as follows:

Product type	Production capacity (10,000 tonnes)	Utilisation rate of production capacity (%)
Pig iron	1,904	95
Crude steel	2,563	73
Steel production	2,317	79

Steel and Iron Industry Operational Information Analysis

(i) Manufacturing and Sales of Steel Material based on Processing Techniques

Unit: RMB Million

Types Based on Processing	Production volume (10,000 tonnes)		Sales volume (10,000 tonnes)		Gross profit Revenue		Cost of sales		margin (%)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Cold-rolled Steel	**422.1**	370.4	**421.5**	372.1	**11,676**	13,959	**11,820**	12,348	**–1.23**	11.54
Hot-rolled Steel	**1,387.4**	1,448.3	**1,380.4**	1,449.7	**28,624**	39,997	**29,142**	38,784	**–1.81**	3.03
Wheels and Axles	**17.4**	18.8	**17.4**	18.8	**1,611**	1,629	**1,358**	1,357	**15.70**	16.70

(ii) Performances of Steel Material Manufacturing and Sales Based on Forms of Finished Products

Unit: RMB Million

Types Based on Forms of Finished Products	Production volume (10,000 tonnes)		Sales volume (10,000 tonnes)		Gross profit Revenue		Cost of sales		margin (%)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Long Products	**896.9**	940.1	**894.5**	941.4	**17,474**	26,420	**17,951**	26,012	**–2.73**	1.54
Steel Plates	**912.6**	878.6	**907.4**	880.4	**22,826**	27,536	**23,011**	25,120	**–0.81**	8.77
Wheels and Axles	**17.4**	18.8	**17.4**	18.8	**1,611**	1,629	**1,358**	1,357	**15.70**	16.70

(iii) Performances of Steel Material Sales Based on Sales Channel

Unit: RMB100 million

Sales Channels	Revenue		Percentage (%) in Total Revenue	
	2015	2014	**2015**	2014
Offline Sales	**407.7**	552.9	**90.38**	92.43
Online Sales	**11.4**	3	**2.53**	0.50

(iv) Supply Source of Iron Ore

Unit: RMB million

	Supply Volume (10,000 tonnes)		Expenses	
	2015	2014	**2015**	2014
Domestic Source	**742**	777	**3,139**	4,774
Overseas Import	**1,980**	1,931	**9,471**	14,166

(4) INVESTMENT ANALYSIS

1. General Analysis of External Equity Investment

Unit: RMB Million

Investment amount as at the end of the reporting period of the Company	6,957.2
Increase/decrease of investment amount	288.2
Investment amount as at the end of previous year of the Company	6,669.0
Increase/decrease in investment amount (%)	4.32

(i) Significant Equity Investment

Information of companies newly established or with investment changes during the reporting period:

Name of the Invested Company	Main Business	Shareholding Ratio
MA Steel Rail Transportation Equipment Co., Ltd.	Research & development, manufacturing, maintenance and sales of railway wagon wheels, passenger train wheels, urban rail transit wheels, high-speed EMU wheels and locomotive wheels, as well as research & development, manufacturing, sales and relevant technical consulting services of bogies; wholesale and retail of railway vehicle accessories, metallic materials, building materials, chemical products (except dangerous goods and precursor chemicals), hardware & electrical appliances, lubricating grease, housing and equipment leasing; proprietary trading or agency services for import/export of various commodities and technologies	100%
Maanshan MA Steel Oubang Color Plate Technology Co., Ltd.	Research & development, design, production (operated by branches only) and sales of high gloss film composite decorative plates and their extended products; wholesale of plastic products and metallic materials & products; and consulting services for the aforesaid products and technologies	67%

Name of the Invested Company	Main Business	Shareholding Ratio
MA-Steel OCI Chemical Co., Ltd.	Production, storage and sales of coal tar highly processed products, including without limitation, dephenollized phenol oil, carbon black oil, washing oil, asphalt, industrial naphthalene, etc., as well as research & development of relevant technologies	40%
Henan Jinma Energy Co., Ltd.	Production and sales of coke, coal tar, crude benzene, ammonium sulfate and coke oven gas	36%
Anhui Linhuan Chemical Co., Ltd.	Production and sales of coke and chemical products, development of their related products, and sales of coal, metallic materials & products, iron ores, chemical fertilizers, mechanical & electronic equipment and accessories	12%

(ii) Significant Non-Equity Investment

Unit: RMB Million

Project name	Project amount	Project progress
Port Raw Material Plant Adaptability Renovation Project	253	Equipment assembling and debugging
4# Blast Furnace Project of No. 2 Iron – making Factory	1,150	Furnace building and equipment assembling
3# Sintering Machine Project of No. 2 Iron- making Factory	500	Equipment assembling
4# Blast Furnace Public and Auxiliary Supporting Project of	441	Equipment and pipe assembling
Major maintenance project for Coking Company 5# Coke Oven	150	Structure Strengthening and building

(iii) Financial Assets Measured at Fair Value

In May 2015, the Company sold its shares originally held for PetroChina, China Railway, China Coal and China Railway Construction, with its initial investment cost of RMB1.1265 million and investment income of RMB625,000. By the end of the reporting period, the company held no shares in any listed companies or non-listed financial enterprises.

(5) ANALYSIS OF THE GROUP'S MAJOR SUBSIDIARIES AND INVESTEES

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, 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 RMB644 million. As at the end of the reporting period, it had total assets amounting to RMB4,784 million and net assets of RMB2,672 million.

- Anhui Chang Jiang Iron and Steel Co., Ltd has a registered capital of RMB1,200 million, 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. As at the end of the reporting period, it recorded net loss of RMB218 million, total assets of RMB5,990 million and net assets of RMB2,208 million.

- Magang Group Finance Co., Ltd. has a registered capital of RMB1,000 million and 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB107 million. At the end of the reporting period, its total asset value was RMB7,300 million and net asset value RMB1,478 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net loss for the reporting period was RMB4.3 million. As at the end of the reporting period, it had total assets amounting to RMB184 million and net assets of RMB118 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 27.3%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net loss for the reporting period amounted to RMB45 million. As at the end of the reporting period, it had total assets amounting to RMB494 million and net assets of RMB69 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, 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 RMB50.4 million. As at the end of the reporting period, it had total assets amounting to RMB131 million and net assets of RMB70 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US$20 million, in which the Company holds a direct stake of 71%. 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 RMB2.1 million. As at the end of the reporting period, it had total assets amounting to RMB276 million and net assets of RMB176 million.

- Anhui Masteel Holly Industries Co., Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 71% and an indirect stake of 26.39%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of onsite packaging services. Net profit for the reporting period amounted to RMB7.7 million. As at the end of the reporting period, it had total assets amounting to RMB247 million and net assets of RMB179 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB22.5 million. As at the end of the reporting period, it had total assets amounting to RMB173 million and net assets of RMB165 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB156 million. As at the end of the reporting period, it had total assets amounting to RMB689 million and net assets of RMB632 million.

- Ma Steel (Hefei) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 25.48%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net loss for the reporting period amounted to RMB19.5 million. As at the end of the reporting period, it had total assets amounting to RMB345 million and net assets of RMB136 million.

- Masteel (Hong Kong) Co., Ltd. has a registered capital of HK$260 million, in which the Company holds a direct stake of 91%. It is mainly engaged in the production, sale and agency of steel products and trading of pig iron. Net profit for the reporting period amounted to RMB8.40 million. As at the end of the reporting period, it had total assets amounting to RMB4,805 million and net assets of RMB224 million.

4.4 DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(1) Industrial Competition Pattern and Development Trend

Currently, the Company's steel rolling capacity exceeds steel-making capacity, while steel-making capacity exceeds iron-making capacity, and it also has a relatively wide product structure coverage; therefore in the future market competition, the Company, based on the market situation, can flexibly allocate liquid iron resources to the type of the highest efficiency. On the conditions where the steel price is at historical low and margins of ton steel are slender, logistics fees will greatly restrict the sales radius of steel and iron products. The cluster of Jiangsu Province, Zhejiang Province and Shanghai Municipality is the largest manufacturing center around the world and also a consumption center of plate, sheet and strip products; while the Company is located on the bank of Yangtze River, so its products are guaranteed with relatively prominent advantages in the market competition due to a short cycle of water transport and low freight.

(2) Development Strategy of the Company

By giving top priority to innovation-driven and transformational development, through firmly promoting product upgrading, industrial chain extension and internationalized operation, the Company accelerates forming a new pattern of synergetic development of steel and iron industry, upstream-downstream industries closely connected with the steel and iron industry and emerging industries of strategic importance; it also speeds up forming a new situation where the advantages of wheel and axle, plate and strip and long product boutique industrial chains can be complemented; by promoting a new mode of market-oriented operation, streamlined administrative structure and high-efficiency procedures, the Company strived to build Magang into a first-class domestic steel and iron enterprise of "high effectiveness, environmental friendliness and beautiful home".

(3) Operation Scheme

In 2016, the Group plans to produce 17.66 million tonnes of pig iron, 18.60 million tonnes of crude steel and 17.68 million tonnes of steel products (of which the Company plans to produce 13.76 million tonnes of pig iron, 14.63 million tonnes of crude steel and 13.78 million tonnes of steel products).

(4) Possible Risks

1. Risk of trade frictions on steel exports

With an increasing export scale of domestic steel, more and more countries are beginning to implement anti-dumping and trade protectionism policies to steel imported from China.

Countermeasures: proactively respond to the litigation, and through a series of counter measures for trade frictions including cooperation, reasonable appeal and acceptance of arbitration, improve competitiveness of the Company's products on the international market.

2. Industrial Risks

After September, 2016, the first phase of Zhanjiang Project of Baosteel will fully go into operation, wherein the hot-rolling production line has already gone into operation; WISCO Fangcheng port projects will also gradually go into operation; all of the foregoing will bring about impact on domestic plate and sheet market and the market competition may be further worsened in the short term.

Countermeasures: strengthen the efforts to develop high-quality end clients; shrink ordinary steel market and improve the market share in Anhui Province and Eastern China.

3. Risks of Business Models

In recent years, direct supply ratio of the Company has been increasing, bringing certain efficiency to the Company, while certain risks come with excessive direct supply ratio: because downstream clients now don't have raw material inventory generally, once the downstream industry shrinks and production slack season comes, the Company's order will be in shortage.

Countermeasures: keep track of changed demand of end users in time, reasonably distribute resource ratio to direct supply, dealers and self-marketing and ensure stable production and operation.

4. **Risk of significant fluctuations in RMB exchange rate**

Since 2015, Renminbi has been devaluing over 6% against the US dollar. Since the beginning of this year, Renminbi's exchange rate experienced great fluctuation. Not only will changes in exchange rate bring certain price risk to the import of iron ore and the export of steel but it may bring some risks to the Company's non-Renminbi debts.

Countermeasures: give full play to the financing advantage of Masteel Financial, actively adjust liabilities structure and funding status of the Company, increase steel exports to improve USD-denominated revenue and maintain balance between foreign exchange assets and liabilities of the Company.

(5) The Company did not fail to comply with disclosure standards due to inapplicable standards or specific reasons.

V. Significant Events

5.1 PLAN OR PROPOSAL OF PROFIT DISTRIBUTION FOR COMMON SHARES, PLAN OR PROPOSAL OF TRANSFERRING CAPITAL RESERVE TO INCREASED EQUITY

(1) Formulation, Implementation and Adjustment of a Cash Dividend Policy

According to the Article 192 of the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, dividends will be distributed to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis.

The Articles of Association of the Company and related reviewing procedures ensure that independent directors can fully express their views during the formulation process of the Company's dividend distribution policy to fully protect the legitimate rights and interests of mid to small investors. The distribution standards and profit-sharing ratio of dividend is set out in the Articles of Association of the Company while the conditions and procedures for the adjustment and changes of the dividend distribution policy are in line with regulations and transparent. During the reporting period, the Company implemented the abovementioned regulations effectively and there was no change in the dividend distribution policy.

(2) The Dividend Distribution or Capital Reserves Capitalisation and Bonus Sharing Declared by the Company for the Last Three Years (the reporting period Inclusive)

Unit: RMB Million

Year of distribution	Bonus Shares distributed Every Ten Shares (share)	Dividends distributed Every Ten Shares (tax included)	Transferred Shares Every Ten Shares (share)	Amount of Cash dividends (tax included)	Net Profit Attributable to Shareholders of Listed Company in Consolidated Statements in the Year of distribution	Ratios to Net Profits Attributable to Shareholders of Listed Company in Consolidated Statements (%)
2015	0	0	0	0	–4,804.3	0
2014	0	0	0	0	220.6	0
2013	0	0	0	0	157.2	0

(3) During the reporting period, the situation that the Company recorded profit which was available for the parent company to distribute to shareholders and did not propose to pay cash dividend did not exist.

5.2 PERFORMANCE OF UNDERTAKINGS

(1) Formulation, Implementation and Adjustment of Cash Dividend Policy

Undertakings that were made by the Company, its shareholders, actual controller, directors, supervisors, senior management or other connected parties during or extended from any of the prior periods into the reporting period.

Background of undertaking	Type of undertaking	Undertaker	Content of undertaking	Time of making the undertaking and its term	Deadline for the fulfillment of undertaking	Undertaking fulfilled on a timely basis	Reasons for non-fulfillment of undertaking	Next step to be taken after non-fulfillment of undertaking
Other undertaking	Other	The Group Company	The controlling shareholder intended to further acquire A Shares of the Company for not less than RMB409 million at an appropriate price through Magang Investment Limited in a way complying with applicable laws and regulations, and promised the shares acquired would not be sold within six months after the completion of the further acquisition plan.	24 July 2015	No	No	In 2015, affected by the new normal condition of the iron & steel industry, the Group Company's production and cash position was severely affected. Therefore, it found it difficult to raise funds required for increasing its shareholding in the Company in the short term.	Under the premise of ensuring the normal operation of funds, the Group Company will make more efforts to increase the intensity of financing and implement the increased holding in a legitimate and compliance manner.

5.3 NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS WAS FOUND DURING THE REPORTING PERIOD.

5.4 THE AUDITORS ISSUED "STANDARD AUDIT REPORT" ON THE COMPANY'S 2015 FINANCIAL REPORT AND NO SPECIFIC EXPLANATION FROM THE BOARD OF DIRECTORS ON THE "NON-STANDARD AUDIT OPINIONS" WAS NEEDED.

5.5 APPOINTMENT AND REMOVAL OF AUDITORS

Unit: RMB'000

	Current Auditors
Name of auditors in the PRC	Ernst & Young Hua Ming LLP
Remuneration of auditors in the PRC	4,985 (including internal control audit fee of RMB600,000)
Tenure of auditors in the PRC	22

	Name	Remuneration
Internal control auditors	Ernst & Young Hua Ming LLP	600

Appointment and Removal of Auditors:

As Ernst & Young Hua Ming LLP, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firm as the auditors for 2015. The Board of Directors did not have any contrary opinion and the related resolution was approved at the 2014 Annual General Meeting held on 16 June 2015.

5.6 THERE WERE NO INSOLVENCY OR RESTRUCTURING RELATED MATTERS DURING THE REPORTING PERIOD.

5.7 THERE WERE NO MAJOR LITIGATION AND ARBITRATION CASES DURING THE REPORTING PERIOD.

5.8 THERE WAS NO PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLER AND ACQUIRERS WAS MADE DURING THE REPORTING PERIOD.

5.9 DURING THE REPORTING PERIOD, THERE WAS NO OUTSTANDING SIGNIFICANT CLAIM AMOUNT UNSETTLED BY THE COMPANY AND ITS CONTROLLING SHAREHOLDER WHICH WAS ORDERED BY THE COURT TO PAY.

5.10 DURING THE REPORTING PERIOD, THERE WAS NO INCENTIVE STOCK OPTION PLAN, EMPLOYEE STOCK OPTION PLAN OR OTHER EMPLOYEE INCENTIVE PLAN WAS PROVIDED BY THE COMPANY.

5.11 SUBSTANTIAL CONNECTED TRANSACTIONS

1. Connected Transactions related to Normal Operations

The normal business transactions between the Group and the Group Company 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:

(i) To ensure that the Company has sufficient ore to meet the production demands, the Group Company agreed to continuously provide the Company with ore on a first priority basis.

In the period between 1 January 2015 and 31 December 2015, the payment made by the Company to the Group Company 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	2,513,661	23

Price for iron ore, limestone and dolomite in tonne acquired by the Group from Group Company will be determined after arm's length negotiation between both sides under normal commercial terms with reference to comparable market price and shall not be higher than the market price of the same categories of iron ore, dolomite and limestone provided by independent third parties in the same area in the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that those transactions were carried out under normal commercial terms or were no less favourable than the terms agreed between the Company with any independent third party. They were in the best interest of the Company and its shareholders. The continuing connected transactions contemplated under the "Sale and Purchase of Ore Agreement" between the Company and the Group Company were approved at the shareholders' general meeting. In the reporting period, such transactions were carried out according to the terms for the "Sale and Purchase of Ore Agreement" for the year of 2013-2015 and their transaction amount was under the annual cap for that agreement, i.e., RMB8,469.69 million.

(ii) In the reporting period, businesses between Masteel Financial and Group Company:

Business nature		**Amount of loan or deposit**	**Interest income/ expenses**
		RMB'000	RMB'000
Deposit	Maximum daily deposit	3,315,346	22,785
	Monthly average maximum daily deposit	2,302,823	
Loan	Maximum daily loan	574,900	23,123
	Monthly average maximum daily loan	572,845	
Other income			
Net income from handling fee and commission (RMB'000)			1,598
Income from discount interest (RMB'000)			4,150

The continuing connected transactions contemplated under the "Financial Services Agreement" for the year of 2015 between Masteel Financial and the Group Company were approved by the Board. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. Their transaction amount did not exceed the daily cap of RMB600 million, while interests, handling and service fees were less than RMB60 million.

(iii) Business transactions between the Group and environmental protection companies:

In the period between 1 January 2015 and 31 December 2015, the payment made by the Company in respect of the "Energy Saving and Environmental Protection Agreement", which was signed in 2012, was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category (%)**
Purchase of energy saving and environmental protection engineering and other services by the Group from Environmental Protection Company	470,848	10
Purchase of wastes and other services by Environmental Protection Company from the Group	66,638	6
Total	537,486	–

The "Energy Saving and Environmental Protection Agreement" for the year of 2015 between the Group and Environment Protection Company was approved by the shareholders at the shareholders' general meeting. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. Their transaction amount did not exceed the cap of RMB595 million specified in the agreement.

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

	Amount	Proportion of transaction of the same category (%)
Steel products and other products purchased by the Group Company from the Company	172,048	0
Water, electricity, telephone and other services purchased by the Group Company from the Company	94,465	9
Fixed assets and construction services purchased by the Company from the Group Company	392,543	15
Other services and products purchased by the Company from the Group Company	2,222,144	100
Total	2,881,200	–

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and the Group Company in their normal course of business in compliance with normal commercial requirements, and the terms of such transactions using market price as the pricing benchmark were at least as favourable to the Company when they were compared with normal commercial terms.

Those transactions were approved by the Board and conducted under the related terms of the agreement. The transaction amount did not exceed the cap of RMB5,633.61 million.

As at 31 December 2015, except for the normal course of business, there were no other liabilities or debts thus arising between the Company and connected parties.

Substantial agreements entered into with controlling shareholder

On 22 December 2015, the Board approved of Financial Services Agreement and Integrated Support Services Agreement entered into between the Company and the Group Company. Except for those agreements, the Company did not enter into any substantial agreements with its subsidiaries or controlling shareholder during the reporting period.

Ernst & Young Hua Ming LLP, the Company's auditors, were engaged to report on the Group's continuing connected transactions for the reporting period in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the HKICPA. Ernst & Young Hua Ming LLP have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

5.12 MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(1) During the reporting, there was no entrustment, contracting and leasing was made by the Company.

(2) Guarantees

During the reporting period, the Company did not offer any external guarantees or guarantees to its subsidiaries. However, Changjiang Steel, a controlling subsidiary of the Company, was approved by the Board to offer guarantees to its wholly owned subsidiaries with a total amount of RMB150 million. Please refer to the announcement dated 17 June 2015 for details. Information sources: http://www.sse.com.cn; http://www.hkex.com.hk.

Pursuant to the requirements of the China Securities Regulatory Commission, the independent directors of the Company carried out due diligence process in relation to the guarantees offered by the Company in the reporting period and outstanding guarantees. Details ae as follows:

(i) As at 31 December 2015, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.

(ii) As at 31 December 2015, the Company did not provide any guarantees to connected parties in which the Company and its held 50% interest, non-legal entities or individuals.

(iii) As at 31 December 2015, the total outstanding amount of external guarantees provided by the Company in the reporting period or before was less than 50% of the net assets of the Company as stated in its consolidated balance sheet.

(3) Trusteeship of cash asset management

(i) Entrusted loans

Unit: RMB100 Million

Name of borrower	Amount of entrusted loan	Term	Interest rate	Use of the loan	Collateral or guarantor	Overdue (Yes/No)	Connected transactions (Yes/No)	Extension (Yes/No)	Litigation (Yes/No)	Relation	Investment profit/loss
Changzhou Runhe	1.33	2 years	7%/year	Loan repayment and working capital	Partly secured	No	No	No	No	Other	–

(ii) Entrusted wealth management

Unit: RMB Million

Trustee	Type of entrusted wealth management products	Amount entrusted for management	Commencement date of entrustment	End date of entrustment	Guaranteed return	Actual principal amount received	Benefits actually received	Undergoing legal procedures (Yes/No)	Amount of provision for impairment loss	Connected transactions (Yes/No)	Litigation (Yes/No)
China Everbright Bank	Ding Huo Bao	100	2015.12.2	N/A	Non-guaranteed floating income	N/A	N/A	Yes	0	No	No
China Everbright Bank	Ding Huo Bao	200	2015.12.2	N/A	Non-guaranteed floating income	N/A	N/A	Yes	0	No	No
China Everbright Bank	Ding Huo Bao	200	2015.12.4	2016.1.21	Non-guaranteed floating income	200	0.92	Yes	0	No	No
China Everbright Bank	Shuang Zhou Yin	200	2015.12.30	2016.1.13	Non-guaranteed floating income	200	0.26	Yes	0	No	No
China Everbright Bank	Shuang Zhou Yin	200	2015.12.31	2016.1.14	Non-guaranteed floating income	200	0.26	Yes	0	No	No
China Everbright Bank	Shuang Zhou Yin	100	2015.12.31	2016.1.14	Non-guaranteed floating income	100	0.13	Yes	0	No	No
Total	/	1,000	/	/	/	700	1.57	/	0	/	/

Accumulated amount of overdue principal and earnings unrecovered (RMB)	0
Description of the entrusted wealth management	Masteel Financial bought the wealth management products from China Everbright Bank, with the ending balance of RMB1 billion. Ding Huo Bao is a wealth management product with flexible term and can be redeemed at any time. Its interest rate increases with the time. As of 28 March, the outstanding amount of Ding Huo Bao product was RMB300 million.

5.13 OTHER MAJOR ISSUES

(1) During the reporting period, the Company did not repurchase any of its listed shares and the Group did not purchase or re-sell any of the Company's listed shares.

(2) The PRC laws and the Articles of the Association of the Company do not require the Company to give priority to existing shareholders to purchase its new shares in the nomination of the currency of existing shares they hold when issuing new shares.

(3) There is no service contract that may be terminated without compensation within one year (other than legitimate compensation) as signed by and between the Directors of the Company and the Company.

(4) In the report period, no Director or Supervisor of the Company owns, directly or indirectly, material interest in the contracts executed by the Company, its affiliates, the Group Company or any service company of the Group.

5.14 ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

(1) Social Responsibility Work

Further details are stated in "Maanshan Iron & Steel Company Limited Social Responsibility Report 2015". Information sources: www.sse.com.cn; www.hkex.com.hk.

(2) Description of the environmental protection of the listed companies and its subsidiaries in the heavy pollution industry as prescribed by the Ministry of Environmental Protection of the PRC.

The Company and its subsidiaries, Hefei Co and Changjiang Steel, are in the heavy pollution industry as prescribed by the State Environmental Protection Department.

During the reporting period, there was no major environmental problem occurred in the Company and its subsidiaries Hefei Co and Changjiang Steel Co. and their environmental protection facilities was built and operated under the principle of three simultaneousness. The environmental pollution accident emergency plan was regularly revised and maneuvered. The major pollutants were discharged up to standard and the total emissions satisfied the requirements of the State, province and city on the emission reduction of the total amount of pollutant.

VI. Movements in Share Capital and Shareholders

6.1 SHARE MOVEMENTS

(1) Table on Share Movements

Unit: Share

	Before the change		Increase/(decrease) during the year					After the change	
	Number of shares	Percentage (%)	New shares issued	Bonus shares	Shares converted from surplus reserve	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: domestic non-state-owned legal person shares	–	–	–	–	–	–	–	–	–
Shares owned by domestic natural persons									
4. Foreign shareholding	–	–	–	–	–	–	–	–	–
Including: Overseas legal person shares	–	–	–	–	–	–	–	–	–
Overseas natural person shares	–	–	–	–	–	–	–	–	–
B. Shares without selling restriction	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100
1. RMB ordinary shares	5,967,751,186	77.50	–	–	–	–	–	5,967,751,186	77.50
2. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
3. Foreign shares listed overseas	1,732,930,000	22.50	–	–	–	–	–	1,732,930,000	22.50
4. Other shares	–	–	–	–	–	–	–	–	–
C. Total	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100

(2) Description of common shares changes

From May 14 to May 22, 2015, one of the Company's controlling shareholders, Ma Steel (Group) Shareholding Co., Ltd. totally reduced 379,956,471 shares through the trading system of Shanghai Stock Exchange, accounting to 4.93% of the Company's total shares. Refer to Indicative Notice on Shareholders' Equity Changes published on May 23 for details. Information sources: http://www.sse.com.cn; http://www.hkex.com.hk.

(3) Other contents the company considered necessary or required by securities regulators to disclose

On 24 July 2015, the Company received "Letter of further acquisition plan of A Shares in Magang" from Magang (Group) Holding Company Limited, the controlling shareholder of the Company. Please refer to the "Announcement on Intended Increase in Shareholding of the Company's A Shares by the Controlling Shareholder" dated 25 July 2015. Information sources: http://www.sse.com.cn; http://www.hkex.com.hk.

6.2 SECURITIES ISSUANCE AND LISTING

(1) In the reporting period, the Company didn't issue shares, convertible bonds, separate bargaining convertible bonds, corporate bonds or other derivative securities.

(2) In the reporting period, no changes were incurred related to the Company's sum of shares, shareholder structure, corporate assets and liability structure due to stock dividends, capital increased from accumulation fund, shares allotment, issuance of additional stocks, privately offering stocks, warrants exercise, implementation of stock option incentive plan, enterprises mergers, convertible bonds transformation, capital reduction, interior staff shares listing, bond issuance and other reasons.

6.3 SHAREHOLDER AND ACTUALHOLDERS

(1) Total number of shareholders:

Total number of shareholders as at the end of the reporting period (account)	291,979
Total number of shareholders as the end of month before publication of the annual report (account)	299,317

(2) Shareholding of the top ten shareholders at the end of the reporting period and the top ten tradable-share holder (or shareholders without selling restrictions):

Unit: Share

Shareholding of the top ten shareholders							
Name of shareholder (Full Name)	Increase/ Decrease in the reporting period	Number of Shareholding at the end of the reporting period	As a Percentage to number of shares held *(%)*	Total number of shares held at the end of the reporting period	Pledged or frozen shares		Type of shareholders
					Share status	Number	
Magang (Group) Holding Company Limited	–379,956,471	3,506,467,456	45.54	0	nil	0	State-owned shareholder
HKSCC (Nominees) Limited	–1,788,002	1,710,208,900	22.21	0	Unknown	Unknown	Unknown
Central Huijin Asset Management co., Ltd.	Unknown	142,155,000	1.85	0	Unknown	Unknown	State-owned shareholder
China Securities Finance Corporation Limited	Unknown	88,096,538	1.14	0	Unknown	Unknown	State-owned shareholder
Bosera Funds-Agricultural Bank of China-Bosera-CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown
Dacheng Fund-ABC-Dacheng-CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown
ICBC Credit Suisse -ABC- ICBC Credit Suisse – CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown
GF Fund-ABC-GF-CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown
China AMC-ABC-China AMC-CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown
Harvest Fund-ABC-Harvest-CSF Financial Asset Management Plan	Unknown	33,609,200	0.44	0	Unknown	Unknown	Unknown

VI. Movements in Share Capital and Shareholders (continued)

Shareholding of top ten shareholders without selling restrictions			
Name	Number of shares held without selling restrictions	Type and number of shares: Type	Number
Magang (Group) Holding Company Limited	3,506,467,456	RMB-denominated ordinary shares	3,506,467,456
HKSCC (Nominees) Limited	1,710,208,900	Overseas-listed foreign shares	1,710,208,900
Central Huijin Asset Management Co., Ltd.	142,155,000	RMB-denominated ordinary shares	142,155,000
China Securities Finance Corporation Limited	88,096,538	RMB-denominated ordinary shares	88,096,538
Bosera Funds-Agricultural Bank of China-Bosear-CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
Dacheng Fund-ABC-Dacheng-CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
ICBC Credit Suisse -ABC- ICBC Credit Suisse – CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
GF Fund-ABC-GF-CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
China AMC-ABC-China AMC-CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
Harvest Fund-ABC-Harvest-CSF Financial Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200

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

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

In the reporting period, no shares held by the group company were pledged, frozen or hosted. However, the Company was unaware whether shares held by other shareholders who have 5% and above of the total were pledged, frozen or hosted.

HKSCC (Nominees) Limited held 1,710,208,900 H Shares of the Company on behalf of multiple clients.

Based on the data accessible for the Company and to the best knowledge of the board of directors, as of the announcement date of the report, the Company meets relevant requirements about public holdings in Securities Listing Rules of Stock Exchange of Hong Kong Limited.

Save as disclosed above, details of the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2015 were as follows:

Name	**Capacity as holder or eemed holder of interests**	**Number of shares interested or deemded interested**	**Approximate percentage of the Company's issued H Share** (%)
FMR LLC	Investment Manager	96,942,000 (Long Position)	5.59

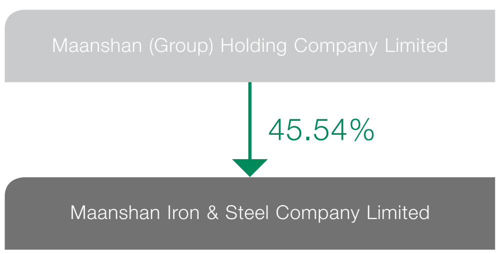
6.4 SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

(1) Controlling shareholders

1. Legal person

Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gao Haijian
Date of Incorporation	1 September 1993
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	During the reporting period, the substantial shareholders did not control or partially own any other domestic and overseas listed company.

2. Block diagram of property rights and control relationships between the Company and controlling shareholder

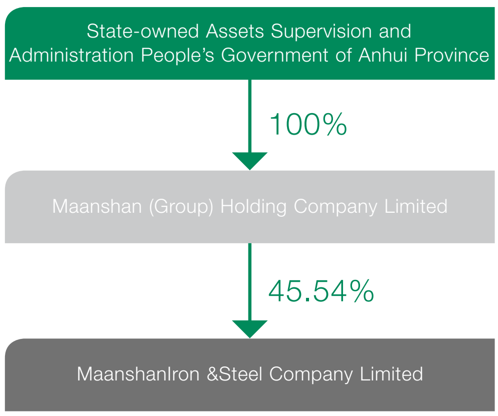


(2) Actual holders

1. Legal person

Name State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province

2. The Proprietorship and Controlling Relationship between the Company and its De Facto Controller



VII. Directors, Supervisors, Senior Management and Employees

7.1 CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS

(1) Changes in shareholding held by and emoluments for incumbent and resigned directors, supervisors and senior management in the reporting period:

Unit: Share

Name	Position[1]	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments (RMB 10 thousand)	Receive emoluments from the Company's connected parties
Ding Yi	Chairman	Male	52	2014-9-1	2017-8-31	0	Yes
Qian Haifan	Director	Male	55	2014-9-1	2017-8-31	43.96	No
Su Shihuai	Director	Male	57	2014-9-1	2017-8-31	0	Yes
Ren Tianbao	Director	Male	52	2014-9-1	2017-8-31	0[2]	Yes
Qin Tongzhou	Independent Director	Male	46	2014-9-1	2017-8-31	10	No
Yang Yada	Independent Director	Female	60	2014-9-1	2017-8-31	10	No
Liu Fangrui	Independent Director	Male	52	2014-9-1	2017-8-31	10	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	54	2014-9-1	2017-8-31	43.96	No
Fang Jinrong	Supervisor	Male	52	2014-9-1	2017-8-31	0	Yes
Yan Kailong	Supervisor	Male	51	2015-12-1	2017-8-31	1.72	No
Wong Chun Wa	Independent Supervisor	Male	42	2014-9-1	2017-8-31	7.37	No
Su Yong	Independent Supervisor	Male	61	2014-9-1	2017-8-31	7.37	No
Gao Haichao	Senior Management	Male	58	2014-9-1	2017-8-31	38.68	No
Lu Kecong	Senior Management	Male	52	2014-9-1	2017-8-31	37.90	No
Hu Shunliang	Senior Management	Male	58	2015-6-16	2017-8-31	10.39	No
Ren Tianbao[2]	Senior Management	Male	52	2014-9-1	2015-5-11	14.47	No
Yan Hua	Senior Management	Male	50	2014-9-1	2015-5-11	14.61	Yes[3]
Yan Taixia	Supervisor	Female	50	2014-9-1	2015-12-1	19.77	Yes
Total	/	/	/	/	/	270.20	/

Note 1: This table disclosed the remuneration before tax paid to the above personnel by the Company when they held the position of director, supervisor and senior management.

Note 2: Mr. Ren Tianbao has no longer received emolument from the Company since he resigned as deputy general manager and secretary of the board from 11 May 2015.

Note 3: Mr. Yan Hua only received emolument from the Company when he served as deputy general manager of the Company. Mr. Yan no longer served as the deputy general manager of the Company since 11 May, 2015 and served as the deputy general manager of the Group and received emolument from the Group.

During the reporting period, none of the Directors, Supervisors and Senior Management held any shares of the Company.

Name	Working Experience
Ding Yi	Mr. Ding served as Deputy General Manager of the Company from January 2004. From July 2011, Mr. Ding served as Deputy General Manager of Magang (Group) Holding Company Limited and no longer served as Deputy General Manager of the Company since then. Effective from 24 June 2013, Mr. Ding served as General Manager of Magang (Group) Holding Company Limited. Effective from 9 August, 2013, Mr. Ding served as Chairman of the Company. In addition, Mr. Ding also serves as Chairman of Magang Group Finance Co., Ltd. and MG Trading and Development Gambit in Germany.
Qian Haifan	Mr. Qian was appointed Deputy General Engineer of the Company in April 2010. Mr. Qian was appointed as the general manager of the Company in July 2011 and Director of the Company in August 2011.
Su Shihuai	Mr. Su served as Deputy General Manager and Chief Engineer of the Company from December 2009 till July 2011. Mr. Su served as Deputy General Manager and Chief Engineer of Magang (Group) Holding Company Limited from July 2011 to present. Mr. Su was appointed as Director of the Company on 5 February 2013.
Ren Tianbao	Mr. Ren was appointed Secretary of the Party Committee, Director and Deputy General Manager of Ma Steel (Hefei) Iron & Steel Co., Ltd. in July 2008. Mr. Ren was appointed Deputy General Manager of the Company in July 2011. He became Director of the Company in August 2011. He was appointed Secretary to the Board on 9 February 2012. He was appointed by Magang (Group) Holding Company Limited as its deputy general manager and resigned as the deputy general manager and company secretary of the Company on 11 May 2015. Besides, Mr. Ren was also appointed as Chairman of Anhui Ma Steel Engineering & Technology Group.
Qin Tongzhou	Mr. Qin is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is presently CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming Certified Public Accountants from March 2001 to March 2010. He was appointed Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG in July 2010. Mr. Qin was appointed Independent Director of the Company on 31 August 2011.

Yang Yada	Ms. Yang is presently professor, master instructor and Dean of School of Management of Anhui University of Technology. Ms. Yang was appointed professor of School of Management of Anhui University of Technology in September 2002, mainly engaged in teaching and researching in fields of financial management and enterprise strategy. She sequentially served as Head of Business Administration Department and Deputy Dean of School of Management of Anhui University of Technology. She is presently Dean of School of Management of Anhui University of Technology and Deputy Chairman of Economic Association of Maanshan. She was elected as members of 10th and 11th and 12th National People's Congress. Ms. Yang was appointed Independent Director of the Company on 31 August 2011.
Liu Fangduan	Mr. Liu was qualified and practiced as a lawyer in 1991. He currently serves as a supervisor at Anhui Xingwan Law Firm and concurrently holds various positions such as Legal Counsel for the Wuhu Municipal People's Government and Vice-chairman of the Lawyers Association of Wuhu Municipality. Mr. Liu served as Independent Directors from October 25 2012.
Zhang Xiaofeng	Mr. Zhang was appointed Chairman of the Labour Union of Holding and the Company in August 2008. Mr. Zhang was appointed Chairman of the Supervisory Committee of the Company on 31 August 2008.
Fang Jinrong	Mr. Fang was appointed Deputy Manager of the Finance Department of the Group and the Company since February 2004. Mr. Fang has been Supervisor of the Company since 31 August 2005. Mr. Fang was appointed Vice Minister of Supervision and Audit Department since December 2013.
Yan Kailong	In May 2012, he was appointed Director of Equipment Support Department and Chief Technology Officer of the No. 1 Steel-making General Factory of Ma Steel Group. In May 2014, he was appointed Vice Plant Manager of the No. 1 Steel-making General Factory; in December 2014, he was appointed Vice Plant Manager of the Company's Cold Rolling Factory. Since November 2015, Mr. Yan was additionally appointed Vice-chairman of Maanshan Federation of Trade Unions. In December 2015, he was appointed Employee Supervisor of the Company.

Wong Chun Wa	Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He established ACT Business Consultants Limited in December 2006 and acted as the company's director. Mr. Wong was appointed Independent Director of the Company on 31 August 2005. He was appointed Independent Supervisor of the Company on 31 August 2011. Mr. Wong is also independent director of China Zhongwang Holdings Limited and Chongqing Iron & Steel Company Limited.
Su Yong	Mr. Su was appointed Deputy Director of the School of Management of Fudan University Eastern Management Research Centre in October 2004. Mr. Su has been Independent Director of the Company since 31 August 2005, and become Independent Supervisor of the Company on 31 August 2011. He also serves as independent director of Shanghai Pret Composites Co. Ltd and SGSB Group Co. Ltd.
Gao Haicao	Mr. Gao served as deputy chief engineer of the Company from April 2010 to July 2011; and assistant to the general manager of Magang (Group) Holding Co., Ltd. from July 2011 to February 2013, during which he concurrently served as manager of the technology innovation department of Magang (Group) Holding Co., Ltd. from August 2011 to July 2012. He has been the Company's deputy general manager and chief engineer since 17 February 2013. He was appointed as the Company's deputy general manager in 2015.
Lu Kecong	Mr. Lu was appointed Manager and Secretary of the Party General Branch of Ma Steel International Trade & Economics Corporation ("Ma Steel International Trade Corp") and Director of Foreign Affairs Office in July 2004; General Manager (Director) and Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in May 2010; General Manager (Director) and Deputy Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in February 2011. Mr. Lu was appointed Deputy General Manager of the Company in July 2011. In May 2015, he was appointed Director of Magang (Group) Holding Company Limited. Besides, Mr. Lu was also appointed as Chairman of Maanshan Port (Group) Co., Ltd.

Hu Shunliang	Mr. Hu was appointed as the Chief of the Secretariat Office of the Board of the Company in February 2010. He was appointed as the Company Secretary with effect from 16 June 2015.
Yan Hua	Mr. Yan was appointed Deputy General Manager of the Company in July 2011. He was appointed as the deputy general manager of Magang (Group) Holding Limited and resigned from the post of the Company's deputy general manager.
Yan Taixia	Ms. Yan was appointed Manager of Legal Department of the Company since July 2003 and of the Group since August 2011. Ms. Yan has been Manager of Legal Department of the Company since January 2013. Mr. Yan was appointed Supervisor of the Company since 29 November 2013 and resigned with effect from 1 December 2015.

(2) In the reporting period, no directors, supervisors and senior management in the Company were awarded with stock option incentive.

7.2 POSITIONS OF CURRENT AND OUTGOING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL DURING THE REPORTING PERIOD:

(1) Positions in shareholders unit

Name	Name of shareholders unit	Position in shareholder's unit
Ding Yi	Magang (Group) Holding Company Limited	Director, General Manager
Zhang Xiaofeng	Magang (Group) Holding Company Limited	Chairman of the Labour Union
Su Shihuai	Magang (Group) Holding Company Limited	Deputy General Manager, Chief Engineer
Qian Haifan	Magang (Group) Holding Company Limited	Director
Lu Kecong	Magang (Group) Holding Company Limited	Director
Yan Hua	Magang (Group) Holding Company Limited	Deputy General Manager
Ren Tianbao	Magang (Group) Holding Company Limited	Deputy General Manager
Fang Jinrong	Magang (Group) Holding Company Limited	Vice Minister of Supervision and Audit Department

(2) Positions in other entities

Name	Name of other entities	Position in other entities
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Yang Yada	Anhui University of Technology	Professor of Business School
Liu Fangduan	Anhui Xingwan Law Firm	Director
Yan Kailong	Maanshan Federation of Trade Unions	Vice-chairman

7.3 EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management	Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders general meeting, and based on their respective appraisals. Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.
Basis for determination of Directors, Supervisors and Senior Management	Appraisals
Actual payment to Directors, Supervisors and Senior Management	Please refer to the previous section "Changes in Shareholding Held by and Emoluments".
Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period	During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB2,702,000 (tax inclusive). The above-mentioned emoluments received by the Company's Executive Directors, Non-independent Supervisors and Senior Management include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2015 accordance with the pension scheme of the Company.

7.4 PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Ren Tianbao	Deputy General Manager, Secretary to the Board	Removal	Job transfer
Yan Hua	Deputy General Manager	Removal	Job transfer
Hu Shunliang	Company Secretary	Appointment	Job transfer
Yan Taixia	Supervisor	Removal	Job transfer
Yan Kailong	Supervisor	Appointment	Job transfer

7.5 THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORS IN RECENT THREE YEARS.

7.6 EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

Profession Category	Number of staff of profession constitution
The number of current employees of the parent company	30,195
The number of current employees of the major subsidiaries	9,237
Total number of current employees	39,432
The number of resigned or retired staff for whom the parent and the major subsidiaries need to pay the expenses	19,875

Professional constitution

Profession category	Number of staff of profession constitution
Production Line	32,484
Sales representative	464
Technician	3,368
Financial staff	272
Administrative Staff	2,844
Total	39,432

Education

Educational level	Number of staff
Postgraduate	583
Graduate	4,389
Junior College	8,240
Vocational secondary or below	26,220
Total	39,432

(2) Remuneration policy

In 2015, the Company further optimized its gross pay overall rationing system, redesigned its overall rationing policy by combining labor productivity, operating conditions and other factors and included all wages, bonus, allowance, productive labor costs into gross pay control limit for overall management. Gross pay control was linked up with indicators for main work and performance appraisal of each unit, guide units, so as to establish index analysis system and lean to essential and core position and personnel by performance appraisal of all staffs. For the management, taking the Company's annual budgetary objective and key company-level business indicators separately managed by each member as main indicators for performance appraisal, the Company organized assessment and appraisal; for middle management, annual assessment was implemented by considering completion of technical and economic indicators under management.

(3) Training programmes

In 2015, the Company developed training courses, brought forth new training ideas and conducted 401 training courses for management post, technical and business post and operation maintenance post, covering 31,905 staffs, realizing a training rate of 92.5%.

VIII. Corporate Governance

8.1 SITUATIONS OF THE CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance corporate governance structure, consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager were clear and unambiguous.

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance and enhanced the fundamental system. In accordance with the requirements of the China Securities Regulatory Commission, it revised the Articles of Associations, Internal Management Measures for Connected Transactions, Management Measures for Future Hedging and regularly performed information disclosure.

(1) Corporate Governance Report

In 2015, the Company has complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules. The information is summarized as follows:

- **Directors**

  Directors and the composition of the Board

  The eighth session of the Board of the Company comprised seven Directors, of whom two were Executive Directors and five were Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-seventh of the members of the Board.

The Executive Directors and two Non-Executive Director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction, and are capable of making rational decisions on the matters to be resolved by the Board. Among the three Independent Directors, Mr. Qin Tongzhou is the member of the Chinese Institute of Certified Public Accountants (CICPA), the CFO of China Fire &Security Group Inc. with years of experience in the accounting profession; Ms. Yang Yada is professor, master instructor and Dean of School of Management of Anhui University of Technology, who is knowledgeable in corporate management. Mr. Liu Fangduan is a second-grade lawyer and currently serves as supervisor at Anhui Xingwan Law Firm, with extensive experience in the legal profession. These independent directors have every ability to evaluate internal control and review financial reports. Directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board fully complied with the requirements of the relevant laws, regulations and regulatory documents in the PRC and overseas. The names of all Directors were published in the Company's correspondence and specifications were made to Independent Directors.

During the reporting period, as far as the Board is aware of, there were no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board (including Chairman and General Manager) that were required to be disclosed.

All of the Directors of the Company had confirmed in written form that they had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Hong Kong Listing Rules.

The Company received from the three Independent Directors' independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors, Authorised Representatives and Directors" in the Hong Kong Listing Rules. The Board of the Company was therefore of the opinion that the three Independent Directors were all independent.

Chairman and General Manager

The positions of the Company's Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by a simple majority of all Directors in the Board. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board, ensuring that the Board will consider all matters involved in an appropriate manner, and facilitating an effective operation of the Board.

The Chairman is entitled to chair the shareholders' general meetings, to convene and chair Board meetings, to review the implementation of resolutions by the Board, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board, the Chairman may convene the shareholders' general meetings. Between sessions of the Board meetings, the Chairman shall give guidance to the major business activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board, and shall be accountable to the Board. The General Manager leads the Management, and is responsible for the usual course of operation in production and management, and organises the implementation of various resolutions by the Board. The General Manager shall regularly report to the Board or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board or the Supervisory Committee.

Non-executive Directors

The term of office of the Company's Non-executive Directors (including Independent Directors) is three years. Please refer to Section VII "Directors, Supervisors, Senior Management, Employees" for further details of incumbency.

In order to protect the legal rights and interests of the minority shareholders and the stakeholders, the Company established the "Work System of Independent Directors". The system specifies in detail the appointment criteria and nomination procedures of Independent Directors and working conditions that the Company shall provide to Independent Directors. It also stipulates that Independent Directors shall issue independent opinions on matters such as connected transactions and external guarantees.

Duties and authorities of the Board and the Management

The Board performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including:

- To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;
- To decide on the annual operating plans and key investment proposals of the Company;
- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;
- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and trust management within the limit as stipulated in the Articles of Association;
- There are four committees under the Board, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Development Committee. Please refer to "(4), (5), (6) and (7)" of this section for the major duties of the committees.

The Company's Management performed their major responsibilities in accordance with the duties and authorities conferred by the Articles of Association, mainly including:

- To organise the implementation of the Company's annual operating plans and investment proposals;
- To propose the establishment schemes of the Company's internal management structure;
- To propose the Company's fundamental management system;
- To formulate the Company's basic constitutions;
- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;
- To decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointments, recruitment or removal and termination of the Company's staff;
- To deal with the important external businesses of the Company on its behalf;
- To propose the convening of extraordinary Board meetings.

The Board Meeting

The Board convenes four regular meetings annually, and notifies Directors about the time and date, location and agenda of a regular Board meeting 14 days in advance so as to ensure all Directors could attend the meetings. All Directors are given opportunities to raise matters for discussion and such matters will be included in the agendas of the regular meetings. If required by the Directors, the Management is able to provide adequate information timely to the Directors and such information can help the Directors make appropriate decisions. All or most of the Directors shall attend each regular Board meeting in person. When the Board vote on connected transactions, the connected Directors shall abstain from voting and the connected transactions shall be approved by the non-connected Directors. All Directors are entitled to and have the opportunity to access to the minutes of the Board meetings.

The Secretary to the Board is responsible for organising and preparing the Board meetings, and assists the Chairman to ensure that the procedures for the meetings comply with the requirements of relevant laws, regulations and the regulatory documents.

- **Remuneration of the Directors, supervisors and senior management**

Directors' remuneration

The annual aggregate remuneration of all Directors of the eighth session of the Board of the Company shall not exceed RMB2.20 million (tax inclusive) during their term of office. Each of the Independent Directors receives a fixed annual remuneration of not more than RMB80,000 (tax exclusive) from the Company. The Company has adopted an annual salary system for the remaining Directors who receive remuneration from the Company. Taking into account the performance of the Company and the Directors' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board' approval. No director may determine his/her own remuneration.

Supervisors' remuneration

The annual aggregate remuneration of all Supervisors of the eighth session of the Company's Supervisory Committee shall not exceed RMB1.4 million (tax inclusive) during their term of office. Each of the Independent Supervisors receives a fixed annual remuneration of not more than RMB60,000 (tax exclusive) from the Company. As for the remaining Supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for Supervisors approved by the shareholders' general meeting, and such remuneration shall be reported to the annual general meeting.

Senior Management's remuneration

The Company has adopted an annual salary system for the Senior Management. Taking into account the performance of the Company and the Senior Management member's personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the Senior Management will be implemented accordingly subject to the Board's approval.

- **Nomination of Directors**

  A new session of the Board of the Company shall be elected every three years. The term of office of all Directors is the same as the term of office of the Board for such session. Upon the expiry of the session, re-election must be held.

  Candidates for Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 5% of the issued shares of the Company. Candidates for Independent Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

  The nomination of a Director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an Independent Director, the Board will give its opinion on the nominee's qualifications and independence of holding the position of Independent Director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for Independent Directors to the SSE.

- **Audit Committee**

  The Audit Committee of the eighth session of the Board of the Company ("Audit Committee") comprises Independent Directors Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan. Mr. Qin Tongzhou is the Chairman of the Committee. The major duties of the Committee are:

  - To propose the appointment or change of external auditors;
  - To monitor the Company's internal audit system and its implementation;
  - To be responsible for the communication between the internal and external auditors;
  - To review the Company's financial information and its disclosure;
  - To review the Company's internal control system.

Furthermore, in order to fully leverage on the role of the Audit Committee, the Company has also specifically worked out "Annual Report Work Rules of the Audit Committee", which has streamlined the duties of the Audit Committee in the process of the preparation of annual report and the disclosure thereof.

In 2015, the Committee held four meetings. Details of the meetings in 2015 are as follows:

1. Discussed the unaudited 2014 financial statement with the senior management and the financial department, to scrutinize issues concerned, to approve submission of the financial statement for audit by external accounting firm, and to determine the working schedule for the audit of the financial statement together with the accounting firm.

2. Discussed the audited 2014 financial statement with the Company's audit department and the external accounting firm to generate written opinion on the statement.

3. Debriefed the internal control work on a periodic basis to urge improvement.

4. Reviewed the audited 2014 financial statement, discussed with the Company's audit department and external accounting firm on the statement, and concluding that the Company complied with the Enterprise Accounting Rules in all major aspects and made full information disclosure without major omission.

5. Having considered and approved the summary report on the Company's auditing work in 2014 conducted by the external auditors.

6. Approved the payment of RMB4.985 million to Ernst & Young Hua Ming in 2014, which included an annual audit fee of RMB4.4 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the agreed-upon procedures on interim financial statements.

7. Having considered and Agreed that Ernst &Young Hua Ming would be re-appointed as the Company's auditors for 2015.

8. Reviewed and Approved the related party transactions for 2014 between the Company, its affiliate Magang (Group) Holding and its affiliates, and concluding that the transactions were made in the daily business under normal business terms or no inferior than the terms for independent providers (or by independent providers), the transactions were carried out in line with relevant terms, the terms were fair, reasonable and met the best interests of the Company and its shareholders.

9. Acquired an understanding from the Company's management and the external auditors of the Company's provision of guarantees for external parties as at 31 December 2014, reviewed the relevant information and was of the opinion that: The Company did not provide any guarantee for external companies or subsidiaries.

10. Considered and approved the Report on the Discharge of Duties by the Audit Committee of the Board of Directors of Maanshan Iron & Steel Co., Ltd. for 2014.

11. Reviewed the Company's unaudited first quarterly financial statement of 2015 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.

12. Reviewed the Company's unaudited interim financial statement of 2015 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.

13. Reviewed the Company's unaudited third quarterly financial statement of 2015 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.

All the procedures for convening and holding the Committee's meetings as well as voting and resolutions thereat were in compliance with the provisions of relevant laws and regulations, the Articles of Association and the Work Rules of the Audit Committee. In 2015, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

- **Remuneration Committee of the Board**

  The Remuneration Committee of the eighth session of the Board of the Company comprises Independent Directors Mr. Liu Fangduan, Mr. Qin Tongzhou, and Ms. Yang Yada. Mr. Liu Fangduan is Chairman of the Committee. The major duties of the Committee are:

  - To recommend to the Board with respect to the remuneration policies for all Directors and Senior Management of the Company, and the procedures of formulating such policies in a proper and transparent manner;

  - To review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board;

  - To review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment;

  - To ensure that none of the Directors nor their associates could decide on their own remuneration;

  - Other responsibilities as delegated by the Board.

  In 2015, the Remuneration Committee of the eighth session of the Board held one meeting. All members attended the meeting in person. The details of the meeting are as follows:

  1. Reviewed remuneration of directors and senior management for 2014;

  2. Reviewed the Remuneration Committee's Report on Discharge of Duties for 2014.

  All the procedures for convening and holding the Remuneration Committee's meetings as well as voting and resolutions thereat were in compliance with relevant laws and regulations, the Articles of Association and the Work Rules of the Remuneration Committee. When the remuneration of directors and senior management staff were discussed at the meetings, none of the directors was involved in deciding their own remuneration. All the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

- **Nomination Committee**

  The Nomination Committee of the eighth session of the Board of the Company comprises Independent Directors Ms. Yang Yada, Mr. Qin Tongzhou, Mr. Liu Fangduan and Chairman Mr. Ding Yi, with Ms. Yang Yada as Chairman of the Committee. The major duties of the Committee are:

  - To regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for Directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes;

  - To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board;

  - To seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and makes recommendations to the Board in this regard;

  - To examine the independence of Independent Directors;

  - To make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

  In 2015, the Nomination Committee held three meetings. Except Mr. Qin Tongzhou failed to attend the meeting on August 25, 2015 for other business reasons, all other committee members presented each meeting in person. The meetings were chaired by Ms. Yang Yada. Agenda of the meeting was as follows: 1. Reviewed the Nomination Committee's Report on Discharge of Duties for 2014; 2. Appointed Hu Shunliang as Secretary of the Board; 3. Reviewed Deputy General Manager Candidates nominated by General Manager for appointment by the Board of Directors.

  The procedures for convening and holding all the meetings of the Committee as well as the voting and resolutions made thereat were in compliance with the requirements of relevant laws and regulations, the Articles of Association and the Work Rules of the Nomination Committee of the Board of Directors. All members of the Committee faithfully fulfilled the obligation of confidentiality in accordance with the relevant rules towards the matters discussed at the meetings of the Committee without any unauthorized disclosure of relevant information.

- **Strategic Development Committee**

The Strategic Development Committee of the eighth session of board of directors of the Company consists of Chairmen Mr. Ding Yi, and independent directors Mr. Qin Tongzhou, Mrs. Yang Yada and Mr. Liu Fangduan, and is chaired by Mr. Ding Yi. The Committee mainly has the following duties:

- Research and make suggestions on long-term development strategy and important investment decisions of the Company;
- Research and make suggestions on long- and medium-term planning for strategic development of the Company;
- Monitor the implementation of strategic development plan of the Company and report any significant deviation from the development strategy to the Board of Directors;
- Research material changes in economic situation, industrial policies, technological advances, industry conditions, and force majeure, and make suggestions to the Company as to adjustments to its development strategy;
- Research and make suggestions on other material issues affecting development of the Company;
- Other duties granted by the Board of Directors.

In 2015, the Strategic Committee of the Board of Directors totally held one meeting, with all committee members attending in person, hearing reports about the Company's preparation work for "13th Five Year Plan".

All convening procedures of meetings held by the Strategic Committee complied with relevant laws, regulations, Articles of Association and Code of Practice of the Strategic Committee of the Board of Directors. All committee members truthfully performed their duty of confidentiality for reports heard in the meeting according to relevant regulations; no unauthorized disclosure of related information happened.

- **Auditors' Remuneration**

During the year, Ernst & Young Hua Ming LLP was appointed as the auditors of the Company and had issued audit report on the attached financial statements prepared under the PRC Accounting Standards and internal control audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB4,985,000, including annual audit fee (exclusive of taxes) of RMB4,400,000 (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on interim financial statements of RMB585,000 (exclusive of taxes). The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

As at 31 December 2015, Ernst & Young Hua Ming LLP has provided auditing services to the Group for 22 consecutive years. Ms. An Xiuyan and Ms. Chen Yan were the certified public accountants who have signed the Company's 2015 auditors' reports. Ms. An Xiuyan has provided auditing services to the Company for the first time, while Ms. Chen Yan provided auditing services to the Company for two consecutive years.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit, with tax service fees of RMB32,000.

- **Communication with Shareholders**

Effective communication

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encouraging them to attend the shareholders' general meetings. During the reporting period, the Company stated clearly in the 2014 annual general meeting notice and 2015 first, second and third extraordinary general meeting notices that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings.

During the reporting period, the Chairman attended the four shareholders' general meetings in person and served as the chairman of the meetings. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter.

Voting by poll

The Company states clearly in the Articles of Association that the voting at shareholders' general meetings shall be conducted by poll. Shareholders (including proxies) exercise their voting rights according to the number of shares with voting rights they represent and each share is entitled to the right of one vote. According to the results of voting by poll, the chairman of the meeting shall announce the approval of the proposed resolution at the meeting and shall record such items in the meeting minutes as the final proof. If the chairman of the meeting has any doubts on the resolutions submitted for approval, he/she may conduct a count of votes. If the chairman of the meeting does not conduct a count of votes, attended shareholders or proxies who disagree with the results announced by the chairman of the meeting are entitled to request a count of votes immediately after the announcement of voting results. The chairman of the meeting shall immediately conduct a count of votes. If a count of votes takes place at a shareholders' general meeting, the vote-counting results shall be recorded in the meeting minutes.

The minutes of the meeting, together with the signed shareholder attendance book and the proxy forms of proxies attending the meeting shall be kept in the premises of the Company. Shareholders may view copies of the shareholders' general meeting minutes for free during office hours. If any shareholder requests the Company for copies of the relevant meeting minutes, the Company can send such copies within seven days upon receiving the relevant reasonable fees.

- **Separation of the Company and controlling shareholders in personnel, assets, finance, organization and business:**

  (a) With respect to personnel, the Company's production, technical, financial and sales personnel are independent of controlling shareholders; general manager, deputy general manager and other senior managers are paid by the Company.

  (b) With respect to assets, the Company has its separate production system, auxiliary system and supporting facilities and has separate industry property, trademark and non-patented technologies; purchasing and sales systems are also independently owned by the Company.

  (c) With respect to finance, the Company has an independent financial department, and has established independent accounting system and comprehensive financial management system.

  (d) With respect to organization, the Company has established sound organization system; the board of directors and the board of supervisors operate separately, while other internal organizations and functional departments of controlling shareholders have subordination relationships.

  (e) With respect to business, the Company has independent and complete business operation and independent management ability; controlling shareholders haven't carried out and can't carry out horizontal competition.

- **Other provisions as set out in the Code apart from the above**

During the reporting period, the Company's Directors acknowledged their responsibilities for preparing the Company's accounts. Ernst & Young Hua Ming, the auditors, made a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young Hua Ming has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2015. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2014 annual general meeting held on 16 June 2015.

In order to regulate the Company's management on people with access to insider information, the fifteenth meeting of the sixth session of the Board considered and approved the "Registration and Management System for People with Access to the Company's Insider Information" on 8 June 2010. The eighth meeting of the seventh session of the Board approved amendment on the System on 9 February 2012. During the reporting period, as far as the Board was aware of, the Company did not discover any trading in the Company's shares by insiders using insider information before the Company disclosed any material price-sensitive information; nor was there any investigation or rectification carried out by the regulatory departments. As such, the above-mentioned system was executed effectively.

Whether significant variance exists between the company management and relevant requirements of CSRC; if so, reasons should be given.

No significant variance exists between the company management and relevant requirements of CSRC.

8.2 SHAREHOLDERS' GENERAL MEETING

Session of meeting	Date of meeting	Specified website for publishing resolutions	Publishing date of resolution
The First Extraordinary General Meeting of Shareholders in 2015	3 February 2015	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-02-03/600808_20150204_1.pdf	4 February 2015
2014 Annual General Meeting	16 June 2015	http://www.sse.com.cn/assortment/stock/list/info/announcement/index.shtml?productId=600808	17 June 2015
The Second Extraordinary General Meeting of Shareholders in 2015	10 September 2015	http://www.sse.com.cn/assortment/stock/list/info/announcement/index.shtml?productId=600808	11 September 2015
The Third Extraordinary General Meeting of Shareholders in 2015	18 November 2015	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-11-19/600808_20151119_1.pdf	19 November 2015

8.3 PERFORMANCE OF DIRECTORS

Attendance of Directors in the Board Meetings and Shareholders' General Meeting

Name of Director	Independent Director	Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	In the General Meetings Attendance
Ding Yi	No	13	13	2	0	0	No	4
Qian Haifan	No	13	12	2	1	0	No	4
Su Shihuai	No	13	10	2	3	0	No	3
Ren Tianbao	No	13	11	2	2	0	No	2
Qin Tongzhou	Yes	13	12	2	1	0	No	3
Yang Yada	Yes	13	13	2	0	0	No	2
Liu Fangduan	Yes	13	11	2	2	0	No	3

Explanation for two successive failures to attend board meetings in person

Mr. Su Shihuai, a Director, for other business reasons, failed to attend in person the board meetings held on 3 February 2015 and 25 March 2015, but entrusted the Chairman, Mr. Ding Yi to exercise his right to vote.

No. of The Board Meeting	13
of which: convented on-site	7
Convented by way of correspondence	2
Convented by way of combination of on-site and correspondence	4

8.4 IF ANY OBJECTIONS EXIST IN THE SIGNIFICANT COMMENTS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEE UNDER THE BOARD OF DIRECTORS WHILE PERFORMING THE RESPONSIBILITY WITHIN THE REPORTING PERIOD, SPECIFIC CIRCUMSTANCE SHALL BE DISCLOSED.

The Special Committee under the board of directors worked diligently and responsibly and has raised many comments and suggestions concerning such perspectives as risk management, construction of internal control system, connected transactions within the reporting period.

The Special Committee under the board of directors has no objection toward matters under deliberation within the reporting period.

8.5 SUPERVISORY COMMITTEE'S EXPLANATION ON IDENTIFICATION OF RISKS IN THE COMPANY

The Supervisory Committee did not have any objection to the matters under supervision during the reporting period.

8.6 WHETHER TO DISCLOSE INTERNAL CONTROL SELF-ASSESSMENT

Report on Internal Control Assessment of the Company in 2015 has been discussed and approved by Nineteenth Session of the Eighth Board of Directors of the Company on March 30, 2016, confirming that the Company's internal control in 2015 is effective. Search the following websites for report on internal control assessment: www.sse.com.cn and www.hkex.com.hk.

8.7 PRESENTATION OF RELEVANT CONDITIONS CONCERNING THE AUDITING REPORT ON INTERNAL CONTROL

Ernst & Young (Limited Liability Partnership) audited the effectiveness of relevant internal control in the Company's financial report as of December 31, 2015 and issued auditing report on internal control without reservation. Search the follow websites for auditing report on internal control: www.sse.com.cn, www.hkex.com.hk.

Whether to disclose auditing report on internal control: Yes

IX. Corporation Bonds

1. BASIC CONDITIONS ABOUT CORPORATION BONDS

Unit: RMB100 million

Name of Bond	Abbreviation	Code	Date of Issue	Due Date	Balance of Bond	Interest Rate	Method of Debt Service	Transaction Place
Corporation bond of Maanshan Iron & Steel Company Limited in the year of 2011	Ma Steel No. 2 in 2011	122090	25 August 2011	25 August 2016	23.40	Nominal interest rate is 5.74%, with simple interest calculated per year and no compound interest.	Pay interest per year; repay principal at a time upon expiration; pay interest of final period along with the principal.	Shanghai Stock Exchange

2. TRUSTEE'S NAME AND CONTACT INFORMATION OF CORPORATION BONDS AND CONTACT INFORMATION OF CREDIT RATING AGENCY

Trustee of corporation bonds	Name	CITIC Securities Company Limited
	Office Address	CITIC Securities Tower, No.48 Liangmaqiao Road, Chaoyang District, Beijing
	Contact	Song Yilan, Shu Xiang
	Tel	010-60833522
Credit rating agency	Name	China Chengxin Security Rating Co., Ltd
	Office Address	8/F, Anji Plaza, No.760 South Xizang Road, Shanghai

3. SERVICE CONDITION OF THE RAISED FUNDS FROM THE ISSUANCE OF CORPORATION BONDS

Proceeds raised from the issuance of corporation bonds in the current period were fully used as stipulated in the Prospectus.

4. SITUATIONS OF CREDIT RATING AGENCY OF CORPORATION BONDS

China Chengxin Security Rating Co., Ltd makes new track ratings about the Company and its corporation bonds according to situations in the reporting period within two months after announcement of this report and the rating results will be disclosed on the website of Shanghai Stock Exchange (www.sse.com.cn). Please pay attention.

5. THE COMPANY'S BOND CREDIT ENHANCEMENT MECHANISM, DEBT PAYMENT PLAN AND OTHER RELEVANT CONDITIONS IN THE REPORTING PERIOD

In the reporting period, no alteration and modification happened to the Company's bond credit enhancement mechanism, debt payment plan and other safeguard measure. The bond was given guarantee by Magang (Group) Holding Company Limited; the financial indicators at the end of the reporting period are as follows (unaudited):

1. Net Assets Volume: RMB26.789 billion

2. Asset-liability ratio: 67.44%

3. Return on equity: -21.03%

4. Liquidity ratio: 0.68

5. Quick ratio: 0.44

6. Be in good credit standing, with the latest rating of China Chengxin Security Rating Co., Ltd AA+; outlook for rating: stable

7. Accumulative balance of the Company's outside guarantee: 5.74 billion.

8. The proportion of accumulative balance of the Company's outside guarantee to Net Assets Volume: 21.42%.

9. Other prime assets: Other prime assets except the stock equity of issuer are owned by Ma Steel (Group) Mining Industry Co., Ltd., Ma Steel Engineering & Technology Group and others, without seriously unfavorable changes and circumstance that over 5% of the total assets are ownership-restricted.

6. IN THE REPORTING PERIOD, NO MEETINGS WERE HELD BY CORPORATE BONDS HOLDER.

7. PERFORMANCE DUTY OF CORPORATE BONDS TRUSTEE

In April 2015, CITIC Securities Co., Ltd. announced the Reports (in the year of 2014) of Corporation Bonds Trustee of Maanshan Iron & Steel Company Limited in 2011 and disclosed it on the website of Shanghai Stock Exchange (www.sse.com.cn). Please pay attention.

8. THE COMPANY'S ACCOUNTING DATA AND FINANCIAL INDICATORS IN RECENT TWO YEARS BY THE END OF REPORT PERIOD

Unit: RMB

Main Indicators	2015	2014	Increase/decrease compared to the previous year (%)
Profits before interest, tax depreciation and amortization (EBITDA)	**–188,300,314**	5,530,862,388	–103.40
Net cash generated from investment activities	**–3,621,073,001**	1,326,246,882	–373.03
Net cash generated from financing activities	**–1,554,872,283**	–3,344,296,078	–53.51
Closing balance of cash and cash equivalents	**3,546,410,358**	2,709,836,299	30.87
Liquidity ratio	**0.68**	0.76	–10.53
Quick ratio	**0.48**	0.50	–4.00
Gearing ratio	**67%**	62%	Increased by five percentage points
Total debt to EBITDA ratio	**–0.01**	0.13	–107.69
Interest protection multiple	**–3.43**	1.34	–355.97
Cash coverage ratio	**233**	122	90.98
EBITDA-to-interest coverage ratio	**–0.19**	4.49	–104.23
Debt service coverage ratio	**99%**	99%	0
Interest coverage ratio	**100%**	100%	0

The net cash outflow generated from investment activities was RMB3,621,073,001, representing an increase of 373% from the previous year mainly due to the receipt of payment for disposal of non-steel business assets and the compensation to Hefei Co. for land purchase reserve in previous year, as well as the investment in financial products by Masteel Financial in the reporting period.

The net cash outflow generated from financing activities was RMB1,554,872,283, representing a decrease of 54% from the previous year, mainly due to the decline in bank loans and bonds due in 2015 from the previous year.

EBITDA, total debt to EBITDA ratio, interest protection multiple and EBITDA-to-interest coverage ratio dropped when compared with the previous year primarily due to the operating losses of the Company in the current year.

Both of the ending balance of cash and cash equivalents and cash coverage ratio increased when compared with the previous year, mainly attributable to increased net cash inflow from operating activities in the current year.

9. CORPORATE ASSETS AT THE END OF THE REPORTING PERIOD

In 2015, the restricted monetary fund of the Company amounted to RMB1,596.3 million, mainly including RMB390.94 million deposited by the finance company in the Central Bank, USD1 million equivalent to RMB6.49 million deposited as mortgage for opening a credit, and RMB1,198.86 million as margin.

10. INTEREST PAYMENT AND ENCASHMENT OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

On August 26, 2015, RMB5 billion short-term financing bonds became due and were cashed, the interest in the holding period was paid on time, and the interest of other debt financing instruments in the reporting period was cashed on time.

11. BANK CREDIT OF THE COMPANY IN THE REPORTING PERIOD

Bank loans were repaid capital and interest on time in the reporting period. At the end of 2015, the Company obtained the bank credit totally amounted to RMB43.59 billion, with RMB23.35 billion used.

12. EXECUTION OF RELEVANT CONTRACTS OR COMMITMENTS IN THE BOND PROSPECTUS WITHIN THE REPORTING PERIOD

The Company has executed relevant contracts and commitments in the bond prospectus within the reporting period, without adverse effect on the interests of bond investors.

13. MAJOR MATTERS OCCURRED AND THEIR EFFECTS ON THE COMPANY'S BUSINESS CONDITION AND SOLVENCY

No major matter listed in Article 45 in Administrative Measures for Corporate Bond Issuing and Trading occurred within the reporting period.

X. 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 the Hong Kong Companies Ordinance.

Independent Auditors' Report

EY 安永

Ernst & Young Hua Ming (2016) Shen Zi No. 60438514_A01

To the shareholders of Maanshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited, which are comprised of the consolidated and company statements of financial position as at 31 December 2015, and the consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; and (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China (Mainland) Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (Continued)

3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP

An Xiu Yan
Chinese Certified Public Accountant

Chen Yan
Chinese Certified Public Accountant

Beijing, the People's Republic of China

30 March 2016

Consolidated Statement of Financial Position

31 December 2015
Renminbi Yuan

ASSETS	Note V	31 December 2015	31 December 2014
CURRENT ASSETS			
Cash and bank balances	1	**5,142,711,482**	4,654,551,519
Financial assets at fair value through profit or loss	2	**1,005,271,054**	1,073,490
Bills receivable	3	**4,689,129,290**	8,483,607,113
Trade receivables	4	**796,986,661**	856,559,860
Interest receivable		**1,600,176**	1,898,994
Prepayments	5	**634,407,421**	648,963,073
Other receivables	6	**190,348,070**	255,577,937
Inventories	7	**6,018,495,505**	8,684,293,285
Loans and advances to customers	8	**732,913,869**	633,203,277
Other current assets	9	**948,518,258**	665,474,438
Total current assets		**20,160,381,786**	24,885,202,986
NON-CURRENT ASSETS			
Available-for-sale financial investments	10	**128,934,410**	126,772,160
Long term equity investments	11	**1,029,853,507**	1,089,585,013
Investment properties	12	**62,356,583**	62,904,210
Property, plant and equipment	13	**34,605,411,096**	37,041,356,860
Construction in progress	14	**4,245,762,868**	2,831,050,182
Intangible assets	15	**1,891,358,160**	1,826,460,576
Deferred tax assets	16	**330,407,545**	647,842,823
Total non-current assets		**42,294,084,169**	43,625,971,824
TOTAL ASSETS		**62,454,465,955**	68,511,174,810

Consolidated Statement of Financial Position (Continued)

31 December 2015
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**31 December 2015**	31 December 2014
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	18	**–**	500,000,000
Customer deposits	19	**1,901,390,488**	1,199,618,850
Short term loans	20	**6,791,359,472**	12,058,394,894
Bills payable	21	**5,343,906,398**	4,802,906,077
Accounts payable	22	**6,144,664,281**	6,679,288,444
Advances from customers	23	**2,602,554,258**	3,701,440,863
Payroll and employee benefits payable	24	**274,614,723**	299,077,212
Taxes payable	25	**149,898,321**	236,783,996
Interest payable	26	**150,829,308**	146,625,806
Dividends payable	27	**6,525,534**	7,210,819
Other payables	28	**1,258,463,513**	827,419,110
Non-current liabilities due within one year	29	**5,084,859,415**	2,231,683,000
Accrued liabilities	30	**22,232,713**	14,100,985
Total current liabilities		**29,731,298,424**	32,704,550,056
NON-CURRENT LIABILITIES			
Long term loans	31	**6,655,171,584**	6,339,132,454
Bonds payable	32	**3,979,666,667**	2,332,666,298
Deferred income	33	**1,285,164,299**	1,186,358,849
Long-term employee benefits payable	24	**28,857,389**	25,877,746
Deferred tax liabilities	16	**32,704,732**	33,191,420
Total non-current liabilities		**11,981,564,671**	9,917,226,767
Total liabilities		**41,712,863,095**	42,621,776,823

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**31 December 2015**	31 December 2014
SHAREHOLDERS' EQUITY			
Share capital	34	**7,700,681,186**	7,700,681,186
Capital reserve	35	**8,329,067,663**	8,329,067,663
Other comprehensive income	36	**(165,450,551)**	(137,159,480)
Special reserve	37	**14,374,213**	21,511,442
Surplus reserve	38	**3,843,231,617**	3,831,458,700
General reserve		**102,539,024**	98,706,649
(Accumulated loss)/Retained profits	39	**(1,368,605,137)**	3,451,299,829
Equity attributable to owners of the parent company		**18,455,838,015**	23,295,565,989
Non-controlling interests		**2,285,764,845**	2,593,831,998
Total shareholders' equity		**20,741,602,860**	25,889,397,987
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**62,454,465,955**	68,511,174,810

The financial statements are authorized by the following persons:

Legal Representative:	Chief Accountant:	Head of Accounting:
Ding Yi	**Qian Haifan**	**Xing Qunli**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015
Renminbi Yuan

	Note V	2015	2014
Revenue	40	**45,108,926,739**	59,820,938,286
Less: Cost of sales	40,49	**45,488,440,552**	55,840,222,612
Business taxes and surcharges	41	**201,228,046**	235,299,998
Selling expenses	42,49	**635,859,844**	512,505,919
General and administrative expenses	43,49	**1,538,609,887**	1,310,839,451
Financial expenses	44	**813,036,439**	1,243,663,019
Impairment losses	45	**1,619,389,979**	770,488,879
Add: Gain on the changes in fair value		**819,265**	564,160
Investment income	46	**93,725,198**	149,598,960
including: share of profit from associates and joint ventures		**75,538,213**	136,512,001
Operating (loss)/profit		**(5,093,093,545)**	58,081,528
Add: Non-operating income	47	**384,059,748**	540,901,409
including: gain on disposal of non-current assets		**35,444,537**	1,915,776
Less: Non-operating expenses	48	**17,538,205**	86,866,543
including: loss on disposal of non-current assets		**2,478,667**	84,095,373
(Loss)/profit before tax	49	**(4,726,572,002)**	512,116,394
Less: Income tax expense	50	**377,912,379**	248,068,879
Net (loss)/profit		**(5,104,484,381)**	264,047,515
Net (loss)/profit attributable to:			
Owners of the parent company		**(4,804,299,674)**	220,616,025
Non-controlling interests		**(300,184,707)**	43,431,490

	Note V	2015	2014
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	36	**(28,291,071)**	(64,951,421)
Total other comprehensive income attributable to non-controlling interests, net of tax		**1,725,489**	(857,819)
Total comprehensive income		**(5,131,049,963)**	198,238,275
Total comprehensive income attributable to:			
Owners of the parent company		**(4,832,590,745)**	155,664,604
Non-controlling interests		**(298,459,218)**	42,573,671
EARNINGS PER SHARE:			
Basic	51	**(62.39) cents**	2.86 cents
Diluted	51	**(62.39) cents**	2.86 cents

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

Renminbi Yuan

	Attributable to owners of the parent									
	Share capital (Note V 34)	Capital reserve (Note V 35)	Other comprehensive income (Note V 36)	Special reserve (Note V 37)	Surplus reserve (Note V 38)	General reserve	(Accumulated loss)/Retained profits (Note V 39)	Sub-total	Non-controlling interests	Total shareholders' equity
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	-	-	(28,291,071)	-	-	-	(4,804,299,674)	(4,832,590,745)	(298,459,218)	(5,130,049,963)
2) Capital contribution and withdrawal										
(i) Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	4,950,000	4,950,000
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	11,772,917	-	(11,772,917)	-	-	-
(ii) Transfer to general risk reserve	-	-	-	-	-	3,832,375	(3,832,375)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-		(11,447,163)	(11,447,163)
4) Special reserve										
(i) Additions	-	-	-	86,927,211	-	-	-	86,927,211	5,343,580	92,270,791
(ii) Utilization	-	-	-	(89,739,688)	-	-	-	(89,739,688)	(8,454,352)	(98,194,040)
(iii) Changes in the share of associates and JV's special reserve, net	-	-	-	(4,324,752)	-	-	-	(4,324,752)	-	(4,324,752)
3. At 31 December 2015	7,700,681,186	8,329,067,663	(165,450,551)	14,374,213	3,843,231,617	102,539,024	(1,368,605,137)	18,455,838,015	2,285,764,845	20,741,602,860

	Attributable to owners of the parent									
	Share capital (Note V 34)	Capital reserve (Note V 35)	Other comprehensive income (Note V 36)	Special reserve (Note V 37)	Surplus reserve (Note V 38)	General reserve	Retained profits (Note V 39)	Sub-total	Non-controlling interests	Total shareholders' equity
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	–	–	(64,951,421)	–	–	–	220,616,025	155,664,604	42,573,671	198,238,275
2) Capital contribution and withdrawal										
(i) Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	12,955,267	12,955,267
3) Profits appropriation										
(i) Transfer to surplus reserve	–	–	–	–	41,722,936	–	(41,722,936)	–	–	–
(ii) Distribution to shareholders	–	–	–	–	–	–	–	–	(29,286,757)	(29,286,757)
4) Special reserve										
(i) Additions	–	–	–	190,629,467	–	–	–	190,629,467	–	190,629,467
(ii) Utilization	–	–	–	(184,981,270)	–	–	–	(184,981,270)	–	(184,981,270)
(iii) Changes in the share of associates and JV's special reserve, net	–	–	–	2,807,567	–	–	–	2,807,567	–	2,807,567
3. At 31 December 2014	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

Consolidated Statement of Cash Flows

Year ended 31 December 2015
Renminbi Yuan

	Note V	2015	2014
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		**57,397,210,097**	71,987,144,817
Tax refunds received		**232,132,582**	68,339,480
Net decrease in deposits in central bank		**472,181,056**	61,932,358
Net increase in customer deposits and deposits from banks		**201,771,638**	309,008,992
Cash received for interest charges, fees and commissions		**86,197,602**	191,073,156
Cash received relating to other operating activities	52	**29,297,279**	51,231,771
Sub-total of cash inflows		**58,418,790,254**	72,668,730,574
Cash paid for purchase of goods and services		**(46,085,246,212)**	(62,284,727,884)
Decrease in repurchase agreements of financial assets		**–**	(344,732,675)
Increase in loans and advances to customers		**(99,710,592)**	(154,133,779)
Cash paid to or on behalf of employees		**(3,901,087,465)**	(4,418,965,256)
Taxes and surcharges paid		**(2,021,090,985)**	(2,111,753,212)
Cash paid for interest charges, fees and commissions		**(25,489,812)**	(25,203,501)
Cash paid relating to other operating activities	52	**(420,833,135)**	(416,360,438)
Sub-total of cash outflows		**(52,553,458,201)**	(69,755,876,745)
Net cash flows from operating activities	53(1)	**5,865,332,053**	2,912,853,829
2. Cash flows from investing activities			
Cash received from disposal of investments		**4,301,307,391**	–
Cash received from investment income		**243,447,481**	247,240,780
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		**22,510,647**	1,628,518,176
Decrease in restricted cash		**–**	1,285,552,366
Cash received relating to other investing activities	52	**186,448,184**	989,765,127
Sub-total of cash inflows		**4,753,713,703**	4,151,076,449

	Note V	2015	2014
2. Cash flows from investing activities *(Continued)*			
Purchase of property, plant and equipment, intangible assets and other non-current assets		**(2,772,760,636)**	(2,599,448,741)
Cash paid for investments		**(5,405,067,580)**	(105,244,733)
Acquisition of a subsidiary and other operating units	53(2)	**(73,191,528)**	(108,774,997)
Increase in restricted cash		**(123,766,960)**	–
Cash paid relating to other investing activities		**–**	(11,361,096)
Sub-total of cash outflows		**(8,374,786,704)**	(2,824,829,567)
Net cash flows (used in)/from investing activities		**(3,621,073,001)**	1,326,246,882
3. Cash flows from financing activities			
Drawdown of loans		**13,721,926,562**	20,526,622,204
Proceeds from issuance of bonds, net of issuance costs		**3,976,000,000**	–
Cash received from investors		**4,950,000**	30,000,000
Including: Capital injection from non-controlling interests		**4,950,000**	30,000,000
Sub-total of cash inflows		**17,702,876,562**	20,556,622,204
Repayment of borrowings		**(18,176,630,777)**	(22,500,139,926)
Cash paid for distribution of dividends or profits and for interest expenses		**(1,081,118,068)**	(1,400,778,356)
Including: dividends paid to non-controlling interests by subsidiaries		**(11,447,163)**	(74,345,750)
Sub-total of cash outflows		**(19,257,748,845)**	(23,900,918,282)
Net cash flows used in financing activities		**(1,554,872,283)**	(3,344,296,078)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**147,187,290**	513,541
5. Net increase in cash and cash equivalents		**836,574,059**	895,318,174
Add: cash and cash equivalents at the beginning of the year		**2,709,836,299**	1,814,518,125
6. Cash and cash equivalents at the end of the year	53(3)	**3,546,410,358**	2,709,836,299

Statement of Financial Position

31 December 2015
Renminbi Yuan

ASSETS	Note XIV	**31 December 2015**	31 December 2014
CURRENT ASSETS			
Cash and bank balances		**4,531,034,025**	5,033,512,998
Financial assets measured at fair value through profit or loss		**3,145,560**	1,073,490
Bills receivable		**3,751,615,186**	6,168,408,389
Trade receivables	1	**1,563,775,000**	1,301,307,701
Dividends receivable		**7,225,723**	7,225,723
Prepayments		**371,248,500**	408,746,555
Other receivables	2	**246,097,801**	161,823,003
Inventories	3	**4,348,287,858**	6,084,558,454
Other current assets		**557,052,098**	346,438,700
Total current assets		**15,379,481,751**	19,513,095,013
NON-CURRENT ASSETS			
Available-for-sale financial investments		**126,722,160**	126,772,160
Long term equity investments	4	**6,830,479,397**	6,542,246,491
Investment properties		**75,681,866**	77,745,472
Property, plant and equipment		**25,954,686,393**	27,894,663,311
Construction in progress		**4,025,657,145**	2,725,983,735
Intangible assets		**971,003,316**	1,003,515,704
Deferred tax assets		**314,216,637**	583,517,420
Total non-current assets		**38,298,446,914**	38,954,444,293
TOTAL ASSETS		**53,677,928,665**	58,467,539,306

LIABILITIES AND SHAREHOLDERS' EQUITY	**31 December 2015**	31 December 2014
CURRENT LIABILITIES		
Short term loans	**831,000,000**	5,350,000,000
Bills payable	**3,981,623,516**	3,281,609,644
Accounts payable	**8,853,140,561**	10,496,946,152
Advances from customers	**2,132,448,152**	3,158,414,180
Payroll and employee benefits payable	**180,534,218**	186,884,642
Taxes payable	**50,206,106**	80,187,544
Interest payable	**147,852,499**	146,840,022
Dividends payable	**6,525,534**	6,407,961
Other payables	**1,001,923,405**	556,182,231
Non-current liabilities due within one year	**5,084,859,415**	2,180,683,000
Total current liabilities	**22,270,113,406**	25,444,155,376
NON-CURRENT LIABILITIES		
Long term loans	**9,289,847,408**	8,471,764,660
Bonds payable	**3,979,666,667**	2,332,666,298
Deferred income	**596,438,001**	500,208,915
Total non-current liabilities	**13,865,952,076**	11,304,639,873
Total liabilities	**36,136,065,482**	36,748,795,249
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,338,358,399**	8,338,358,399
Special reserve	**(1,517,185)**	2,807,567
Surplus reserve	**2,993,175,001**	2,993,175,001
(Accumulated loss)/Retained profits	**(1,488,834,218)**	2,683,721,904
Total shareholders' equity	**17,541,863,183**	21,718,744,057
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**53,677,928,665**	58,467,539,306

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015
Renminbi Yuan

	Note XIV	2015	2014
Revenue	6	**37,512,900,449**	51,283,769,806
Less: Cost of sales	6	**38,253,678,839**	48,445,542,832
Business taxes and surcharges		**133,209,086**	173,389,039
Selling expenses		**353,703,599**	278,512,914
General and Administrative expenses		**1,082,550,309**	926,657,507
Financial expenses		**791,940,217**	952,163,510
Impairment losses	7	**1,239,846,141**	705,527,220
Add: (Loss)/gain on the changes in fair value		**(538,440)**	564,160
Investment income	8	**193,417,900**	205,063,466
Including: share of profits from associates and joint ventures		**75,219,006**	138,150,343
Operating (loss)/profit		**(4,149,148,282)**	7,604,410
Add: Non-operating income		**246,820,355**	155,646,691
Including: gain on disposal of non-current assets		**34,997,590**	1,906,614
Less: Non-operating expenses		**927,412**	1,222,452
Including: loss on disposal of non-current assets		**–**	–
(Loss)/profit before tax		**(3,903,255,339)**	162,028,649
Less: Income tax expense		**269,300,783**	140,450,042
Net (loss)/profit		**(4,172,556,122)**	21,578,607
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**(4,172,556,122)**	21,578,607

Statement of Changes in Equity

Year ended 31 December 2015
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	(Accumulated loss)/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 year						
1) Total comprehensive income	–	–	–	–	**(4,172,556,122)**	**(4,172,556,122)**
2) Profits appropriation						
(i) Transfer to surplus reserves	–	–	–	–	–	–
3) Special reserve						
(i) Additions	–	–	**75,031,697**	–	–	**75,031,697**
(ii) Utilization	–	–	**(75,031,697)**	–	–	**(75,031,697)**
(iii) Changes in the share of associates and JV's special reserve, net	–	–	**(4,324,752)**	–	–	**(4,324,752)**
3. At 31 December 2015	**7,700,681,186**	**8,338,358,399**	**(1,517,185)**	**2,993,175,001**	**(1,488,834,218)**	**17,541,863,183**

Statement of Changes in Equity (Continued)

Year ended 31 December 2015
Renminbi Yuan

	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 year						
1) Total comprehensive income	–	–	–	–	21,578,607	21,578,607
2) Profits appropriation						
(i) Transfer to surplus reserves	–	–	–	2,157,861	(2,157,861)	–
3) Special reserve						
(i) Additions	–	–	154,320,281	–	–	154,320,281
(ii) Utilization	–	–	(154,320,281)	–	–	(154,320,281)
(iii) Changes in the share of associates and JV's special reserve, net	–	–	2,807,567	–	–	2,807,567
3. At 31 December 2014	7,700,681,186	8,338,358,399	2,807,567	2,993,175,001	2,683,721,904	21,718,744,057

Statement of Cash Flows

Year ended 31 December 2015
Renminbi Yuan

	Note XIV	**2015**	2014
1. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**43,398,475,877**	57,343,256,251
Tax refunds received		**131,417,800**	41,097,300
Cash received relating to other operating activities		**9,477,342**	14,342,905
Sub-total of cash inflows		**43,539,371,019**	57,398,696,456
Cash paid for purchase of goods and services		**(37,127,742,995)**	(47,875,128,641)
Cash paid to or on behalf of employees		**(3,086,960,000)**	(3,492,786,823)
Taxes and surcharges paid		**(1,581,230,486)**	(1,529,469,714)
Cash paid relating to other operating activities		**(133,716,328)**	(387,662,275)
Sub-total of cash outflows		**(41,929,649,809)**	(53,285,047,453)
Net cash flows from operating activities	9	**1,609,721,210**	4,113,649,003
2. Cash flows from investing activities			
Cash received from disposal of investments		**1,075,180**	–
Cash received from investment income		**318,442,126**	350,205,470
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		**11,833,545**	1,605,230,740
Cash received relating to other investing activities		**167,466,584**	16,331,000
Sub-total of cash inflows		**498,817,435**	1,971,767,210
Purchase of property, plant and equipment, intangible assets and other non-current assets		**(2,338,221,784)**	(1,381,892,573)
Cash paid for investments		**(104,067,580)**	(105,244,733)
Acquisition of a subsidiary and other operating units		**(180,141,000)**	(476,695,298)
Increase in restricted cash		**(279,454,275)**	(226,235,702)
Cash paid relating to other investing activities		**–**	(11,361,096)
Sub-total of cash outflows		**(2,901,884,639)**	(2,201,429,402)
Net cash flows used in investing activities		**(2,403,067,204)**	(229,662,192)

Statement of Cash Flows (Continued)

Year ended 31 December 2015
Renminbi Yuan

	Note XIV	**2015**	2014
3. Cash flows from financing activities			
Proceeds from issuance of bonds, net of issuance costs		**3,976,000,000**	–
Cash received from borrowings		**9,974,252,000**	13,266,379,464
Sub-total of cash inflows		**13,950,252,000**	13,266,379,464
Repayments of borrowings		**(13,139,229,300)**	(15,532,900,085)
Cash paid for distribution of dividend or profits and for interest expenses		**(966,296,684)**	(1,043,851,868)
Sub-total of cash outflows		**(14,105,525,984)**	(16,576,751,953)
Net cash flows used in financing activities		**(155,273,984)**	(3,310,372,489)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**166,686,730**	1,307,017
5. Net decrease in cash and cash equivalents		**(781,933,248)**	574,921,339
Add: Cash and cash equivalents at beginning of year		**4,807,119,543**	4,232,198,204
6. Cash and cash equivalents at end of year		**4,025,186,295**	4,807,119,543

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 Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As at 31 December 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.34 to the financial statements.

The Company together with its subsidiaries (collectively known as the "Group") is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The 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 30 March 2016. According to the Articles of Association of the Company, the financial statements will be submitted to shareholders for approval at a shareholders' meeting.

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.

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").

The consolidated financial statements are prepared on going concern basis.

As at 31 December 2015, the net current liabilities of the Group were RMB 9,570,916,638. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking credit quota of RMB27.0 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 continues to prepare the Group's financial statements for the year ended as at 31 December 2015 on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value. Provision for asset impairment is provided in accordance with related regulations when indications of impairment of assets are identified and the recoverable amount is less the carrying amount of the assets.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to bad debt provision of accounts receivable and inventory provision.

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 31 December 2015, and the results of their operations and their cash flows for the year then ended.

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 consolidate 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.

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

4. BUSINESS COMBINATION *(CONTINUED)*

Business combination involving entities under common control *(Continued)*

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.

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 profit or loss any excess remaining after reassessment.

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 year ended 31 December 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).

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 recognized as an equity transaction.

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

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 recognizes 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.

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 recognized 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 recognized in profit or loss or other comprehensive income.

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION *(CONTINUED)*

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 recognized 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 profit or loss in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to profit or loss.

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.

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Recognition and derecognition of financial instruments *(Continued)*

A financial liability is derecognized 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 recognize the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognized in profit or loss.

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

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 recognized 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 recognized 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 recognized in profit or loss.

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)

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

(1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of the relevant gains or losses arising from the different measurement bases of financial instruments.

(2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed evaluated and reported to key management personnel on the basis of fair value.

(3) Hybrid instruments which contain one or more embedded derivatives, unless the embedded derivatives does not have a substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from the relevant hybrid instruments.

(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 products issued by banks.

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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.

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial liabilities

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

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.

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial guarantee contracts

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

Impairment of financial assets

The Group assesses the carrying amount of a financial asset at 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.

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 recognized 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.

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortized cost (Continued)

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognized 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 recognized 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 recognized, the previously recognized impairment loss is reversed and recognized 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 recognized at the reversal date.

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 recognized in profit or loss, is removed from other comprehensive income and recognized 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 profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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.

Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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.

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the assets; it shall derecognize the financial assets. Whereas, if it retains substantially all the risks and rewards of ownership of the assets, it should not derecognize 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 derecognize the financial asset and recognize the related assets and liabilities incurred; if the control over the financial asset has not been lost, the Group recognizes the financial asset to the extent of its continuing involvement of the financial asset and recognizes an associated liability.

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.

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

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 profit or loss.

(2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognized as an impairment loss and charged to the profit or loss.

(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 3.8% (2014: 2.5%) of the balance as at the year end and charged to the profit or loss.

11. INVENTORIES

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

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

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

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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.

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 recognized as investment income in the current period, except for the profits or cash dividends that are declared and already included in the consideration paid to acquire the investment. Also, the Group should consider whether there is impairment for the long term investments in accordance with the related asset provision policy.

The equity method is applied for long term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the 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 profit or loss.

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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 recognized 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 recognized 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, the equity investment should be accounted as long-term investment in accordance with the rules of conversion from cost method to equity method; If no joint control or significant influence was retained, the equity investment should be accounted as financial assets. The difference between the fair value on the day of losing control and the book value is recognized in the profit or loss.

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 35-50 years. The estimated residual value is 3%-10% of the cost.

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	**Estimated residual value**	**Annual depreciation rate**
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%

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.

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

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.

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 recognized if and only if it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for an intangible asset acquired in the business combination not under common control whose fair value can be reliably measured, it is separately recognized and is measured at its fair value.

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

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

	Useful life
Concession contract	25 years
Land use rights	50 years
Mining rights	25 years
Patent Rights	3 years

Concession right is the right to operate water supply factories. It is recorded at cost minus accumulative amortizations and impairment, if any. The amortization is calculated in a period of 25 years using straight-line method.

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

17. INTANGIBLE ASSETS *(CONTINUED)*

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.

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 then 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.

18. IMPAIRMENT OF ASSETS *(CONTINUED)*

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

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the profit or loss 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.

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 and annuity plan established by the Group are capitalized in related assets or charged to the profit or loss.

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.

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

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

19. PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Post-employment benefit (Defined benefit plans) *(Continued)*

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.

20. PROVISIONS

Except for contingent considerations or contingent liabilities assumed for business combination not under common control, a provision is recognized if:

(1) the obligation is a present obligation assumed by the Group;

(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.

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

20. PROVISIONS *(CONTINUED)*

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

21. REVENUE

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

Revenue from the sale of goods

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

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

21. REVENUE *(CONTINUED)*

Revenue from the rendering of services *(Continued)*

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

Interest income

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

Royalty income

Royalty income is recognized according to the agreed contract terms.

Lease income

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

22. GOVERNMENT GRANTS

Government grants are recognized 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 recognized immediately in profit or loss for the period. A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

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

23. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognized 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 recognized directly in equity.

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

Based on the differences between the carrying amount of an asset or liability in the 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 recognized 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 recognized in respect of all taxable temporary differences except those arising from:

(1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to temporary differences associated with subsidiaries, 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 recognized in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilized except those arising from the initial recognition of an asset or liability in a transaction which:

(1) is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to deductible temporary differences associated with subsidiaries, joint ventures and associates: a deferred tax asset is recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilized.

At 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.

23. 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.

24. LEASES

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

As lessee in operating leases

Rentals payable under operating leases are charged to the 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 profit or loss when it incurs.

As lessor in operating leases

Rentals receivable under operating leases are credited to the profit or loss over the lease terms on the straight-line basis.

25. PROFIT DISTRIBUTION

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

26. SAFETY PRODUCTION RESERVE

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

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

27. GENERAL RESERVE

According to the relevant policy of the MOF, Masteel Group Financial Co., Ltd. (Masteel Financial) 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.

28. 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

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

28. FAIR VALUE MEASUREMENT *(CONTINUED)*

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

29. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Continuous operation

As stated in Note II, 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.

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

29. 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 recognized as the investments in associates.

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.

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

29. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Estimation of 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.

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

29. 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 located in mainland China were subject to corporate income tax ("CIT") at a rate of 25% on their assessable profits. Maanshan Iron & Steel (HK) Limited was established and registered at HongKong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited was established and registered at Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH was established and registered at Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered at France, the applicable income tax rate is 33.3%.
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.
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.

IV. TAX *(CONTINUED)*

2. TAX BENEFITS

(1) In 2015, the New and High Technology Enterprises certification of the Group 's subsidiary, Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd, was renewed by the subsidiary's application to authority and the entity was recognized by local authority as New and High Technology Enterprises. The period of validity is three year from 1 January 2015. In 2015, the applicable income tax rate is 15% accordingly.

(2) On 2 July 2014, the New and High Technology Enterprises certification of the Group's subsidiary, Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial"), was renewed by the subsidiary's application to authority and the entity was recognized by local authority as New and High Technology Enterprises. The period of validity is three year from 1 January 2014. In 2015, the applicable income tax rate is 15% accordingly.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	2015	2014
Cash on hand	**138,929**	179,213
Bank balances	**3,552,764,882**	2,715,810,506
Other monetary assets	**1,198,860,855**	1,075,433,928
Mandatory reserves with central bank of Masteel Financial	**390,946,816**	863,127,872
	5,142,711,482	4,654,551,519

As of 31 December 2015, the Group's other monetary assets amounting to RMB1,198,860,855 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 RMB6,493,453 (31 December 2014: USD1,000,000, which is equivalent as RMB6,153,420) have been pledged to banks to issue letters of credit with a credit limit of USD30 million. As of 31 December 2015, the Group does not have bank deposits frozen (31 December 2014: Nil).

As of 31 December 2015, the Group had cash and bank balances amounting to RMB342,704,351 that have been deposited outside the PRC (31 December 2014: RMB479,677,102).

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

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

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
Financial assets held for trading		
Investments in equity instruments	**–**	1,073,490
Those that are designated as at fair value through profit or loss upon initial recognition		
Investments in equity instruments	**1,005,271,054**	–
	1,005,271,054	1,073,490

As of 31 December 2015, the equity instruments were mainly financial products issued by banks. As of 31 December 2014, the equity instruments were all equity shares listed on the Shanghai stock exchange.

There was no material restriction on realization of these investments as at the end of reporting period.

3. BILLS RECEIVABLE

	2015	2014
Bank acceptance bills	**4,689,129,290**	8,483,607,113
	4,689,129,290	8,483,607,113

The pledged bills receivable were as follows:

	2015	2014
Bank acceptance bills	**1,277,158,488**	4,723,683,840

3. BILLS RECEIVABLE *(CONTINUED)*

As of 31 December 2015, the undue bills discounted or endorsed were as follows:

	2015		2014	
	Derecognized	**Not derecognized**	Derecognized	Not derecognized
Bank acceptance bills	**1,892,413,242**	**243,602,664**	3,371,814,170	241,358,860
	1,892,413,242	**243,602,664**	3,371,814,170	241,358,860

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

4. 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 below:

	2015	2014
Within one year	**665,862,003**	775,850,830
One to two years	**116,554,717**	77,466,943
Two to three years	**22,417,902**	11,226,000
Over three years	**11,348,434**	8,574,303
	816,183,056	873,118,076
Less: Provisions for bad debts	**19,196,395**	16,558,216
	796,986,661	856,559,860

The movements of provision for bad debts against trade receivables for the year are disclosed in Note V.17.

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

4. TRADE RECEIVABLES *(CONTINUED)*

The balances of trade receivables are analyzed as follows:

	2015				2014			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**768,962,510**	**94**	**(6,927,040)**	**1**	835,909,910	96	(6,927,040)	1
Other insignificant but assessed for impairment individually	**47,220,546**	**6**	**(12,269,355)**	**26**	37,208,166	4	(9,631,176)	26
	816,183,056	**100**	**(19,196,395)**		873,118,076	100	(16,558,216)	

As of 31 December 2015, those individually significant and assessed for impairment individually were as follows:

	Book value	**Provisions for bad debts**	**Percentage**	**Reason**
Company 1	**6,927,040**	**(6,927,040)**	**100%**	**Uncollectable**

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

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

In 2015, provision for bad debts was RMB2,638,179 (2014: RMB1,989,407), and there was no recovery or reversal of provision for bad debts (2014: None).

In 2015, there were no trade receivables that had been written off (2014: None).

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

5. PREPAYMENT

Aging analysis of the prepayments is as follows:

	2015		2014	
	Balance	**Ratio (%)**	Balance	Ratio (%)
Within one year	**612,475,882**	**96**	605,876,337	94
One to two years	**12,687,989**	**2**	35,064,880	5
Two to three years	**2,180,048**	**1**	1,232,762	–
Over three years	**7,063,502**	**1**	6,789,094	1
	634,407,421	**100**	648,963,073	100

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.

6. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

	2015	2014
Within one year	**139,319,969**	121,958,079
One to two years	**5,774,543**	21,256,089
Two to three years	**9,780,275**	653,561,416
Over three years	**627,032,547**	15,437,153
	781,907,334	812,212,737
Less: Provision for bad debts	**591,559,264**	556,634,800
	190,348,070	255,577,937

The movements of provision for bad debts against other receivables for the year are disclosed in Note V.17.

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

6. OTHER RECEIVABLES *(CONTINUED)*

Other receivable balance is analyzed as follows:

	2015				2014			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**757,221,665**	**97**	**(585,248,448)**	**77**	795,422,639	98	(550,376,448)	69
Other insignificant but assessed for impairment individually	**24,685,669**	**3**	**(6,310,816)**	**26**	16,790,098	2	(6,258,352)	37
	781,907,334	**100**	**(591,559,264)**		812,212,737	100	(556,634,800)	

As of 31 December 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	Note1
Company 2	**127,685,367**	**(127,685,367)**	100	Note1
Company 3	**37,243,732**	**(37,243,732)**	100	Note1
Company 4	**132,058,434**	**(132,058,434)**	100	Note1
Company 5	**92,302,582**	**(55,302,582)**	60	Note4
Company 6	**76,821,224**	**(76,821,224)**	100	Note2
Company 7	**17,079,513**	**(17,079,513)**	100	Note2
Company 8	**34,783,463**	**(34,783,463)**	100	Note2
Company 9	**4,069,419**	**(4,069,419)**	100	Note2
Company 10	**9,051,133**	**(9,051,133)**	100	Note2
Company 11	**7,396,979**	**(7,396,979)**	100	Note2
Company 12	**5,216,988**	**(5,216,988)**	100	Note2
Company 13	**10,056,058**	**(10,056,058)**	100	Note2
Company 14	**5,143,596**	**(5,143,596)**	100	Note2
Company 15	**2,400,000**	**(2,400,000)**	100	Note3
	622,248,448	**(585,248,448)**		

6. OTHER RECEIVABLES *(CONTINUED)*

As of 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%	Note 1
Company 2	127,685,367	(127,685,367)	100%	Note 1
Company 3	37,243,732	(37,243,732)	100%	Note 1
Company 4	132,186,434	(132,186,434)	100%	Note 1
Company 5	92,302,582	(20,302,582)	22%	Note 4
Company 6	76,821,224	(76,821,224)	100%	Note 2
Company 7	17,079,513	(17,079,513)	100%	Note 2
Company 8	34,783,463	(34,783,463)	100%	Note 2
Company 9	4,069,419	(4,069,419)	100%	Note 2
Company 10	9,051,133	(9,051,133)	100%	Note 2
Company 11	7,396,979	(7,396,979)	100%	Note 2
Company 12	5,216,988	(5,216,988)	100%	Note 2
Company 13	10,056,058	(10,056,058)	100%	Note 2
Company 14	5,143,596	(5,143,596)	100%	Note 2
Company 15	2,400,000	(2,400,000)	100%	Note 3
	622,376,448	(550,376,448)		

Note 1: The companies were original steel trading suppliers of the Company, which were in operating difficulties. At the end of 2014 and 2015, 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.

Note 2: The companies were original steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd ("Masteel 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.

Note 3: 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.

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

6. OTHER RECEIVABLES *(CONTINUED)*

Note 4: For purpose of protecting the Company's interest as the creditor, Maanshan Iron and Steel (Wuhu) Processing and Distribution Co., Ltd. (" Ma Steel (Wuhu)"), a subsidiary of the Company, signed an equity interest transfer agreement and its supplementary agreement (collectively known as "Agreements") with this debtor's original shareholder, pursuant to which to acquire its 60% equity interest at a purchase consideration of RMB 1. The Agreements stipulated that Ma Steel (Wuhu) would sell all the holding interest to the original shareholders at the original purchase consideration once the debtor repay all the debts to Ma Steel (Wuhu) before 31 December 2014, and Ma Steel (Wuhu) would not participate the daily operation and share the profit or loss before 31 December 2014. In December 2015, Ma Steel (Wuhu) signed a memorandum with the debtor, agreeing to postpone the settlement date to 31 December 2016 and other terms retain unchanged. In 2015, Ma Steel (Wuhu) did not participate the daily operation of the debtor and shared no profit or loss.

As of 31 December 2015, the book value of the receivables due from the debtor is RMB92,302,582. According to the assessment of the debt at the end of 2015, a provision of bad debt amounting to RMB35,000,000 was accrued in 2015. The accumulated amount of the provision was RMB55,302,582.

In 2015, the Group has made a provision of RMB35,052,464 (2014: RMB75,244,560) and has reversed provision for bad debt of RMB128,000 (2014: RMB14,447,189).

No other receivables was written off during 2015 (2014:Nil).

Other receivables were analyzed by nature as follows:

	2015	2014
Payment on behalf of other companies	**50,733,791**	50,719,451
Tax refunds	**6,437,911**	8,137,911
Prepayment of customs duties and VAT	**13,022,912**	22,575,508
Prepayment for trading	**607,861,547**	603,688,484
Prepaid guarantee for steel futures transaction	**42,768,562**	63,733,481
Others	**61,082,611**	63,337,902
Provision for bad debts	**(591,559,264)**	(556,634,800)
	190,348,070	255,577,937

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

6. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2015, the top five largest other receivables were as follows:

	Balance	Ratio in other receivables (%)	Nature	Aging	Balance of provision
Company 1	**132,058,434**	**16**	Prepayment for trading	More than 3 years	**132,058,434**
Company 2	**127,685,367**	**16**	Prepayment for trading	More than 3 years	**127,685,367**
Company 3	**92,302,582**	**12**	Prepayment for trading	More than 3 years	**55,302,582**
Company 4	**76,821,224**	**9**	Prepayment for trading	More than 3 years	**76,821,224**
Company 5	**60,939,960**	**8**	Prepayment for trading	More than 3 years	**60,939,960**
	489,807,567	**61**			**452,807,567**

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

	Balance	Ratio in other receivables (%)	Nature	Aging	Balance of provision
Company 1	132,186,434	16	Prepayment for trading	Two to three years	132,186,434
Company 2	127,685,367	16	Prepayment for trading	Two to three years	127,685,367
Company 3	92,302,582	11	Prepayment for trading	Two to three years	20,302,582
Company 4	76,821,224	9	Prepayment for trading	Two to three years	76,821,224
Company 5	60,939,960	8	Prepayment for trading	Two to three years	60,939,960
	489,935,567	60			417,935,567

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

6. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2015, the government grants receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivable due from Taibai Town Government	Policy return from 2004 to 2009	**6,437,911**	More than three years	Note

As of 31 December 2014, the government subsidy funds receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivable due from Taibai Town Government	Policy return from 2004 to 2009	8,137,911	More than three years	Note

Note: The balance is the government grant owned by a subsidiary named Anhui Chang Jiang Iron and Steel Co., Ltd. ("Chang Jiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. In 2015, the government grant had been recovered partly. After communicating with the government, the management confirmed the rest of amount would be received in 2016.

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

7. INVENTORIES

	2015			2014		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**2,804,238,500**	**(350,365,789)**	**2,453,872,711**	4,353,192,496	(126,475,398)	4,226,717,098
Work in progress	**921,849,186**	**(102,234,757)**	**819,614,429**	888,303,710	(27,565,874)	860,737,836
Finished goods	**1,893,162,625**	**(491,923,981)**	**1,401,238,644**	2,176,685,871	(54,862,983)	2,121,822,888
Spare parts	**1,403,342,682**	**(59,572,961)**	**1,343,769,721**	1,535,046,957	(60,031,494)	1,475,015,463
	7,022,592,993	**(1,004,097,488)**	**6,018,495,505**	8,953,229,034	(268,935,749)	8,684,293,285

The movements of impairment provision against inventories for the year are disclosed in Note V.17.

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 2015, the Group reversed impairment provision against inventories of RMB3,360,982 (2014: Nil).

The inventories amounting to RMB10,859,823 of the Group's subsidiary, Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)") had been frozen temporarily due to trade dispute.

8. LOANS AND ADVANCES TO CUSTOMERS

	2015	2014
Loans	**488,500,000**	574,900,000
Discounted bills	**261,318,730**	75,208,138
	749,818,730	650,108,138
Less: Bad debt provision for loans and advances	**16,904,861**	16,904,861
	732,913,869	633,203,277

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

8. LOANS AND ADVANCES TO CUSTOMERS *(CONTINUED)*

The movements of the provision for bad debts against loans and advances to customers for the current year are disclosed in Note V.17.

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 3.8% of its closing balance (2014: 2.5%). As of 31 December 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 of 31 December 2015 and 31 December 2014 are stated in Note X.6 to the financial statements.

9. OTHER CURRENT ASSETS

	2015	2014
Prepaid corporate income tax	**310,923,428**	306,924,902
Accumulated deductible value added tax input	**637,594,830**	358,549,536
	948,518,258	665,474,438

At the end of 2015, the amount of prepaid corporate income tax and deductible VAT input were reclassified as other current assets.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015			2014		
	Book value	**Provision for impairment**	**Carrying value**	Book value	Provision for impairment	Carrying value
Available-for-sale equity instruments measured at cost	**128,934,410**	**–**	**128,934,410**	126,772,160	–	126,772,160

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

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

Available-for-sale financial assets measured at cost:

2015

	Book value				Provision for impairment				Equity	Cash dividend
	Opening balance	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance	interests (%)	during the year
Henan Longyu Energy Co., Ltd.	10,000,000	-	-	10,000,000	-	-	-	-	0.66	5,303,867
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	-	-	-	-	12.00	7,630,961
Beijing Lianye Parameter Monitoring Company (Note 1)	50,000	-	(50,000)	-	-	-	-	-	6.10	-
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	-	-	1,000,000	-	-	-	-	3.40	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5.00	60,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	-	-	15,000,000	-	-	-	-	15.00	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.90	-
Maanshan Iron and Steel Intelligent Parking Equipment Co., Ltd. (Note 2)	-	2,212,250	-	2,212,250	-	-	-	-	8.94	-
	126,772,160	2,212,250	(50,000)	128,934,410	-	-	-	-		12,994,828

Note 1: The company was liquidated in early 2015.

Note 2: Maanshan Iron & Steel (HK) Limited entered into 'Agreement on capital injection of Anhui Masteel Stereoscopic Anto-parking Equipments Company Limited on 26 November 2015, stating that the company would not participate in the capital injection. Therefore, the company's equity share was diluted from 25% to 8.9367%. As the company was no longer able to exercise significant influence over the investee, the equity investment is accounted as financial assets.

As of 31 December 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 the end of each reporting period, 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.

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

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

2014

	Book value				Provision for impairment				Equity	Cash dividend
	Opening balance	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance	interests (%)	during the year
Henan Longyu Energy Co., Ltd.	10,000,000	–	–	10,000,000	–	–	–	–	0.66	5,237,569
China MCC17 Group Co., Ltd.	8,554,800	–	–	8,554,800	–	–	–	–	1.56	1,384,383
Shanghai LuoJing Ore Quay Co., Ltd.	88,767,360	–	–	88,767,360	–	–	–	–	12.00	7,194,838
Beijing Lianye Parameter Monitoring Company	50,000	–	–	50,000	–	–	–	–	6.10	–
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	–	–	1,000,000	–	–	–	–	3.40	–
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	–	–	400,000	–	–	–	–	5.00	80,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	–	–	15,000,000	–	–	–	–	15.00	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	–	–	3,000,000	–	–	–	–	6.90	–
	126,772,160	–	–	126,772,160	–	–	–	–		13,896,790

As of 31 December 2014, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment value at the end of each reporting period, 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.

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

11. LONG TERM EQUITY INVESTMENTS

2015

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	311,422,276	-	-	81,325,413	-	(3,216,898)	(73,500,000)	-	316,030,791	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	542,669	-	-	(3,327)	-	-	-	-	539,342	-
Associates										
Henan JinMa Energy Co., Ltd. ("Henan JinMa Energy") (Note 1)	207,497,916	37,623,600	-	(4,023,123)	-	-	-	-	241,098,393	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	245,813,223	-	-	(2,786,831)	-	(624,054)	-	-	242,402,338	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	30,977,774	-	-	1,626,747	-	-	(6,000,000)	-	26,604,521	-
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	30,967,723	-	-	5,055,768	-	(483,800)	-	-	35,539,691	-
Maanshan Jinxi Rail Transit Equipment Co., Ltd. (Note 2)	171,476,241	-	(165,930,369)	(5,545,872)	-	-	-	-	-	-
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical") (Note 1)	45,794,148	-	(44,961,228)	(832,920)	-	-	-	-	-	-
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)	-	95,235,280	-	403,151	-	-	-	-	95,638,431	-
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking") (Note 5)	1,893,043	-	(2,212,250)	319,207	-	-	-	-	-	-
	1,089,585,013	161,658,880	(213,103,847)	75,538,213	-	(4,324,752)	(79,500,000)	-	1,029,853,507	-

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

11. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

Note 1: On 29 May 2015, Henan JinMa Energy merged with Jiyuan Jinyuan Chemical. Since Henan JinMa Energy and Jiyuan 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 Jiyuan Jinyuan Chemical to contribute to the capital increment at the amount of RMB37,623,600 to Henan JinMa Energy. After the capital increment, Jiyuan Jinyuan Chemical 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 Jiyuan Jinyuan Chemical directly.

Note 2: On 28 May 2015, the Company acquired another 50% equity interests of Maanshan Jinxi Rail Transit Equipment Co., Ltd. from Jinxi Axle Company Limited. After the deal, the Company owns 100% equity interests in Maanshan Jinxi Rail Transit Equipment Co., Ltd.. Therefore, the Company begins to account Maanshan Jinxi Rail Transit Equipment Co., Ltd. as a subsidiary at cost method rather than equity method, and Maanshan Jinxi Rail Transit Equipment Co., Ltd. has been incorporated into the consolidation scope of the Group thereafter. See Note XI. 2 for details.

Note 3: On 2 February 2015, the Company paid RMB28,800,000 as capital injection to Anhui Linhuan Chemical. According to the articles of association of Anhui Linhuan Chemical, the Company has fulfilled the capital contribution to Anhui Linhuan Chemical as agreed as of 31 December 2015.

Note 4: In February 2015, the Company jointly established Ma-Steel OCI Chemical 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 Chemical, 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. On 4 August 2015, the Company contributed RMB27,548,464.3 in cash. On 25 September 2015, the Company contributed land use rights of RMB23,651,700; On 2 December 2015, the Company contributed RMB16,297,522 in cash. The total capital contribution was RMB95,235,280.

According to articles of association of Ma-Steel OCI Chemical, 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.

Note 5: Maanshan Iron & Steel (HK) Limited entered into ‘Agreement on capital injection of Anhui Masteel Stereoscopic Anto-parking Equipments Company Limited on 26 November 2015, stating that the company would not participate in the capital injection. Therefore, the company’s equity interest was diluted from 25% to 8.9367%. As the company was no longer able to exercise significant influence over the investee, the equity investment is accounted as financial assets rather than associates.

11. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

2014

	Opening balance	Movements during the year: Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of 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	–
Maanshan Jinxi Rail Transit Equipment Co., Ltd.(Note1)	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 (Note2)	–	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: In 2014, the Company paid the capital of RMB45,000,000 to Maanshan Jinxi Rail Transit Equipment Co., Ltd., according to the articles of association, the Company completed the withdraw of the capital agreed.

Note 2: In December 2014, the Company acquired 12% interest of Anhui Linhuan Chemical from Huaibei Coal Mining incorporation ("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 of 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 and had no control or joint control over Anhui Linhuan Chemical, therefore,the Company was judged as the party who has significant influence over Anhui Linhuan Chemical.

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

12. INVESTMENT PROPERTIES

Investment properties measured under the cost method:

2015

	Buildings
Cost:	
At 1 January 2015	65,463,072
Addition	–
Transferred from fixed assets (Note)	2,186,709
At 31 December 2015	67,649,781
Accumulated depreciation:	
At 1 January 2015	2,558,862
Provided	2,063,607
Transferred from fixed assets (Note)	670,729
At 31 December 2015	5,293,198
Provision for impairment:	
At 1 January 2015 and 31 December 2015	–
Net carrying amount:	
At 31 December 2015	62,356,583
At 1 January 2015	62,904,210

Note: The investment properties transferred from fixed assets represent a self-owned office and vacant plant leased under an operating lease agreement 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.

12. INVESTMENT PROPERTIES *(CONTINUED)*

2014

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

Note: The investment properties transferred from fixed assets represent the self-owned office building leased under an operating lease agreement 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.

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

13. PROPERTY, PLANT AND EQUIPMENT

2015

	Plant 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
Addition	12,520,307	31,633,695	2,595,226	4,307,170	-	51,056,398
Acquisition	-	17,794,606	1,805,199	306,760	-	19,906,565
Transfer from construction in progress (Note V.14)	140,873,740	644,444,493	18,025,270	112,300,591	-	915,644,094
Reclassifications	123,748,458	(124,248,265)	499,807	-	-	-
Disposal (Note)	(17,852,582)	(67,428,660)	(28,048,602)	(60,512)	(521,445)	(113,911,801)
Transferred to investment properties	(2,186,709)	-	-	-	-	(2,186,709)
Other transfer out	(3,062,737)	(274,899)	-	-	-	(3,337,636)
At 31 December 2015	26,337,817,814	52,433,784,044	388,260,936	353,968,343	10,265,796	79,524,096,933
Accumulated 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	1,026,098,256	2,232,362,765	21,714,559	120,146,623	-	3,400,322,203
Disposal (Note)	(9,865,106)	(60,140,645)	(26,694,457)	(9,964)	-	(96,710,172)
Transferred to investment properties	(670,729)	-	-	-	-	(670,729)
Other transfer out	(649,944)	(215,941)	-	-	-	(865,885)
At 31 December 2015	12,245,942,502	32,017,310,492	312,099,544	343,333,299	-	44,918,685,837
Provision for impairment:						
At 1 January 2015	-	-	-	-	-	-
Provision	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
At 31 December 2015	-	-	-	-	-	-
Net carrying amount:						
At 31 December 2015	14,091,875,312	20,416,473,552	76,161,392	10,635,044	10,265,796	34,605,411,096
At 1 January 2015	14,852,747,312	22,087,168,486	76,616,193	14,037,628	10,787,241	37,041,356,860

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

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

2014

	Plant 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
Addition	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.14)	3,258,384,418	6,518,299,157	19,672,066	244,058	–	9,796,599,699
Reclassifications	(170,832,914)	160,617,581	688,876	9,526,457	–	–
Disposal (Note)	(137,424,202)	(253,594,179)	(4,487,126)	(80,176)	–	(395,585,683)
Transferred to investment properties	(201,262)	–	–	–	–	(201,262)
Other transfer out	(6,214,385)	(14,484,950)	–	–	–	(20,699,335)
At 31 December 2014	26,083,777,337	51,931,863,074	393,384,036	237,114,334	10,787,241	78,656,926,022
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	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 (Note)	(83,402,618)	(218,765,694)	(4,253,223)	(42,291)	–	(306,463,826)
Transferred to investment properties	(54,842)	–	–	–	–	(54,842)
Other transfer out	–	–	–	–	–	–
At 31 December 2014	11,231,030,025	29,844,694,588	316,767,843	223,076,706	–	41,615,569,162
Provision for impairment:						
At 1 January 2014	–	–	–	–	–	–
Provision	–	–	–	–	–	–
Disposal	–	–	–	–	–	–
At 31 December 2014	–	–	–	–	–	–
Net carrying amount:						
At 31 December 2014	14,852,747,312	22,087,168,486	76,616,193	14,037,628	10,787,241	37,041,356,860
At 1 January 2014	12,674,725,589	17,899,186,853	71,120,511	23,387,677	–	30,668,420,630

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

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Note: The disposal of fixed assets in 2014 and 2015 was mainly due to the disposal of part of the Company's fixed assets. Moreover, in 2014, Ma Steel (Heifei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)"), a subsidiary of the Company, disposed buildings and equipments in line with its transformation development.

As of 31 December 2015, certificates of ownership in respect of 44 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,343,143,878 (31 December 2014: RMB1,418,058,337), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

As of 31 December 2014, certain equipment of RMB45,662,645 from Anhui Masteel K.Wah New Building Materials Co., Ltd. was pledged to obtain bank loans of RMB12,000,000. As of 31 December 2015, the loans had been repaid.

14. CONSTRUCTION IN PROGRESS

	2015			2014		
	Cost	**Provision for impairment**	**Carrying amount**	Cost	Provision for impairment	Carrying amount
Product quality projects	**1,201,603,354**	**–**	**1,201,603,354**	804,193,622	–	804,193,622
Energy-saving and environment protection projects	**1,206,463,445**	**–**	**1,206,463,445**	436,691,290	–	436,691,290
Equipment advancement and other modification projects	**1,651,195,135**	**–**	**1,651,195,135**	1,505,024,957	–	1,505,024,957
Other projects	**186,500,934**	**–**	**186,500,934**	85,140,313	–	85,140,313
	4,245,762,868	**–**	**4,245,762,868**	2,831,050,182	–	2,831,050,182

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

14. CONSTRUCTION IN PROGRESS *(CONTINUED)*

In 2015, the movements of significant projects are as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Additions RMB	Transferred to fixed assets (Note V.13) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
Product quality projects	5,376,735	804,193,624	672,080,460	(274,670,730)	1,201,603,354	Internally financed/loan	74%
Energy-saving and environment protection projects	2,426,082	436,691,290	894,818,600	(125,046,445)	1,206,463,445	Internally financed /loan	59%
Equipment advancement and other modification projects	2,208,182	1,505,024,955	561,759,062	(415,588,882)	1,651,195,135	Internally financed/ loan	77%
Other projects	N/A	85,140,313	201,698,658	(100,338,037)	186,500,934	Internally financed/ loan	N/A
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868		
Less: Provision for impairment		-	-	-	-		
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868		

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

14. CONSTRUCTION IN PROGRESS *(CONTINUED)*

In 2014, the movements of significant projects are as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Additions RMB	Transferred to fixed assets (Note V.13) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
Product quality projects	10,533,620	6,958,116,296	2,890,776,658	(9,044,699,332)	804,193,622	Internally financed/loan	80%
Energy-saving and environment protection projects	2,324,350	356,021,360	235,970,649	(155,300,719)	436,691,290	Internally financed	38%
Equipment advancement and other modification projects	3,280,255	1,188,835,449	532,253,733	(216,064,225)	1,505,024,957	Internally financed	94%
Other projects	N/A	226,842,103	238,833,633	(380,535,423)	85,140,313	Internally financed	N/A
		8,729,815,208	3,897,834,673	(9,796,599,699)	2,831,050,182		
Less: Provision for impairment		–	–	–	–		
		8,729,815,208	3,897,834,673	(9,796,599,699)	2,831,050,182		

14. CONSTRUCTION IN PROGRESS *(CONTINUED)*

In 2015, the movements of significant projects are as follows:

Name of projects	**Percentage of completion (%)**	**Accumulated interest capitalization RMB (Note)**	**The capitalized interest in current year RMB**	**The interest capitalization rate (%)**
Product quality projects	**74%**	**7,531,299**	**2,789,186**	**7.9**
Energy-saving and environment				
protection projects	**59%**	**2,055,432**	**2,055,432**	**7.9**
Equipment advancement and	**77%**	**5,941,940**	**5,941,940**	**7.9**
other modification projects	**N/A**	**2,385,477**	**2,385,477**	**–**
		17,914,148	**13,172,035**	

In 2014, the movements of significant projects are as follows:

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

Note: The amount represents capitalization of borrowing costs contained in the cost of construction in process at 31 December 2015 and 31 December 2014 respectively.

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

15. INTANGIBLE ASSETS

2015

	Concession assets	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2015	135,813,675	2,157,031,549	148,050,244	–	2,440,895,468
Addition	1,165,735	54,247,060	–	587,217	56,000,012
Acquisition	–	89,577,666	–	–	89,577,666
Disposal	–	(4,434,812)	(2,451,565)	–	(6,886,377)
Exchange realignment	–	–	(8,478,329)	–	(8,478,329)
At 31 December 2015	136,979,410	2,296,421,463	137,120,350	587,217	2,571,108,440
Accumulated depreciation:					
At 1 January 2015	16,909,355	562,486,091	35,039,446	–	614,434,892
Acquisition	–	3,534,560	–	–	3,534,560
Provided	7,395,829	49,264,950	8,329,290	101,677	65,091,746
Disposal	–	(1,039,375)	–	–	(1,039,375)
Exchange realignment	–	–	(2,271,543)	–	(2,271,543)
At 31 December 2015	24,305,184	614,246,226	41,097,193	101,677	679,750,280
Provision for impairment:					
At 1 January 2015 and At 31 December 2015	–	–	–	–	–
Net carrying amount:					
At 31 December 2015	112,674,226	1,682,175,237	96,023,157	485,540	1,891,358,160
At 1 January 2015	118,904,320	1,594,545,458	113,010,798	–	1,826,460,576

15. INTANGIBLE ASSETS *(CONTINUED)*

(i) The concession assets are owned by the subsidiary, Maanshan Iron & Steel (Hefei) Limited Industrial Water Supply Co., Ltd (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 infrastructure construction contract was applied, and no construction service revenue was recognized. According to the agreement, the payment for the project during the construction was recognized as intangible assets. 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.

* The Group’s land use rights are located in Mainland China, and are held under medium term leases.

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

15. INTANGIBLE ASSETS *(CONTINUED)*

2014

	Concession assets	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
Addition	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	135,813,675	2,157,031,549	148,050,244	2,440,895,468
Accumulated depreciation:				
At 1 January 2014	8,672,433	532,398,635	33,682,905	574,753,973
Provided	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	16,909,355	562,486,091	35,039,446	614,434,892
Provision for impairment:				
At 1 January 2014 and At 31 December 2014	–	–	–	–
Net carrying amount:				
At 31 December 2014	118,904,320	1,594,545,458	113,010,798	1,826,460,576
At 1 January 2014	128,109,046	1,646,496,950	125,573,249	1,900,179,245

* The Group's land use rights are located in Mainland China and are held under medium term leases.

16. DEFERRED TAX ASSETS/LIABILITIES

	2015		2014	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	**609,033,044**	**152,258,261**	261,376,120	65,344,030
Sales incentive	**130,156,316**	**32,539,079**	83,623,905	20,905,976
Salary payable	**28,346,060**	**7,086,515**	182,715,516	45,678,879
Government grants	**403,793,240**	**100,948,310**	265,851,900	66,462,975
Deductible tax losses	**1,163,156**	**290,789**	1,620,713,736	405,178,434
Others	**149,138,364**	**37,284,591**	177,090,116	44,272,529
	1,321,630,180	**330,407,545**	2,591,371,293	647,842,823

	2015		2014	
	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	**129,461,225**	**32,365,306**	132,765,680	33,191,420
Changes in fair value of financial products	**1,357,705**	**339,426**	–	–
	130,818,930	**32,704,732**	132,765,680	33,191,420

Unrecognized deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	2015	2014
Deductible temporary differences	**642,204,401**	572,834,007
Deductible tax losses	**10,096,630,655**	3,915,711,174
	10,738,835,056	4,488,545,181

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

16. DEFERRED TAX ASSETS/LIABILITIES *(CONTINUED)*

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

	2015	2014
To expire in 2016	**233,247,027**	233,247,027
To expire in 2017	**4,043,686,509**	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	**4,555,266,671**	–
	10,096,630,655	3,915,711,174

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.

17. ASSET IMPAIRMENT PROVISIONS

	2015					
		Increase	Decrease during the year			
	Opening balance	during the year	Reversal	Write-back/ Write-off	Other movements	Closing balance
Provisions for bad debts	590,097,877	37,690,643	(128,000)	–	–	627,660,520
Including: Trade receivables	16,558,216	2,638,179	–	–	–	19,196,395
Other receivables	556,634,800	35,052,464	(128,000)	–	–	591,559,264
Loans and advances to customers	16,904,861	–	–	–	–	16,904,861
Inventory impairment provision (i)	268,935,749	1,585,188,318	(3,360,982)	(846,665,597)	–	1,004,097,488
Including: Raw materials	126,475,398	671,838,086	(2,011,685)	(445,936,010)	–	350,365,789
Work in progress	27,565,874	190,331,339	(1,332,126)	(114,330,330)	–	102,234,757
Finished products	54,862,983	723,018,893	(17,171)	(285,940,724)	–	491,923,981
Spare parts	60,031,494	–	–	(458,533)	–	59,572,961
	859,033,626	1,622,878,961	(3,488,982)	(846,665,597)	–	1,631,758,008

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

17. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2014					
		Increase	Decrease during the year			
	Opening balance	during the year	Reversal	Write-back/ Write-off	Other movements (ii)	Closing balance
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
Inventory impairment provision (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
	1,144,229,703	784,936,068	(14,447,189)	(1,073,425,535)	17,740,579	859,033,626

(i) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories is 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 ("MG-VALDUNES"), the wholly subsidiary of the Group, acquired the total assets of VALDUNES S.A.S ("VALDUNES") at the end of 2014.

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

18. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015	2014
Deposits and balances from banks	**–**	500,000,000

19. CUSTOMER DEPOSITS

	2015	2014
Demand deposits	**1,626,727,988**	964,818,850
Notice deposit	**74,500,000**	162,800,000
Time deposits	**200,162,500**	72,000,000
	1,901,390,488	1,199,618,850

The details of customer deposits of Masteel Financial related to shareholders who held 5% or more of voting shares and the related parties at 31 December 2015 and 31 December 2014 are disclosed in Note X.6.

20. SHORT TERM LOANS

	2015	2014
Unsecured loans	**2,398,449,636**	1,574,576,377
Short-term financing bonds (i)	**–**	5,000,000,000
Guaranteed loans (ii)	**–**	12,000,000
Pledged loans (iii)	**100,000,000**	–
Inward documentary bills and usance letter of credit (iv)	**4,292,909,836**	5,471,818,517
	6,791,359,472	12,058,394,894

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

20. SHORT TERM LOANS *(CONTINUED)*

(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 (12Magang 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. The third bond (14 Ma'angangtie 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. The issued bonds were repaid in the year of 2013, 2014 and 2015 respectively.

(ii) As of 31 December 2015, the Group's had no short-term guaranteed loans (31 December 2014: RMB12,000,000).

(iii) As of 31 December 2015, the Group had a short-term pledged loan amounting to RMB100,000,000 which is secured by bank notes (31 December 2014: Nil). Refer to Note V.3 for details.

(iv) As of 31 December 2015, the outstanding trust receipt loans of the Group amounted to RMB4,292,909,836 (2014: RMB5,471,818,517).

As of 31 December 2015, the interest rates of the above short-term loans ranged from 1.310%-6.000% (31 December 2014: 1.680% to 7.200%).

As of 31 December 2015, the Group had overdue short term loans as follows:

	Amount	Overdue nature	Due date	Annual interest rate	Overdue interest rate	Purpose
China Everbright Bank Shanghai Baoshan Branch	48,500,000	Principal overdue	2014.12.31	6.00%	9.00%	Operating borrowing
Bank of Nanjing Shanghai Branch	29,757,036	Principal and interest overdue	2015.01.03	5.60%	8.40%	Operating borrowing
Maanshan Rural Commercial Bank	22,000,000	Principal and interest overdue	2015.06.17	6.00%	9.00%	Operating borrowing

As of 31 December 2015, the overdue amount of short-term loan is RMB100,257,036, which is unsecured loans borrowed by the Group's subsidiary of Masteel Shanghai Trading. Masteel Shanghai Trading is in the process of bankruptcy liquidation. The Company is negotiating with the bank for repayment.

21. BILLS PAYABLE

	2015	2014
Bank acceptance bills	**5,325,406,398**	4,785,906,077
Commercial acceptance bills	**18,500,000**	17,000,000
	5,343,906,398	4,802,906,077

As of 31 December 2015 and 31 December 2014, the ageing of the Group's bills payable was all within six months, and there were no overdue bills.

22. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	2015	2014
Within one year	**5,942,180,843**	6,549,854,820
One to two years	**127,899,157**	71,503,745
Two to three years	**21,240,086**	5,021,121
Over three years	**53,344,195**	52,908,758
	6,144,664,281	6,679,288,444

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

At 31 December 2015, the material accounts payables aged over one year are as follows:

	Amount payable	**Reason for outstanding**
Company 1	45,167,940	Note
Company 2	19,000,000	Note
Company 3	13,390,500	Note
Company 4	7,917,184	Note
Company 6	6,291,156	Note
	91,766,780	

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

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

23. DEPOSITS RECEIVED

	2015	2014
Deposits received	**2,602,554,258**	3,701,440,863

At 31 December 2015, the material deposits received aged over one year were as follows:

	Amount receivable	**Reason for outstanding**
Company 1	52,316,555	Note
Company 2	6,340,000	Note
Company 3	6,250,000	Note
Company 4	5,560,000	Note
Company 5	5,240,000	Note
	75,706,555	

Note: the Group's deposits received aged over one year were mainly those advances from customers regarding the contracts not fully executed.

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

24. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

2015

	Opening balance	**Increase during the year**	**Payment during the year**	**Closing balance**
Short-term employee benefits	**288,200,550**	**3,168,777,038**	**3,193,640,648**	**263,336,940**
Post-employment benefits (Defined contribution plans)	**8,425,484**	**709,915,499**	**708,283,724**	**10,057,259**
Supplementary retirement benefits (Note)	**2,451,178**	**771,531**	**2,002,185**	**1,220,524**
	299,077,212	**3,879,464,068**	**3,903,926,557**	**274,614,723**

Note: MG-VALDUNES, a subsidiary overseas, provides employees with supplementary retirement 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 recognized in long-term compensation.

2014

	Opening balance	Increase during the year	Payment during the year	Closing balance
Short-term employee benefits	199,313,009	3,718,425,206	3,629,537,665	288,200,550
Post-employment benefits (Defined contribution plans)	9,577,905	737,053,513	738,205,934	8,425,484
Supplementary retirement benefits	–	2,451,178	–	2,451,178
	208,890,914	4,457,929,897	4,367,743,599	299,077,212

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

24. PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Short-term employee benefits:

2015

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	**227,148,455**	**2,422,073,592**	**2,437,835,420**	**211,386,627**
Welfare	**21,900,908**	**133,447,693**	**134,329,379**	**21,019,222**
Social insurance	**879,915**	**261,262,554**	**262,126,558**	**15,911**
Including: Medical insurance	**74,900**	**208,572,354**	**208,650,947**	**(3,693)**
Work-related injury insurance	**810,674**	**41,581,435**	**42,379,105**	**13,004**
Maternity insurance	**(5,659)**	**11,108,765**	**11,096,506**	**6,600**
Housing fund	**24,578,790**	**295,415,368**	**294,332,704**	**25,661,454**
Labor union fee and employee education fee	**13,692,482**	**56,577,831**	**65,016,587**	**5,253,726**
	288,200,550	**3,168,777,038**	**3,193,640,648**	**263,336,940**

2014

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	145,525,130	2,929,282,149	2,847,658,824	227,148,455
Welfare	15,050,239	142,834,527	135,983,858	21,900,908
Social insurance	3,747,539	259,128,734	261,996,358	879,915
Including: Medical insurance	2,983,816	202,896,598	205,805,514	74,900
Work-related injury insurance	612,992	45,174,718	44,977,036	810,674
Maternity insurance	150,731	11,057,418	11,213,808	(5,659)
Housing fund	22,151,012	308,792,223	306,364,445	24,578,790
Labor union fee and employee education fee	12,839,089	78,387,573	77,534,180	13,692,482
	199,313,009	3,718,425,206	3,629,537,665	288,200,550

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

24. PAYROLL AND BENEFITS PAYABLE *(CONTINUED)*

Defined contribution plans:

2015

	Opening balance	**Increase during the year**	**Payment during the year**	**Closing balance**
Pension insurance	**(134,056)**	**565,283,557**	**564,784,323**	**365,178**
Unemployment insurance	**(53,790)**	**38,463,289**	**38,225,016**	**184,483**
Supplementary pension scheme	**8,613,330**	**106,168,653**	**105,274,385**	**9,507,598**
	8,425,484	**709,915,499**	**708,283,724**	**10,057,259**

2014

	Opening balance	Increase during the year	Payment during the year	Closing balance
Pension insurance	271,021	573,679,405	574,084,482	(134,056)
Unemployment insurance	90,811	63,724,087	63,868,688	(53,790)
Supplementary pension scheme	9,216,073	99,650,021	100,252,764	8,613,330
	9,577,905	737,053,513	738,205,934	8,425,484

As of 31 December 2015 and 31 December 2014, the balance of payroll and employee benefits payable had not included performance-based wages.

In addition to the basic social endowment insurance, employees (including employees of the Company and some wholly-owned subsidiaries) participated in the established retirement benefit contribution plans (hereinafter referred to as the “Annuity Plan”) established by the Group. The employees who participated in the Annuity Plan use the amount of the last month salary and allowance as their deposit base. According to the length of service, the deposit rate can be divided into four levels: length of 1 to 9 years, the rate is 7%; 10 to 19 years, the rate is 9%; 20 to 29 years, the rate is 11%; more than 30 years, the rate is 13%. In 2015, the Group had pay an annuity amount of RMB105,274,385 (2014: RMB100,252,764), and the final balance of provisions but unpaid annuity was RMB9,507,598 (2014: RMB8,613,330).

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

24. PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Long-term compensation:

	2015	2014
Supplementary retirement benefit	**30,077,913**	28,328,924
Less: Supplementary retirement benefit (current portion)	**1,220,524**	2,451,178
	28,857,389	25,877,746

25. TAXES PAYABLE

	2015	2014
Value-added tax	**21,109,732**	28,355,340
Corporate income tax	**30,194,469**	88,225,997
City construction and maintenance tax	**23,263,501**	35,096,903
Other taxes	**75,330,619**	85,105,756
	149,898,321	236,783,996

As of 31 December 2015, the advance payment of income tax and the deductible VAT input tax has been reclassified as other current assets.

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

26. INTEREST PAYABLE

	2015	2014
Interest payables for short-term loans	**4,011,073**	87,070,075
Interest payables for long-term loans repay at due date	**11,897,022**	12,085,145
Interest payables for corporate bond	**47,340,885**	47,470,586
Interest payables for medium term note	**87,580,328**	–
	150,829,308	146,625,806

As of 31 December 2015, the Group had overdue interest payable of RMB629,907 (2014: nil). It was incurred by the Group's subsidiary Masteel Shanghai Trading due to the shortage of cash. Refer to Note V.20 for more details.

27. DIVIDENDS PAYABLE

	2015	2014
Other shareholders	**6,525,534**	7,210,819
	6,525,534	7,210,819

28. OTHER PAYABLES

	2015	2014
Payable for construction, maintenance and inspection fee	**207,933,025**	196,103,192
Sales incentives	**80,592,053**	83,623,905
Service fees payable	**17,926,119**	39,680,171
Technology project fund received	**34,750,947**	36,091,410
Withholding social welfare and housing fund payable	**43,903,216**	41,481,319
Accrued interest expense for letters of credit	**152,354,842**	173,054,060
Payable for forfaiting	**460,668,886**	–
Others	**260,334,425**	257,385,053
	1,258,463,513	827,419,110

At 31 December 2015, material other payables aged over one year are as follows:

	Amount payable	Reason for outstanding
Company 1	2,000,000	Note
Company 2	2,000,000	Note
Company 3	1,500,000	Note
Company 4	1,200,952	Note
	6,700,952	

Note: The Group's other payables aged over one year was mainly the performance guarantee received for construction and material purchase. Since the contracts were not completed, the payments were not settled.

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

29. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2015	2014
Long term loans due within one year	**2,747,792,896**	2,231,683,000
Bonds payable due within one year (Note V.32)	**2,337,066,519**	–
	5,084,859,415	2,231,683,000

30. ACCRUED LIABILITIES

2015

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pending litigation or arbitration	**1,986,172**	**1,901,378**	**471,921**	**3,415,629**
Pending onerous contract (i)	**12,114,813**	**7,638,237**	**1,151,709**	**18,601,341**
Others	**–**	**215,743**	**–**	**215,743**
	14,100,985	**9,755,358**	**1,623,630**	**22,232,713**

(i) The accrued liabilities of pending onerous contract represents expected loss from executing some sales orders entered by the Group's subsidiary MG-VALDUNES The management estimated the cost of executing those orders would exceed agreed price. Therefore the accrued liabilities were estimated at RMB18,601,341 at the end of 2015.

31. LONG TERM LOANS

	2015	2014
Guaranteed loans	**1,973,971,584**	1,625,889,200
Unsecured loans	**4,681,200,000**	3,743,243,254
Pledged loans	**–**	970,000,000
	6,655,171,584	6,339,132,454

As of 31 December 2015, the interest rates of the above long-term loans ranged from 1.20%-6.00% (31 December 2014: from 2.40% to 6.15%)

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

31. LONG TERM LOANS *(CONTINUED)*

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

	2015	2014
*Within one year (Note V. 29)	**2,747,792,896**	2,231,683,000
One to two years (inclusive)	**6,243,992,896**	4,718,989,094
Two to three years (inclusive)	**238,292,896**	1,485,035,840
Three to five years (inclusive)	**117,585,792**	90,071,680
Over five years	**55,300,000**	45,035,840
	9,402,964,480	8,570,815,454

32. BONDS PAYABLE

	2015	2014
Medium-term note payable	**3,979,666,667**	–
Corporate bonds – 5 years	**2,337,066,519**	2,332,666,298
	6,316,733,186	2,332,666,298
Less: Transfer into non-current liabilities due within one year (Note V.29)		
Including: Corporate bonds	**2,337,066,519**	–
	3,979,666,667	2,332,666,298

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

32. BONDS PAYABLE *(CONTINUED)*

As at 31 December 2015, bonds payable balance is as follows:

	Issue date	Term to maturity	Amount on offer	Opening balance	Current year issuance	Amortization of discount	Current year repayment	Closing balance	Current year accrued interest
Medium-term note payable –									
2015 first issue	2015/07	3 years	2,000,000,000	-	2,000,000,000	(10,000,000)	-	1,990,000,000	48,760,656
2015 second issue	2015/08	3 years	2,000,000,000	-	2,000,000,000	(10,333,333)	-	1,989,666,667	38,819,672
Corporate bonds – 5 years	2011/08	5 years	2,340,000,000	2,332,666,298	-	4,400,221	-	2,337,066,519	134,186,299
			6,340,000,000	2,332,666,298	4,000,000,000	(15,933,112)	-	6,316,733,186	221,766,627

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

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

32. BONDS PAYABLE *(CONTINUED)*

Medium-term note payable

In June 2015, 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 RMB4 billion, which will expire within two years. The medium-term note is allowed to be issued by stages in its registration period of validity.

On 9 July 2015, the Company issued the first stage medium-term note of RMB2 billion (abbreviated as 15 Magang MTN001). The issuance price is RMB100/Note, and has a fixed rate of interest at 5.07% per annum. On 6 August 2015, the Company issued the second stage medium-term note of RMB2 billion (abbreviated as 15 Magang MTN002). The issuance price is RMB100/Note, and has a fixed rate of interest at 4.80% per annum.

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. The corporate bond '11 Magang 01' had been paid on the due date in 2014 and the corporate bond '11 Magang 02'will be paid on 25 August 2016.

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

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

33. DEFERRED INCOME

Deferred income refers to the government grant related to specific projects as below.

	2015	2014
Government grants related to assets		
Technological transformation fund for Phase II silicon steel	**88,641,669**	93,041,669
The new city land subsidies (Block No. 31836 & 31837)	**44,871,120**	50,374,852
Subsidy for developing emerging strategic industries in Anhui Province	**40,788,750**	42,768,750
New-zone Thermal Power Plant CCPP system engineering	**35,377,972**	39,689,972
EMU steel wheel production line project	**37,174,990**	39,374,990
Cold-rolled sheet project	**8,534,639**	16,146,639
Exhaust gas power generation projects of steel blast furnace	**10,090,000**	10,750,000
1 # -4 # coke dry quenching project	**9,774,893**	10,695,373
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	**9,628,330**	10,508,330
Flue gas desulfurization project of 135 mw thermal penvironmental subsidy funds	**10,000,000**	10,000,000
Hot-rolled sheet project	**1,745,361**	9,973,361
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	**8,319,817**	9,018,537
State subsidies for slag processing recycling engineering project	**2,818,333**	8,617,500
Subsidy for construction by Wuhu Technique	**7,147,112**	8,600,762
6 # full burning blast furnace gas boiler works	**7,534,084**	8,452,364
The municipal environmental protection subsidies of 3rd iron works sintering flue gas desulfurization engineering	**7,870,000**	7,870,000
Masteel 5 # 6 # coal charging and coke dust removal project	**12,247,819**	12,610,819
Fix assets subsidy for thin plate project	**16,501,300**	7,031,000
The first iron works iron farm before blast furnace flue gas project	**6,366,464**	6,690,713
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	**1,099,840**	6,284,800
Rolled wheel works	**4,068,000**	6,180,000
Pulse clarifier pollution	**5,514,167**	5,839,167
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	**5,550,000**	5,550,000
National environmental fund for flue gas treatment by 3rd steel plant	**9,375,700**	9,375,700
Subsidies for environmental protection funds of smoke desulfurization project No.3 Iron general factory B# Sintering machine	**5,000,000**	5,000,000
De-nitration project for 135KW power generation plant	**5,000,000**	5,000,000

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

33. DEFERRED INCOME *(CONTINUED)*

	2015	2014
Government grants related to assets (Continued)		
New-zone coking field project	**6,166,501**	7,093,141
Comprehensive utilization of water resources	**3,080,550**	3,951,750
Relocation compensation for Transport Company	**10,000,000**	15,000,000
Subsidy for Masteel new-zone CDQ project	**600,000**	–
Interest subsidy for rail transit industrialization project of Masteel	**11,121,099**	–
Subsidy for material modification of high speed wheel and axle	**33,720,000**	–
Environment protection subsidy for the thermal power plant denitrification	**4,500,000**	–
Subsidies for environmental protection funds of smoke desulfurization project No.2 Iron general factory 2# Sintering machine	**7,000,000**	–
Subsidies for environmental protection funds of smoke desulfurization project No.1 Iron general factory 3# Sintering machine	**3,000,000**	–
Development and reform subsidy	**55,000,000**	–
Development fund of efficient and economical construction steel technology	**12,164,850**	–
Technology development fund by Ministry of science and technology	**19,857,445**	–
Intelligent manufacturing fund for Ma-Steel Rail Transportation Equipment Co., Ltd.(“Ma-Steel Rail Transportation”)	**6,564,032**	–
Others	**59,211,143**	62,730,341
Government grants related to income:		
Compensation for disposal of land use right (Note)	**652,138,319**	652,138,319
Total	**1,285,164,299**	1,186,358,849

Note: The government grant related to income was mainly attributed to the compensation for disposal of land use right received from Hefei Municipal Land Reserve Center by Ma Steel (Hefei).

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2015, liabilities related to government subsidies are as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage	652,138,319	–	–	–	652,138,319	Income
Technological transformation fund for Phase II silicon steel	93,041,669	–	(4,400,000)	–	88,641,669	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	50,374,852	–	(5,503,732)	–	44,871,120	Assets
Subsidy for developing emerging strategic industries in Anhui Province	42,768,750	–	(1,980,000)	–	40,788,750	Assets
New-zone Thermal Power Plant CCPP system engineering	39,689,972	–	(4,312,000)	–	35,377,972	Assets
EMU steel wheel production line project	39,374,990	–	(2,200,000)	–	37,174,990	Assets
Cold-rolled sheet project	16,146,639	–	(7,612,000)	–	8,534,639	Assets
Relocation compensation for Transport Company	15,000,000	–	(5,000,000)	–	10,000,000	Assets
Exhaust gas power generation projects of Steel blast furnace	10,750,000	–	(660,000)	–	10,090,000	Assets
1 # -4 # coke dry quenching project	10,695,373	–	(920,480)	–	9,774,893	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	10,508,330	–	(880,000)	–	9,628,330	Assets
Environmental subsidy funds for flue gas desulfurization and 135 mw thermal power	10,000,000	–	–	–	10,000,000	Assets
Hot-rolled sheet project	9,973,361	–	(8,228,000)	–	1,745,361	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	9,018,537	–	(698,720)	–	8,319,817	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	8,617,500	–	(5,799,167)	–	2,818,333	Assets
Subsidy for construction by Wuhu Technique	8,600,762	–	(1,453,650)	–	7,147,112	Assets
6 # full burning blast furnace gas boiler works	8,452,364	–	(918,280)	–	7,534,084	Assets
Municipal environmental protection subsidies for desulfurization engineering of 3rd iron plant's sintering flue gas	7,870,000	–	–	–	7,870,000	Assets

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2015, the government subsidies related to liabilities are as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
5 # 6 # coke dust removal project	12,610,819	–	(363,000)	–	12,247,819	Assets
Fix assets subsidy for thin plate project	7,031,000	9,944,300	(474,000)	–	16,501,300	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	6,690,713	–	(324,249)	–	6,366,464	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	6,284,800	–	(5,184,960)	–	1,099,840	Assets
Rolled wheel works	6,180,000	–	(2,112,000)	–	4,068,000	Assets
Pulse clarifier antipollution	5,839,167	–	(325,000)	–	5,514,167	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	5,550,000	–	–	–	5,550,000	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–	–	–	9,375,700	Assets
Subsidies for environmental protection funds of smoke desulfurization project	5,000,000	–	–	–	5,000,000	Assets
No.3 Iron general factory thermoelectricity plant 135MW generators	5,000,000	–	–	–	5,000,000	Assets
New-zone coking field project	7,093,141	–	(926,640)	–	6,166,501	Assets
Comprehensive utilization of water resources	3,951,750	–	(871,200)	–	3,080,550	Assets
Subsidy for Masteel new-zone CDQ project	–	600,000	–	–	600,000	Assets
Subsidy for material modification of high speed wheel and axle	–	33,720,000	–	–	33,720,000	Assets
Environment protection subsidy for the thermal power plant denitrification	–	4,500,000	–	–	4,500,000	Assets
Subsidies for environmental protection funds of smoke desulfurization project No.2 Iron general factory 2# Sintering machine	–	7,000,000	–	–	7,000,000	Assets

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2015, the government subsidies related to liabilities are as follows: *(Continued)*

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Subsidies for environmental protection funds of smoke desulfurization project No.1 Iron general factory 3# Sintering machine	–	3,000,000	–	–	3,000,000	Assets
Interest subsidy for rail transit industrialization project of Masteel	–	25,650,000	(14,528,901)	–	11,121,099	Assets
Development and reform subsidy	–	55,000,000	–	–	55,000,000	Assets
Development fund of efficient and economical construction steel technology	–	12,164,850	–	–	12,164,850	Assets
Technology development fund by Ministry of science and technology	–	19,857,445	–	–	19,857,445	Assets
Intelligent manufacturing fund for Ma-Steel Rail Transportation	–	9,000,000	(2,435,968)	–	6,564,032	Assets
Others	62,730,341	6,011,589	(9,073,403)	(457,384)	59,211,143	
Total	1,186,358,849	186,448,184	(87,185,350)	(457,384)	1,285,164,299	

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2014, liabilities related to government subsidies are as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage	–	960,000,000	(307,861,681)	–	652,138,319	Income
Technological transformation fund for Phase II silicon steel	98,000,000	–	(4,958,331)	–	93,041,669	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	61,007,068	–	(10,632,216)	–	50,374,852	Assets
Subsidy for developing emerging strategic industries in Anhui Province	45,000,000	–	(2,231,250)	–	42,768,750	Assets
New-zone Thermal Power Plant CCPP system engineering	48,019,976	–	(8,330,004)	–	39,689,972	Assets
EMU steel wheel production line project	43,624,994	–	(4,250,004)	–	39,374,990	Assets
Cold-rolled sheet project	30,851,643	–	(14,705,004)	–	16,146,639	Assets
Relocation compensation for Transport Company	20,000,000	–	(5,000,000)	–	15,000,000	Assets
5 # 6 # coke dust removal project	13,312,075	–	(701,256)	–	12,610,819	Assets
Exhaust gas power generation projects of Steel blast furnace	12,025,000	–	(1,275,000)	–	10,750,000	Assets
1 # -4 # coke dry quenching project	12,473,569	–	(1,778,196)	–	10,695,373	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	12,208,334	–	(1,700,004)	–	10,508,330	Assets
Environmental subsidy funds for flue gas desulfurization and 135 mw thermal power	10,000,000	–	–	–	10,000,000	Assets
Hot-rolled sheet project	25,868,357	–	(15,894,996)	–	9,973,361	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–	–	–	9,375,700	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	10,368,333	–	(1,349,796)	–	9,018,537	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	9,000,000	–	(382,500)	–	8,617,500	Assets
Subsidy for construction by Wuhu Technique	10,054,412	–	(1,453,650)	–	8,600,762	Assets
6 # full burning blast furnace gas boiler works	10,226,312	–	(1,773,948)	–	8,452,364	Assets
Municipal environmental protection subsidies for desulfurization engineering of 3rd iron plant's sintering flue gas	7,870,000	–	–	–	7,870,000	Assets
New-zone coking field project	9,733,237	–	(2,640,096)	–	7,093,141	Assets

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

33. DEFERRED INCOME

As at 31 December 2014, liabilities related to government subsidies are as follows: *(Continued)*

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Fix assets subsidy for thin plate project	–	7,110,000	(79,000)	–	7,031,000	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	7,317,101	–	(626,388)	–	6,690,713	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	16,301,200	–	(10,016,400)	–	6,284,800	Assets
Rolled wheel works	10,260,000	–	(4,080,000)	–	6,180,000	Assets
Pulse clarifier antipollution	7,269,167	–	(1,430,000)	–	5,839,167	Assets ST1
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	5,550,000	–	–	–	5,550,000	Assets
Subsidies for environmental protection funds of smoke desulfurization project	–	5,000,000	–	–	5,000,000	Assets
No.3 Iron general factory thermoelectricity plant 135MW generators	–	5,000,000	–	–	5,000,000	Assets
Comprehensive utilization of water resources	5,634,750	–	(1,683,000)	–	3,951,750	Assets
Others	58,286,304	14,315,981	(8,211,090)	(1,660,854)	62,730,341	Assets
Total	609,637,532	991,425,981	(413,043,810)	(1,660,854)	1,186,358,849	

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

34. SHARE CAPITAL

2015	At 1 January 2015		Increase/(decrease) during the year			At 31 December 2015	
Registered, issued and fully paid	Number of shares	Percentage (%)	Shares issued	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**	**77.5**	-	-	-	**5,967,751,186**	**77.5**
2. H shares	**1,732,930,000**	**22.5**	-	-	-	**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**

* 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 RMB1.00.

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

34. SHARE CAPITAL *(CONTINUED)*

2014	At 1 January 2014		Increase/(decrease) during the year			At 31 December 2014	
Registered, issued and fully paid	Number of shares	Percentage (%)	Shares issued	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	77.5	–	–	–	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	–	–	–	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

35. CAPITAL RESERVE

2015

	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 the same control	**(9,290,736)**	**–**	**–**	**(9,290,736)**
	8,329,067,663	**–**	**–**	**8,329,067,663**

2014

	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 the same control	(9,290,736)	–	–	(9,290,736)
	8,329,067,663	–	–	8,329,067,663

36. OTHER COMPREHENSIVE INCOME

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

	1 January 2014	Increase/ (decrease)	31 December 2014	Increase/ (decrease)	31 December 2015
Exchange differences arising from foreign currency translation	(72,208,059)	(64,951,421)	(137,159,480)	(28,291,071)	(165,450,551)

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

36. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

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

2015

	Amount before tax	**Company income tax**	**Amount after tax**
Exchange differences arising from foreign currency translation	**(28,291,071)**	**–**	**(28,291,071)**
Less: Recorded in other comprehensive income originally, transferred in and included in current profit or loss	**–**	**–**	**–**
	(28,291,071)	**–**	**(28,291,071)**

2014

	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, transferred in and included in current profit or loss	–	–	–
	(64,951,421)	–	(64,951,421)

37. SPECIAL RESERVE

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	**21,511,442**	**86,927,211**	**(94,064,440)**	**14,374,213**
	21,511,442	**86,927,211**	**(94,064,440)**	**14,374,213**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	13,055,678	193,437,034	(184,981,270)	21,511,442
	13,055,678	193,437,034	(184,981,270)	21,511,442

Special reserve is the safety fund accrued according to the article of No.16 <The regulation on the accrual and usage of enterprise's safety production fee>, carried out by Ministry of Finance and State Administration of Work Safety on February 14, 2012. The fees are mainly related to the industry of mining, gas, communication and transportation, metallurgy, manufacturing, and construction services.

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

38. SURPLUS RESERVES

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	**3,141,371,281**	**11,509,100**	**–**	**3,152,880,381**
Discretionary surplus reserve (ii)	**529,154,989**	**–**	**–**	**529,154,989**
Reserve fund (iii)	**95,271,485**	**413,843**	**–**	**95,685,328**
Enterprise expansion fund (iii)	**65,660,945**	**(150,026)**	**–**	**65,510,919**
	3,831,458,700	**11,772,917**	**–**	**3,843,231,617**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,117,868,545	23,502,736	–	3,141,371,281
Discretionary surplus reserve (ii)	513,915,870	15,239,119	–	529,154,989
Reserve fund (iii)	93,542,443	1,729,042	–	95,271,485
Enterprise expansion fund (iii)	64,408,906	1,252,039	–	65,660,945
	3,789,735,764	41,722,936	–	3,831,458,700

(i) In accordance with the Company Law of the PRC and the articles of association of the Company, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with CAS and related regulations applicable to these companies, to the statutory reserve (the "SR") until such reserve reaches 50% of the registered capital of these companies. Part of the SR may be capitalized as these companies' share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital of these companies.

In 2015, the Company did not accrue statutory reserve (2014: RMB2,157,861).

38. SURPLUS RESERVES *(CONTINUED)*

(ii) The Company and certain of its subsidiaries are authorized to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

(iii) Upon the approval of the board, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

39. (ACCUMULATED LOSSES)/RETAINED PROFITS

	2015	2014
Retained profits at the beginning of the year	**3,451,299,829**	3,272,406,740
Add: Net (loss)/profit attributable to the owners of the parent company	**(4,804,299,674)**	220,616,025
Less: Transfer to surplus reserves	**11,509,100**	23,502,736
Transfer to discretionary surplus reserve	**–**	15,239,119
Transfer to reserve fund	**413,843**	1,729,042
Transfer to enterprise expansion fund	**(150,026)**	1,252,039
Transfer to general reserve	**3,832,375**	–
(Accumulated losses)/retained profits at end of year	**(1,368,605,137)**	3,451,299,829

40. REVENUE AND COST OF SALES

	2015		2014	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**44,008,587,535**	**44,086,048,485**	58,267,526,008	54,322,488,251
Other operating income	**1,100,339,204**	**1,402,392,067**	1,553,412,278	1,517,734,361
	45,108,926,739	**45,488,440,552**	59,820,938,286	55,840,222,612

* 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.

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

40. REVENUE AND COST OF SALES *(CONTINUED)*

Revenue is stated as follows:

	2015	2014
Sale of products	**44,901,171,263**	59,546,356,935
Rendering service	**121,856,692**	121,356,764
Others	**85,898,784**	153,224,587
	45,108,926,739	59,820,938,286

41. BUSINESS TAXES AND SURCHARGES

	2015	2014
City construction and maintenance tax	**103,166,959**	123,549,926
Education surcharges and local education surcharges	**73,138,711**	89,489,562
Other taxes	**24,922,376**	22,260,510
	201,228,046	235,299,998

42. SELLING EXPENSES

	2015	2014
Employee benefits	**38,059,285**	38,497,305
Transportation fees	**544,579,610**	427,402,832
Insurance premium	**10,773,823**	12,943,000
Others	**42,447,126**	33,662,782
	635,859,844	512,505,919

43. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Employee benefits	**481,575,855**	486,875,991
Other taxes other than business taxes and surcharges and income tax	**399,170,094**	276,097,648
Office expenses	**283,748,867**	193,659,157
Rental fees	**64,881,598**	60,120,778
Amortization	**40,776,728**	45,181,466
Research and development expenses	**37,635,638**	40,517,858
Depreciation	**34,269,997**	36,227,963
Travel and entertainment expenses	**24,801,396**	27,774,950
Maintenance expenses	**28,425,184**	24,866,516
*Auditors' remuneration	**5,674,300**	5,928,730
Others	**137,650,230**	113,588,394
	1,538,609,887	1,310,839,451

44. FINANCIAL EXPENSES

	2015	2014
Interest expenses (Note)	**1,070,794,132**	1,360,504,202
Less: Interest income	**142,535,189**	130,653,118
Less: Capitalised interest	**13,172,035**	44,981,975
Exchange gain	**(136,909,896)**	2,361,363
Others	**34,859,427**	56,432,547
	813,036,439	1,243,663,019

Note: The Group's interest expenses include interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note). Capitalized amount of borrowing costs had been recorded in construction in progress.

* 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.

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

44. FINANCIAL EXPENSES *(CONTINUED)*

	2015	2014
Interest expense:		
Interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years	**1,070,562,292**	1,359,552,297
Interest on bank loans which will not expire within five years	**231,840**	951,905
	1,070,794,132	1,360,504,202

45. ASSET IMPAIRMENT LOSS

	2015	2014
Provision of bad debts	**37,562,643**	70,229,028
Including: Trade receivables	**2,638,179**	1,989,407
Other receivables	**34,924,464**	60,797,371
Loans and advances	**–**	7,442,250
Provision of inventory impairment	**1,581,827,336**	700,259,851
	1,619,389,979	770,488,879

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

46. INVESTMENT INCOME

	2015	2014
Investment income from long term equity investment under the equity method	**75,538,213**	136,512,001
Investment income from the fair-value measurement of the newly acquired subsidiary's interests held before acquisition	**4,160,631**	–
Investment income from available for sale financial assets	**12,994,828**	13,896,790
Investment income from disposal of available for sale financial assets	**(48,310)**	–
Investment income from disposal of financial assets at fair value through profit or loss	**1,569,555**	–
Investment income from the financial products issued by bank	**6,860,189**	17,127
Other investment income	**(7,349,908)**	(826,958)
	93,725,198	149,598,960

* During the current year, the Group's investment income from listed companies and unlisted companies were RMB625,118 and RMB93,100,080, respectively (2014: the investment income from listed companies and unlisted companies were RMB17,127 and RMB149,581,833, respectively).

47. NON-OPERATING INCOME

	2015	2014	**Included in 2015 non-recurring gains and losses**
Gain on disposal of non-current assets	**35,444,537**	1,915,776	35,444,537
Including: Gain on disposal of fixed assets	**14,733,331**	1,915,776	14,733,331
Gain on disposal of intangible assets	**20,711,206**	–	20,711,206
Government grants	**346,238,178**	538,621,712	346,238,178
Others	**2,377,033**	363,921	2,377,033
	384,059,748	540,901,409	384,059,748

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

47. NON-OPERATING INCOME *(CONTINUED)*

Details of government grants recorded in the profit or loss are as follows:

	2015	2014
Government grants related to assets (Note V.33)	**87,185,350**	100,182,129
Government grants related to income:		
– Compensation received	**–**	307,861,681
– Tax refund	**232,132,582**	68,339,480
– Others	**26,920,246**	62,238,422
	346,238,178	538,621,712

48. NON-OPERATING EXPENSES

	2015	2014	**Included in 2015 non-recurring gains and losses**
Loss on disposal of non-current assets	**2,478,667**	84,095,373	2,478,667
Including: Loss on disposal of fixed assets	**2,478,667**	36,674,721	2,478,667
Loss on disposal of intangible assets	**–**	47,420,652	–
Public relief donation	**372,800**	780,000	372,800
Penalty expenditure	**1,655,671**	811,364	1,655,671
Compensation for sales transaction in prior year (Note)	**12,213,494**	–	12,213,494
Others	**817,573**	1,179,806	817,573
	17,538,205	86,866,543	17,538,205

Note: On 20 March 2015, the higher people's court of Anhui province announced the result of the second trial for the dispute between the Group's subsidiary (Masteel Shanghai Trading) and Xinxing Development (Ningbo) Metal Resources Limited ("Xinxing"). Masteel Shanghai Trading would compensate Xinxing RMB12,213,494 for goods purchase price, interest and expenditure related to the trial.

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

49. EXPENSES BY NATURE

Supplemental information for the Group's cost of sales, selling expenses and general and administration expenses is presented below by nature:

	2015	2014
Raw materials and consumables used	**36,654,808,686**	46,394,915,061
Changes in inventories of finished goods and work in progress	**(683,010,602)**	(719,026,809)
Employee benefit expenses	**3,883,586,650**	4,483,807,643
Depreciation and amortization	**3,467,477,556**	3,658,241,792
Transport and inspection fee	**1,569,008,234**	1,435,684,396
Repair and maintenance	**970,844,568**	929,651,490
Office expenses	**283,748,867**	193,659,157
Taxes	**399,170,094**	276,097,648
Rental	**64,881,598**	60,120,778
Others	**1,052,394,632**	950,416,826
	47,662,910,283	57,663,567,982

50. INCOME TAX

	2015	2014
Mainland China:		
*Current income tax expense	**47,666,699**	97,585,741
Deferred tax income	**312,816,387**	120,114,272
*Hong Kong current income tax expense	**1,822,979**	3,870,537
*Overseas current income tax expense	**11,474,111**	26,498,329
Overseas deferred income tax expense	**4,132,203**	–
	377,912,379	248,068,879

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

50. INCOME TAX *(CONTINUED)*

Relationship between income tax and profit before tax:

	2015	2014
(Loss)/profit before tax	**(4,726,572,002)**	512,116,394
Tax at the applicable tax rate of 25% (note)	**(1,181,643,001)**	128,029,099
Effect of different tax rates of subsidiaries	**(6,095,186)**	2,048,506
Nondeductible expenses	**34,566,469**	31,798,862
Adjustments on current tax of previous periods	**181,419**	(361,303)
Other tax concessions	**(15,436,489)**	(36,277,861)
Income not subject to tax	**(3,696,052)**	(4,562,119)
Unrecognized deductible temporary difference and tax losses	**1,165,864,998**	161,964,235
Written-off deferred tax assets recognized in prior years	**401,140,566**	–
Tax losses utilized	**–**	(32,954)
Profits and losses attributable to joint ventures and associates	**(16,970,345)**	(34,537,586)
Tax charge at the Group's effective rate	**377,912,379**	248,068,879

Note: The Group income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. 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.

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

51. 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 as follows:

	2015	2014
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**(4,804,299,674)**	220,616,025
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**7,700,681,186**	7,700,681,186

During 2015 and 2014, there was no dilutive item to adjust the Group's basic earnings per share.

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

52. NOTE TO THE STATEMENT OF CASH FLOWS

	2015	2014
Cash received relating to other operating activities:		
Government grants	**26,920,246**	50,867,850
Others	**2,377,033**	363,921
	29,297,279	51,231,771
Cash paid relating to other operating activities:		
Supporting services expense	**176,823,787**	132,411,356
Insurance premium	**40,586,383**	49,643,424
Packing fees	**22,747,742**	27,004,744
Flood prevention fund	**18,033,433**	24,568,519
Environmental improvement fees	**67,022,227**	56,139,779
Research and development expense	**50,510,285**	53,989,851
Bank charges	**34,859,426**	56,432,547
Others	**10,249,852**	16,170,218
	420,833,135	416,360,438
Cash received relating to other investing activities:		
Government funding for special projects	**186,448,184**	29,765,127
Compensation on the land (note)	**–**	960,000,000
	186,448,184	989,765,127

Note: The compensation of RMB960,000,000 received by the Group in 2014 was mainly due to the disposal of land-use right and related assets of Ma Steel (Hefei) to Hefei Municipal Land Reserve Center.

53. SUPPLEMENTS TO CASH FLOWS

(1) Cash flows from operating activities:

	2015	2014
Net (loss)/profit	**(5,104,484,381)**	264,047,515
Add: Provision for bad debts	**37,562,643**	62,786,778
Provision for inventories	**1,581,827,336**	700,259,851
Provision for loans and advances to customers	**–**	7,442,250
Depreciation of fixed assets	**3,400,322,203**	3,597,068,686
Amortisation of investment properties	**2,063,607**	1,705,447
Amortisation of intangible assets	**65,091,746**	59,467,659
Amortisation of deferred income	**(87,185,350)**	(100,182,129)
(Gain)/loss on disposal of non-current assets	**(32,965,870)**	82,179,597
Compensation for disposal of land use rights (i)	**–**	(307,861,681)
(Decrease)/increase in special reserves	**(5,923,249)**	5,648,197
Financial expenses	**778,177,012**	1,187,230,471
Investment income	**(93,725,198)**	(149,598,960)
Gain on fair value changes	**(819,265)**	(564,160)
Decrease in deferred tax assets	**317,435,278**	123,823,632
Decrease in deferred tax liabilities	**(486,688)**	(3,709,361)
Decrease in inventories	**1,084,654,072**	779,710,556
Decrease in receivables from operating activities	**2,654,109,348**	657,150,965
Increase/(decrease) in payables from operating activities	**1,259,923,451**	(4,060,112,580)
Others	**9,755,358**	6,361,096
Net cash flows from operating activities	**5,865,332,053**	2,912,853,829

Note 1: Compensation for disposal of the land use rights was received from Hefei Municipal Land Reserve Center by the Company's subsidiary Ma Steel (Hefei).

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

53. SUPPLEMENTS TO CASH FLOWS *(CONTINUED)*

(2) Acquisition of a subsidiary and other business units:

	2015	2014
Consideration for acquisition of a subsidiary and other business units	**170,091,000**	108,774,997
Cash and cash equivalents paid on acquisition of subsidiaries	**170,091,000**	108,774,997
Less: Cash and cash equivalents of a subsidiary acquired	**96,899,472**	–
Net cash paid on acquisition of a subsidiary and other operating units	**73,191,528**	108,774,997

(3) Cash and cash equivalents:

Net change of cash and cash equivalents

	2015	2014
Closing balance of cash	**3,546,410,358**	2,709,836,299
Less: Opening balance of cash	**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	**836,574,059**	895,318,174

	2015	2014
Cash		
Include: Cash on hand	**138,929**	179,213
Balances with financial institutions without restriction	**3,546,271,429**	2,709,657,086
Ending balance of cash and cash equivalents	**3,546,410,358**	2,709,836,299

54. DIVIDENDS*

	2015	2014
Proposed final dividend	–	–

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 2015.

55. RESTRICTED ASSETS

	2015	2014	
Cash and bank balances (Note V.1)	**1,596,301,124**	1,944,715,220	(i)
Bills receivable (Note V.3)	**1,277,158,488**	4,723,683,840	(ii)
Inventory (Note V.7)	**10,859,823**	–	(iii)
Fixed Assets (Note V.13)	–	45,662,645	(iii)
	2,884,319,435	6,714,061,705	

(i) As of 31 December 2015, the Group's cash and bank balances amounting to RMB1,596,301,124 have been pledged to banks as security (31 December 2014: RMB1,944,715,220), including cash deposit as collateral amounting to RMB1,198,860,855 (31 December 2014: RMB1,075,433,928) pledged as security for trade facilities and performance bonds, and time deposits of USD1,000,000, equivalent to RMB6,493,453 (31 December 2014: USD1,000,000, equivalent to RMB6,153,420) pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB390,946,816 (31 December 2014: RMB863,127,872).

(ii) As of 31 December 2015, the Company had bills of RMB1,120,157,322 (31 December 2014: 1,120,157,322) in Ma'anshan Branch of Industrial and Commercial Bank of China pledged as security to obtain bank long-term loans of RMB970,000,000 (31 December 2014: RMB970,000,000), which is disclosed in Note V.31. 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. Certain of the Group's bank acceptance bills amounting to RMB157,001,166 were pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2014: RMB257,598,747).

(iii) As of 31 December 2015, the Group's subsidiary Ma Steel (Jinhua) had inventory with carrying amount of RMB10,859,823 restricted for use due to trade disputes.

(iv) As of 31 December 2014, certain of the Group's production equipment with a net carrying amount of RMB45,662,645 was pledged as security to acquire bank loans amounting to RMB12,000,000. As of 31 December 2015, the loans had been repaid.

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

56. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY

	2015			2014		
	Original Currency	**Exchange Rate**	**RMB**	Original Currency	Exchange Rate	RMB
Cash and bank balances						
HKD	**5,695,550**	**0.8378**	**4,771,732**	279,413	0.7889	220,429
USD	**391,718,720**	**6.4936**	**2,543,664,680**	196,368,672	6.1190	1,201,579,904
EUR	**12,579,765**	**7.0952**	**89,255,949**	30,144,838	7.4556	224,747,854
JPA	**24,050**	**0.0539**	**1,296**	101,010	0.0514	5,189
AUD	**10,144,811**	**4.7276**	**47,960,608**	28,918,247	5.0174	145,094,412
CAD	**1,476,774**	**4.6814**	**6,913,370**	–	5.2755	–
GBP	**991**	**9.6159**	**9,529**	–	9.5437	–
			2,692,577,164			1,571,647,788
Trade receivables						
USD	**13,167,430**	**6.4936**	**85,504,023**	37,618,795	6.1190	230,189,407
EUR	**9,545,274**	**7.0952**	**67,725,628**	10,759,013	7.4556	80,214,900
HKD	**95,316**	**4.6814**	**446,212**	–	0.7889	–
AUD	**5,489,661**	**4.7276**	**25,952,921**	3,452,475	5.0174	17,322,448
			179,628,784			327,726,755
Other receivables						
HKD	**328,589**	**0.8378**	**275,292**	34,781,148	0.7889	27,438,848
EUR	**1,645,122**	**7.0952**	**11,672,470**	4,849,516	7.4556	36,156,053
AUD	**23,244**	**4.7276**	**109,888**	136,648	5.0174	685,619
			12,057,650			64,280,520

56. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY *(CONTINUED)*

	2015			2014		
	Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Accounts payable						
GBP	1,520	9.6159	14,616	–	9.5437	–
AUD	39,721	4.7276	187,785	69,889	5.0174	350,661
USD	395,445	6.4936	2,567,862	–	6.1190	–
EUR	7,408,245	7.0952	52,562,980	7,962,132	7.4556	59,362,471
HKD	140,665,035	0.8378	117,849,166	42,355,222	0.7889	33,414,035
			173,182,409			93,127,167
Other payables						
AUD	3,080,622	4.7276	14,563,949	3,704,070	5.0174	18,584,803
HKD	181,851,088	0.8378	152,354,842	219,361,212	0.7889	173,054,060
EUR	1,674,790	7.0952	11,882,970	8,957,351	7.4556	66,782,428
			178,801,761			258,421,291
Short-term borrowing						
USD	641,071,173	6.4936	4,162,859,769	894,234,110	6.1190	5,471,818,517
EUR	–	–	–	289,051	7.4556	2,155,049
			4,162,859,769			5,473,973,566
Long-term borrowings within one year						
USD	7,360,000	6.4936	47,792,896	157,000,000	6.1190	960,683,000
Long-term borrowing						
USD	29,440,000	6.4936	191,171,584	126,800,000	6.1190	775,889,200

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARIES

During the year of 2015, the Company established the following subsidiary, and included them in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Capital paid as of year end
Ma'anshan Oubang Color-coated Technology Co., Ltd. (Masteel Oubang Color-coated) (Note)	2015/5	RMB50,000,000	67%	Cash	RMB15,000,000

Note: In February 2015, the Company entered into investment agreement with Jiangsu Oubang Plastic Co., Ltd ("Jiangsu Oubang"), to jointly fund Masteel Oubang Color-coated in May 2015. As at 31 December 2015, the first contribution contributed by both investors amounting to RMB15,000,000. According to the investment agreement, the Company owned 67% share of Masteel Oubang Color-coated, the Company has control power of Masteel Oubang Color-coated, and hence included it into the scope of consolidation since the establishment date.

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

2. BUSINESS COMBINATION

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Capital paid as of year end
Ma-Steel Rail Transportation	2012/3	RMB300,000,000	100%	Cash	RMB300,000,000

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 had paid the consideration. Therefore, Maanshan Jinxi Rail Transit Equipment Co., Ltd. became a wholly-owned subsidiary of the Group and was renamed to "Ma-Steel Rail Transportation Equipment Co., Ltd." after the completion of the acquisition.

Ma-Steel 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).

The Group determined the acquisition date as 31 May 2015. Ma-Steel 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:

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

2. BUSINESS COMBINATION *(CONTINUED)*

	Acquisition date Fair value RMB	Acquisition date Book value RMB
Cash and bank balances	96,899,472	96,899,472
Trade receivables	7,711,204	7,711,204
Bill receivables	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	71,888,732	64,438,026
Intangible assets	86,043,106	85,169,223
Other non-current assets (Prepayment for projects)	27,505,885	27,505,885
Total assets	346,261,477	337,940,215
Trade payables	62,190	62,190
Bill payables	600,000	600,000
Advance deposit	381,704	381,704
Payroll payables	140,550	140,550
Tax payables	1,605,297	1,605,297
Other payables	3,289,736	3,289,736
Total liabilities	6,079,477	6,079,477
Net assets	340,182,000	331,860,738
Fair value of 50% equity	170,091,000	
Impact on current year's profit or loss	–	
Consideration paid by cash	170,091,000	

The Company paid cash consideration of RMB170,091,000 for the acquisition, which approximates the fair value of the acquired equity interests.

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

2. BUSINESS COMBINATION *(CONTINUED)*

The revenue, profit or loss and cash flows generated by Ma-Steel Rail Transportation from the acquisition date to 31 December 2015 were as follows:

Revenue	27,821,667
Net loss	1,855,050
Net cashflows	22,836,527

VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

The details of subsidiaries are as follows:

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity(%) Direct	Indirect
Subsidiaries acquired by establishment or investment						
Anhui Masteel K.Wah New Building Materials Co., Ltd. (New Build Masteel K. Wah.)	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	HKD260,000,000	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	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	61	25.48

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity(%) Direct	Indirect
Subsidiaries acquired by establishment or investment *(Continued)*						
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	–
Masteel Shanghai Trading	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	–
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) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Ma' Anshan (Guangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	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	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity(%) Direct	Indirect
Subsidiaries acquired by establishment or investment *(Continued)*						
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Heifei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, 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	French	French	Manufacturing	EUR 40,200,000	100	–
Masteel Oubang Color-coated (Note1)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Subsidiaries acquired not under common control						
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Ma steel (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	–
Ma-Steel Rail Transportation (Note2)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB300,000,000	100	–
Masteel Group Financial Co., Ltd. ("Masteel Financial")	Anhui, PRC	Anhui, PRC	Financial services	RMB1,000,000,000	91	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Note 1: 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.

Note 2: In May 2015, the Company acquired 50% share of Ma-Steel Rail Transportation. As of 31 December 2015, the Company held 100% shareholding and voting right of Ma-Steel Rail Transportation. Please refer to Note VI, 2.

Subsidiaries including material non-controlling interests are as follows:

	2015	2014
The proportion of equity held by non-controlling shareholders:		
Ma Steel (Hefei)	**29%**	29%
Anhui Chang Jiang Iron and Steel	**45%**	45%
Masteel Financial	**9%**	9%
Profit attributable to non-controlling shareholders:		
Ma Steel (Hefei)	**(186,736,219)**	2,218
Anhui Chang Jiang Iron and Steel	**(98,134,232)**	38,639,545
Masteel Financial	**9,668,950**	10,695,227
Dividends paid to non-controlling shareholders:		
Ma Steel (Hefei)	**–**	–
Anhui Chang Jiang Iron and Steel	**11,426,163**	17,250,970
Masteel Financial	**–**	–
Cumulative balance of non-controlling interests at the end of the reporting period:		
Ma Steel (Hefei)	**774,849,514**	960,651,510
Anhui Chang Jiang Iron and Steel	**993,647,826**	1,107,248,899
Masteel Financial	**133,042,997**	123,374,047

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

The summarized financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before the group elimination.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2015			
Current assets	**968,758,036**	**1,492,741,756**	**3,116,708,624**
Non-current assets	**3,814,743,779**	**4,496,852,295**	**4,183,250,047**
Total assets	**4,783,501,815**	**5,989,594,051**	**7,299,958,671**
Current liabilities	**(1,440,874,256)**	**(3,751,201,063)**	**(5,821,207,473)**
Non-current liabilities	**(670,732,682)**	**(30,286,707)**	**(495,676)**
Total liabilities	**(2,111,606,938)**	**(3,781,487,770)**	**(5,821,703,149)**
Revenue	**4,543,085,651**	**6,531,780,892**	**232,662,219**
Net Profit/(loss)	**(643,917,997)**	**(218,076,072)**	**107,432,775**
Total comprehensive income	**(643,917,997)**	**(218,076,072)**	**107,432,775**
Net cash flows from operating activities	**18,217,041**	**316,747,830**	**1,207,492,849**

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2014			
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	5,561,561,827	6,395,882,648	7,759,295,566
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	(2,248,970,412)	(3,935,329,538)	(6,388,472,820)
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	7,648	85,865,656	118,835,859
Net cash flows from operating activities	199,929,220	594,812,496	(694,125,423)

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(%) Directly	Indirectly	Accounting method
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
Ma-Steel OCI Chemical (iii)	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method

i. On 29 May 2015, the shareholders of Jiyuan Jinyuan Chemical contributed their share equity in Jiyuan Jinyuan Chemical to Henan JinMa Energy as capital increment. After the capital increment, Henan JinMa Energy's registered capital was changed to RMB326,730,000, and the shareholding structure in Henan JinMa Energy remained unchanged. The Company holds 36% share of Henan JinMa Energy and Jiyuan Jinyuan Chemical. See Note V. 11.

ii. The Company owns 12% equity in Anhui Linhuan Chemical. The Company designated one director to Anhui Linhuan Chemical and has rights to participate in the major decision-making regarding financial and operational management but has no control or joint control on Anhui Linhuan Chemical. Thus, the Company has significant influence over Anhui Linhuan Chemical.

iii. 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 USD 47,125,000. According to the contract, the Company owned 40% equity and voting right. See Note V.11.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

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

	2015	2014
Current assets	**345,030,431**	303,106,681
Including: Cash and cash equivalents	**284,346,880**	232,754,244
Non-current assets	**343,776,987**	387,735,999
Total assets	**688,807,418**	690,842,680
Current liabilities	**56,745,837**	67,998,128
Non-current liabilities	**–**	–
Total liabilities	**56,745,837**	67,998,128
Non-controlling interests	**–**	–
Equity attributable to the parent company	**632,061,581**	622,844,552
The Group's share of net assets	**316,030,791**	311,422,276
Adjustment	**–**	–
The carrying value of the investment	**316,030,791**	311,422,276
Revenue	**585,082,278**	574,214,269
Financial expenses – Interest income	**5,941,620**	4,901,552
Financial expenses – Interest expenses	**–**	–
Income tax expenses	**52,750,173**	52,300,714
Net profit	**156,231,473**	148,306,967
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**156,231,473**	148,306,967
Dividends received	**–**	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

Henan JinMa Energy and Shenglong Chemical are the Group's significant associates and are accounted for using the equity method. In 2014, Ma-Steel Rail Transportation is the Group's significant associate, which is accounted for using equity method. In 2015, the Group acquired 50% of shares of Ma-Steel Rail Transportation, which had become the subsidiary of the Group thereafter.

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

	Henan JinMa Energy	Shenglong Chemical
2015		
Current assets	855,063,827	801,789,029
Non-current assets	947,374,354	1,501,617,303
Total assets	1,802,438,181	2,303,406,332
Current liabilities	968,036,241	1,545,899,026
Non-current liabilities	159,357,056	–
Total liabilities	1,127,393,297	1,545,899,026
Non-controlling interests	5,327,126	–
Equity attributable to the parent company	669,717,758	757,507,306
The Group's share of net assets	241,098,393	242,402,338
Adjustment	–	–
The carrying value of the investment	241,098,393	242,402,338
Revenue	2,457,137,640	2,757,010,679
Income tax expenses	6,768,602	32,912,362
Net profit/(loss)	15,016,199	(11,233,218)
Other comprehensive income	–	–
Total comprehensive income	15,016,199	(11,233,218)
Dividends received	–	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

	Henan JinMa Energy	Shenglong Chemical	Maanshan Jinxi Rail Transit Equipment Co., Ltd. (i)
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	1,221,126,894	1,656,550,640	13,528,821
Non-current liabilities	–	–	–
Total liabilities	1,221,126,894	1,656,550,640	13,528,821
Non-controlling interests	5,869,699	–	–
Equity attributable to the parent company	576,383,100	768,166,322	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	–	–	–

Note 1: Please refer to note 2 in Note V, 11.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

	2015	2014
Joint ventures		
The carrying value of the Group's investments	**539,342**	542,669
Total shown as below (calculated according to the equity percentage)		
Net loss	**(3,327)**	(9,275)
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(3,327)**	(9,275)

	2015	2014
Associates		
The carrying value of the Group's investments	**229,782,643**	152,832,688
Total shown as below (calculated according to the equity percentage)		
Net profit	**7,085,666**	12,768,258
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**7,085,666**	12,768,258

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as of the end of year are as follows:

2015

Financial Assets

	Financial assets at fair value through profit or loss		Loans and	Available-for-sale	
	Initial recognition	Held for trading	receivables	financial assets	Total
Cash and bank balances	–	–	5,142,711,482	–	5,142,711,482
Financial assets at fair value through profit or loss	1,003,684,000	1,587,054	–	–	1,005,271,054
Bills receivable	–	–	4,689,129,290	–	4,689,129,290
Trade receivables	–	–	796,986,661	–	796,986,661
Other receivables	–	–	190,348,070	–	190,348,070
Interest receivable	–	–	1,600,176	–	1,600,176
Loans and advances to customers	–	–	732,913,869	–	732,913,869
Available-for-sale financial assets	–	–	–	128,934,410	128,934,410
	1,003,684,000	1,587,054	11,553,689,548	128,934,410	12,687,895,012

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial Liabilities

	Financial liabilities at fair value through profit or loss		Other financial	
	Initial recognition	Held for trading	liabilities	Total
Short-term loans	–	–	6,791,359,472	6,791,359,472
Customer deposits	–	–	1,901,390,488	1,901,390,488
Bills payable	–	–	5,343,906,398	5,343,906,398
Accounts payable	–	–	6,144,664,281	6,144,664,281
Interest payable	–	–	150,829,308	150,829,308
Dividends payable	–	–	6,525,534	6,525,534
Other payables	–	–	1,258,463,513	1,258,463,513
Non-current liabilities due within one year	–	–	5,084,859,415	5,084,859,415
Long term loans	–	–	6,655,171,584	6,655,171,584
Bonds payable	–	–	3,979,666,667	3,979,666,667
	–	–	37,316,836,660	37,316,836,660

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

2014

Financial Assets

	Financial assets at fair value through profit or loss		Loans and	Available-for-sale	
	Initial recognition	Held for trading	receivables	financial assets	Total
Cash and bank balances	–	–	4,654,551,519	–	4,654,551,519
Financial assets 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
	1,126,460	(52,970)	14,885,398,700	126,772,160	15,013,244,350

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial Liabilities

	Financial liabilities at fair value through profit or loss		Other financial	
	Initial recognition	Held for trading	liabilities	Total
Short-term loans	–	–	12,058,394,894	12,058,394,894
Deposit 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
	–	–	37,124,945,752	37,124,945,752

2. OFFSETTING OF FINANCIAL INSTRUMENTS

For the year of 2015, there is no offsetting arrangements for accounts receivable (31 December 2014: nil)

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

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognized

As of 31 December 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 RMB132,410,064 and RMB111,192,600 respectively for settlement of accounts payable. As of 31 December 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 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 of 31 December 2015, the carrying amount of accounts payable settled by the Group through them and short-terms borrowings secured amounted to RMB132,410,064 and RMB111,192,600 respectively (31 December 2014: RMB225,237,532 and RMB16,121,328, respectively).

Transferred financial assets fully derecognised but with continuing involvement

As of 31 December 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 RMB1,488,128,608, and RMB404,284,634 respectively (31 December 2014: RMB3,127,876,604 and RMB243,937,566 respectively) for settlement of accounts payable. As at 31 December 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.

During the year of 2015, no gains or losses were recognised on the 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 evenly during the year.

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

4. FINANCIAL INSTRUMENTS RISK

The Group's principal financial instruments are comprised of interest-bearing bank borrowings, other borrowings and cash and bank balances. The main purpose of these financial instruments is to 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 recognized 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 recognized and creditworthy third parties, there is no requirement for collateral. Credit risk is managed in accordance with customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had a certain concentration of credit risk as 22% (2014: 6%) and 44% (2014: 24%) of the Group's trade receivables were due from the Group's largest customer and five largest customers respectively. The Group does not hold any collateral or credit enhancement for the balance of trade receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.4 and V.7 to the financial statements.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

As of 31 December 2014 and 2015, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

2015

			Overdue	
	Total	**Not overdue**	**Less than six months**	**Over six months**
Trade receivables	**796,986,661**	**494,583,497**	**221,067,740**	**81,335,424**
Bills receivable	**4,689,129,290**	**4,689,129,290**	**–**	**–**
Available-for-sale financial assets	**128,934,410**	**128,934,410**	**–**	**–**
Interest receivable	**1,600,176**	**1,600,176**	**–**	**–**
Other receivables	**190,348,070**	**151,306,871**	**29,028,874**	**10,012,325**
Loans and advances to customers	**732,913,869**	**732,913,869**	**–**	**–**

2014

			Overdue	
	Total	Not 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 31 December 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 as of 31 December 2015.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk

The Group applies a liquidity planning tool 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 of 31 December 2015, 59% of the Group's debts are due within 12 months (2014: 69%).

The maturity profile of the Group's financial liabilities is as at the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows.

2015

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	6,791,359,472	-	-	-	-	6,791,359,472
Customer deposits	1,901,390,488	-	-	-	-	1,901,390,488
Bills payable	5,343,906,398	-	-	-	-	5,343,906,398
Trade payables	6,144,664,281	-	-	-	-	6,144,664,281
Dividends payable	6,525,534	-	-	-	-	6,525,534
Other payables	1,258,463,513	-	-	-	-	1,258,463,513
Bonds payable due within one year	2,340,000,000	-	-	-	-	2,340,000,000
Long term loans due within one year	2,747,792,896	-	-	-	-	2,747,792,896
Long term loans	-	6,243,992,896	238,292,896	117,585,792	55,300,000	6,655,171,584
Bonds payable	-	-	4,000,000,000	-	-	4,000,000,000
Interest payable for borrowings	930,909,303	239,885,087	121,033,016	4,823,867	1,994,487	1,298,645,760
Total	27,465,011,885	6,483,877,983	4,359,325,912	122,409,659	57,294,487	38,487,919,926

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(Continued)*

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
Deposit 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
Dividends payable	7,210,819	–	–	–	–	7,210,819
Other payables	827,419,110	–	–	–	–	827,419,110
Long term loans 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	–	2,340,000,000	–	–	–	2,340,000,000
Interest payable for borrowing	1,022,477,709	267,094,382	29,521,763	7,020,511	547,123	1,326,661,488
Total	34,328,998,903	7,326,083,476	1,514,557,603	97,092,191	45,582,963	43,312,315,136

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 floating interest rates.

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.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
2015		
RMB	**50**	**(27,945,438)**
USD	**50**	**(2,809,479)**
RMB	**(50)**	**27,945,438**
USD	**(50)**	**2,809,479**
2014		
RMB	50	(21,150,000)
USD	50	(6,512,146)
RMB	(50)	21,150,000
USD	(50)	6,512,146

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.1, 4, 20, 22 and 31 to the financial statements, respectively.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Foreign currency risk

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, Japanese Yen, Australian Dollar, Canadian Dollar, Hong Kong Dollar and Great Britain Sterling Pound with all other variables held constant, of the Group's net profit (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
2015			
Depreciation of RMB to USD	(1%)	(14,486,189)	–
Depreciation of RMB to EUR	(1%)	203,932	2,463,376
Depreciation of RMB to JPY	(1%)	10	–
Depreciation of RMB to AUD	(1%)	84,833	1,537,796
Depreciation of RMB to HKD	(1%)	(2,024,373)	1,492,866
Depreciation of RMB to CAD	(1%)	55,197	–
Depreciation of RMB to GBP	(1%)	(38)	–
Appreciation of RMB to USD	1%	14,486,189	–
Appreciation of RMB to EUR	1%	(203,932)	(2,463,376)
Appreciation of RMB to JPY	1%	(10)	–
Appreciation of RMB to AUD	1%	(84,833)	(1,537,796)
Appreciation of RMB to HKD	1%	2,024,373	(1,492,866)
Appreciation of RMB to CAD	1%	(55,197)	–
Appreciation of RMB to GBP	1%	38	–

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)
2014			
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 HKD	(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 JPY	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: Except for the surplus reserve.

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.

For the years ended 31 December 2015 and 2014, the capital management objectives, policies or procedures of the Group did not change.

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

5. CAPITAL MANAGEMENT *(CONTINUED)*

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 70%. Net debt includes deposits, 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:

	2015	2014
Deposits and balances from banks and other financial institutions	**–**	500,000,000
Customer deposits	**1,901,390,488**	1,199,618,850
Short term loans	**6,791,359,472**	12,058,394,894
Bills payable	**5,343,906,398**	4,802,906,077
Accounts payable	**6,144,664,281**	6,679,288,444
Payroll and benefits payable	**274,614,723**	299,077,212
Interest payable	**150,829,308**	146,625,806
Dividends payable	**6,525,534**	7,210,819
Other payables	**1,258,463,513**	827,419,110
Non-current liabilities due within one year	**5,084,859,415**	2,231,683,000
Long term loans	**6,655,171,584**	6,339,132,454
Bonds payable	**3,979,666,667**	2,332,666,298
Long term payroll	**28,857,389**	25,877,746
Less: Cash and bank balances	**5,142,711,482**	4,654,551,519
Net liabilities	**32,477,597,290**	32,795,349,191
Capital attributable to owners of the parent	**18,455,838,015**	23,295,565,989
Adjusted capital	**18,455,838,015**	23,295,565,989
Capital and net liabilities	**50,933,435,305**	56,090,915,180
Gearing ratio	**64%**	58%

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

2015

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss	**1,005,271,054**	**–**	**–**	**1,005,271,054**

2014

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss	1,073,490	–	–	1,073,490

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

2015

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Long term loans	**–**	**6,475,332,986**	**–**	**6,475,332,986**
Bonds payable	**–**	**3,976,000,000**	**–**	**3,976,000,000**

2014

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Long term loans	–	6,178,237,741	–	6,178,237,741
Bonds payable	–	2,330,428,898	–	2,330,428,898

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE

Fair value of financial instruments

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	
	2015	2014	**2015**	2014
Financial liabilities				
Long term loans	**6,655,171,584**	6,339,132,454	**6,475,332,986**	6,178,237,741
Bonds payable	**3,979,666,667**	2,332,666,298	**3,976,000,000**	2,330,428,898

Management has assessed the fair value of cash and cash equivalents, bills receivable, accounts receivable, interest receivable, other receivables, bills payables, trade payables, interest payable, dividends payable, other payables, loans and advances to customers, short-term borrowings, 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 borrowings and medium-term note 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 of 31 December 2015, the default risk for the long-term borrowings is evaluated as not significant; for corporate bonds payable, quoted market prices are adopted to determine their fair value.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

Name of parent	Place of Registration	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)
Masteel (Group) Holding Company Limited	Anhui, PRC	Manufacturing	6,298,290,000	45.535	45.535

Maanshan Iron & Steel Company Limited is ultimately 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 JOINT VENTURES OF THE GROUP

Further details on balances with associates and joint venture of the Group are stated in Note VII.2 to the financial statements.

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd. (i)	Controlled by Holding
Magang (Group) logistics Co., Ltd.(i)	Controlled by Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by Holding
Masteel Engineering Technology (Group) Co., Ltd.(ii)	Controlled by Holding
Masteel Automation and Information Technology Co., Ltd.	Controlled by Holding
Anhui Xiangyun Technology Co., Ltd.(i)	Controlled by Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding
Masteel Group Mapping Co., Ltd.	Controlled by Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by Holding

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding
Masteel Green Energy Technology Development	Controlled by Holding
Tongling Yuanda 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
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by Holding
Masteel Refractory Materials Co., Ltd.	Controlled by Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding
Xinchuang Economize Resource	Controlled by Holding
Anhui Metal Technology Institute	Controlled by Holding
Anhui Masteel Advanced Technician Institute	Controlled by Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by Holding
Hefei Dianbu River Harbour Co., Ltd.(i)	Controlled by Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding
Maanshan Harbour Group Co., Ltd.	Controlled by Holding
Maanshan Yangtze River Logistics	Controlled by Holding
Maanshan Changjiang Shipping Agency	Controlled by Holding
Maanshan China Ocean Shipping Tally Co., Ltd.	Controlled by Holding
Ma Steel United Electric Steel Roller Co., Ltd.	Controlled by Holding
Anhui Zhengpu Harbor Co., Ltd.	Controlled by Holding

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

4. OTHER RELATED PARTIES *(CONTINUED)*

i: These are companies newly owned by the Company in the current year.

ii: This year, Masteel Engineering Technology (Group) Co., Ltd. controlled by the Holding absorbed the companies used to name *Masteel Equipment Maintenance Engineering Co., Ltd., Masteel Metallurgy Construction Co., Ltd. and Maanshan Masteel Steel Structure Technology Co., Ltd.*.

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

(1) Purchases of iron ore from related parties

	Note	**2015**	2014
The Holding	(i)	**2,245,530,588**	3,200,092,886
Ma Steel International Trade and Economic Co., Ltd. ("Masteel International Trade")	(i)	**201,182,139**	211,519,018
Tongling Yuanda Co., Ltd. ("Tongling Yuanda")	(i)	**58,983,607**	57,802,479
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	**7,964,460**	20,460,633
		2,513,660,794	3,489,875,016

(i) The terms for the purchases of iron ore from the 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 based on the Platts Index. The Group purchased iron ore from Tongling Yuanda and two subsidiaries of the Group purchase iron ore from Luo He Mining and Ma Steel International Trade Corp., and the price terms of which were negotiated.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	**2015**	2014
The Holding	(ii)	**75,259,657**	49,807,832
Masteel Refractory Materials Co., Ltd.	(ii)	**523,732,813**	553,345,321
Masteel Metallurgy Construction Co., Ltd.	(ii)	**–**	272,915,076
Xinchuang Economize Resource	(ii)	**271,977,349**	245,385,463
Masteel Equipment Maintenance Engineering Co., Ltd.	(ii)	**–**	239,174,188
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**209,864,614**	215,795,497
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**205,379,949**	179,537,135
Maanshan Harbour Group Co., Ltd.	(ii)	**188,705,754**	178,428,818
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	**146,979,560**	161,029,009
Masteel Automation and Information Technology Co., Ltd.	(ii)	**71,562,326**	155,836,853
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	**406,968,817**	107,746,455
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**64,823,345**	72,831,264
Masteel International Trade	(ii)	**87,392,730**	64,670,428
Maanshan Gang Chen Industry Co., Ltd.	(ii)	**4,666,849**	11,390,685
Others	(ii)	**185,344,422**	89,641,865
		2,442,658,185	2,597,535,889

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(3) Agency fees paid to related parties

	Note	**2015**	2014
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**2,558,962**	7,565,550
Masteel Shen Ma Metal Co., Ltd.	(iii)	**67,986**	85,764
Masteel International Trade		**215,029**	–
Shanghai Masteel International Trade and Economic Co., Ltd.		**81,617**	–
		2,923,594	7,651,314

(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

	Note	**2015**	2014
The Holding	(iv)	**48,540,000**	48,540,000

(iv) The Holding leases an office building to the Group and the rent is determined by the terms mutually agreed between the Company and the related parties.

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(5) Purchases of fixed assets and construction services

	Note	2015	2014
Masteel Metallurgy Construction Co., Ltd.	(iii)	**–**	173,699,257
Xinchuang Economize Resource	(iii)	**198,870,368**	103,354,516
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**334,450,389**	32,543,960
Masteel Automation and Information Technology Co., Ltd.	(iii)	**19,601,634**	23,356,175
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	**8,372,508**	19,829,462
Ma Steel United Electric Steel Roller Co., Ltd.	(iii)	**–**	7,210,674
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	**–**	6,457,632
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**3,581,034**	2,405,883
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**20,574,500**	2,768,886
Masteel International Trade	(iii)	**–**	3,493,595
Maanshan Bo Li Construction Supervising Co., Ltd.	(iii)	**–**	632,479
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**–**	526,798
Others	(iii)	**5,963,013**	–
		591,413,446	376,279,317

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	**2015**	2014
The Holding	(iii)	**3,543,613**	24,714,636
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**27,568,934**	79,583,577
Xinchuang Economize Resource	(iii)	**66,637,669**	65,739,718
Masteel Metallurgy Construction Co., Ltd.	(iii)	**–**	39,593,476
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	**116,144**	27,574,061
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	**12,630,013**	13,792,125
Masteel Refractory Materials Co., Ltd.	(iii)	**8,406,103**	10,088,444
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	**–**	9,343,277
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**3,067,278**	8,089,824
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**3,552,094**	3,852,572
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**1,291,525**	1,830,958
Others	(iii)	**34,289,554**	20,123,340
		161,102,927	304,326,008

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(7) Sale of steel products and other related products

	Note	2015	2014
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**153,747,683**	–
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**4,071,037**	–
Masteel Metallurgy Construction Co., Ltd.	(iii)	**–**	246,529,925
Maanshan Masteel Steel Structure Technology Co., Ltd.	(iii)	**–**	77,863,275
Masteel International Trade	(iii)	**1,663,939**	48,503,462
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**12,565,062**	46,843,215
Others	(iii)	**–**	1,230,761
		172,047,721	420,970,638

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(8) Financial service costs paid to related parties

	Note	**2015**	2014
The Holding	(v)	**10,485,794**	7,948,383
Masteel Engineering Technology (Group) Co., Ltd.	(v)	**1,755,364**	1,339,311
Maanshan Gang Chen Industry Co., Ltd.	(v)	**861,963**	963,132
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	**1,237,573**	783,221
Masteel Metallurgy Construction Co., Ltd.	(v)	**–**	687,253
Masteel International Trade	(v)	**626,396**	863,170
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	**1,051,055**	826,450
Others	(v)	**6,766,809**	2,437,475
		22,784,954	15,848,395

(v) Masteel Financial took deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranged from 0.385% to 3.25% in 2015 (2014: 0.385% to 3.30%).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(9) Financial service income received from related parties

	Note	**2015**	2014
The Holding	(vi)	**2,150,493**	19,355,364
Maanshan Gang Chen Industry Co., Ltd.	(vi)	**1,336,425**	14,521,214
Luo He Mining	(vi)	**5,273,311**	6,242,933
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	**17,334,088**	3,121,963
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	**1,591,106**	1,483,832
Xinchuang Economize Resource	(vi)	**109,740**	436,827
Masteel International Trade	(vi)	**577,379**	–
Others	(vi)	**499,085**	880,399
		28,871,627	46,042,532

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(10) Rental income from an associate

	Note	**2015**	2014
Masteel Auto-parking	(vii)	**189,395**	210,065

(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 an associate

	Note	**2015**	2014
Masteel Auto-parking	(vii)	**14,952**	14,952

(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) Sale of wheel to an associate

	Note	**2015**	2014
Ma-Steel Rail Transportation	(viii)	**1,199,500**	60,087,608

(viii) On 28 May 2015, Ma-Steel Rail Transportation was been accounted into consolidated financial statement of the Group. The amount of transaction was before acquisition. These transactions were made between the Group and Ma-Steel Rail Transportation and were conducted in accordance with the terms mutually agreed between the parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(13) Sales of coke-related products to an associate

	Note	**2015**	2014
Shenglong Chemical	(ix)	**841,809**	1,157,834

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

(14) Purchases of coke from an associate

	Note	**2015**	2014
Shenglong Chemical	(ix)	**120,258,337**	62,251,808

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

(15) Rental income from a joint venture

	Note	**2015**	2014
BOC-Ma Steel	(x)	**1,250,000**	1,250,000

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

(16) Fees received for the supply of electricity from a joint venture

	Note	**2015**	2014
BOC-Ma Steel	(x)	**293,461,802**	278,107,586

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	**2015**	2014
BOC-Ma Steel	(x)	**5,742,143**	5,742,049

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

(18) Purchase of gas products from a joint venture

	Note	**2015**	2014
BOC-Ma Steel	(x)	**569,954,048**	565,447,922

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

(19) Fees received for providing electrical and mechanical equipment maintenance from a joint venture.

	Note	**2015**	2014
BOC-Ma Steel	(x)	**–**	200,000

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

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

	Note	**2015**	2014
BOC-Ma Steel	(x)	**–**	42,631

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(21) Fee received for providing equipment inspection from a joint venture

	Note	**2015**	2014
BOC-Ma Steel	(x)	**150,000**	–

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

(22) Guarantee from a related party

2015

	Note	**Guarantee name**	**Guarantee amount (RMB)**	**Start date**	**End Date**	**Has guarantee matured or not**
Holding	(xi)	**The Company**	**4.812 billion**	**2014.3**	**2025.10**	**Not yet as at the approval date of the report**

2014

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End Date	Has guarantee matured or not
Holding	(xi)	The Company	6.127 billion	2012.2	2020.7	Not yet as at the approval date of the report

(xi) During the year ended 2015, the Holding has guaranteed additional certain bank loans of the Group amounting approximately to RMB3.89 billion (2014: approximately RMB1.687 billion) in 2015 without attached conditions. The Holding has guaranteed part of bank loans amounting approximately to RMB2.472 billion as at 31 December 2015 (December 31 2014: part of the Group's bank loans with warrants amounting approximately to RMB3.787 billion). The Holding has guaranteed part of corporate bonds amounting approximately to RMB2.34 billion as at 31 December 2015 (December 31 2014: part of the Group's bonds with warrants amounting approximately to RMB2.34 billion). Total bank loans and corporate bonds guaranteed by the Holding is RMB4.812 billion (December 31 2014: total guaranteed by the Holding is RMB6.127 billion).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(23) Borrowings from related parties

2015

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xii)	**80,000,000**	**2015/03/27**	**2016/03/25**
Anhui Zhonglian Shipping Co., Ltd.	(xii)	**30,000,000**	**2015/05/04**	**2016/05/03**
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xii)	**20,000,000**	**2015/11/19**	**2016/11/18**

(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 4.14% and 3.915%, and repay principal and interest on the expiration date. The company accrued interest RMB2,816,750 and RMB962,775, respectively, and not paid yet as at 31 December 2015.

On 19 November 2015, Maanshan Masteel Surface Engineering Technology Co., Ltd. provided an entrusted short-term loan of RMB20 million to the Company, through Masteel Financial. The loan has a term of 1 year and an interest rate of 3.915% per annum. In the year of 2015, the Company accrued interest of RMB93,525, which remained outstanding as of 31 December 2015.

(24) Salaries of key management paid to of a related party

The total amount of key management salaries paid to a related party (including salaries in the form of monetary, benefits in kind and in other forms) was RMB2,254,598 during the current year (2014: RMB4,766,860),which excluded the salaries paid to independent director and independent supervisor.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(25) Directors' and supervisors' emoluments *

	2015	2014
Fee	**447,368**	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	**652,142**	820,000
Performance-related bonuses	**560,962**	1,785,785
Pension scheme contributions	**25,676**	28,172
	1,238,780	2,633,957
	1,686,148	3,081,325

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(25) Directors' and supervisors' emoluments* *(Continued)*

*(i) Independent directors and independent supervisors**

The fees paid to independent directors and independent supervisors during the year were as follows:

	2015	2014
Independent directors		
Mr. Qin Tongzhou (i)	**100,000**	100,000
Ms. Yang Yada (i)	**100,000**	100,000
Mr. Liu Fangduan (ii)	**100,000**	100,000
	300,000	300,000
Independent supervisors		
Mr. Wong Chun Wa (iii)	**73,684**	73,684
Mr. Su Yong (iii)	**73,684**	73,684
	147,368	147,368
	447,368	447,368

There were no other emoluments payable to the independent directors and independent supervisors during the year (2014: Nil).

(i) Appointed as the board member on 31 August 2011.

(ii) Appointed as the board member on 25 October 2012.

(iii) Appointed as the supervisor on 31 August 2011.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(25) Directors' and supervisors' emoluments* *(Continued)*

(ii) Non-independent directors and non-independent supervisors

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2015					
Executive directors					
Mr. Ding Yi	–	–	–	–	–
Mr. Qian Haifan	–	240,052	192,042	7,515	439,609
Mr. Ren Tianbao (iv)	–	80,017	61,550	3,131	144,698
	–	320,069	253,592	10,646	584,307
Non-executive directors					
Mr. Su Shihuai	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	240,052	192,042	7,515	439,609
Ms. Yan Taixia (v)	–	85,021	105,783	6,889	197,693
Mr. Fang Jinrong	–	–	–	–	–
Mr. Yan Kailong (vi)	–	7,000	9,545	626	17,171
	–	332,073	307,370	15,030	654,473
	–	652,142	560,962	25,676	1,238,780

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(25) Directors' and supervisors' emoluments* *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2014					
Executive directors					
Mr. Ding Yi	–	–	–	–	–
Mr. Qian Haifan	–	250,000	597,850	7,043	854,893
Mr. Ren Tianbao (iv)	–	200,000	447,000	7,043	654,043
	–	450,000	1,044,850	14,086	1,508,936
Non-executive directors					
Mr. Su Shihuai	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	250,000	597,850	7,043	854,893
Ms. Yan Taixia (v)	–	120,000	143,085	7,043	270,128
Mr. Fang Jinrong	–	–	–	–	–
	–	370,000	740,935	14,086	1,125,021
	–	820,000	1,785,785	28,172	2,633,957

(iv) Appointed as the non-executive director on 11 May, 2015.

(v) Resigned from the supervisor position on 1 December 2015.

(vi) Appointed as the supervisor position on 1 December 2015.

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2014: Nil).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(26) Five highest paid individuals*

The two highest paid employees during the year were directors and supervisors (2014: two), details of whose remuneration are stated in Note X 5 (25) above. Details of the remuneration of the remaining three highest paid employees (non-director, non-supervisor) in 2015 are as follows:

	2015	2014
Group		
Salaries, allowances and benefits in kind	**492,107**	600,000
Performance-related bonuses	**401,653**	1,425,560
Pension scheme contributions	**18,161**	21,129
	911,921	2,046,689

In 2015, the remuneration of the remaining three non-director, non-supervisor, highest paid employees fell within the bracket of nil to HKD1,000,000.

(27) The Group has not obtained any long-term entrusted loans from the Holding in 2015 (31 December 2014: Nil).

(28) According to the financial service agreement signed by Masteel Financial and the Holding at 16 December 2014, from 1 January 2015 to 31 December 2015, the highest daily outstanding loan should be less than RMB600 million, other financial service charge should be less than RMB60 million. 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.

The directors believe that the above transactions in (1) to (9), (15), (22) and (23) above are in the ordinary course of business of the Group.

* The related party transactions disclose in (1) to (9), (22), (27) and (28) above constitute connected transactions or continuing connected transactions which are defined in Chapter 14A of the Hong Kong Stock Exchange's Listing Rules.

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2015	2014
Trade receivables:		
The Holding and its subsidiaries		
The Holding	**1,347,893**	2,816,544
Maanshan Jiahua Commodity Concrete Co., Ltd.	**5,081,610**	544,153
Masteel Metallurgy Construction Co., Ltd.	**–**	179,410
Masteel Heavy Machinery Manufacturing Co., Ltd.	**3,073,274**	3,812,030
Maanshan Masteel Steel Structure Technology Co., Ltd.	**–**	6,119,222
Ma Steel Powder Metallurgy Co., Ltd.	**1,278,576**	5,748,232
Masteel Equipment Maintenance Engineering Co., Ltd.	**–**	1,753,486
Others entities controlled by the Holding	**4,563,646**	1,960,360
	15,344,999	22,933,437
Prepayments:		
The Holding and its subsidiaries		
The Holding	**–**	1,005,813
Masteel International Trade	**39,493,238**	6,327,020
Ma Steel United Electric Steel Roller Co., Ltd.	**–**	21,124,699
Others entities controlled by the Holding	**100**	78,840
	39,493,338	28,536,372
Other receivables:		
The Holding and its subsidiaries		
Masteel Heavy Machinery Manufacturing Co., Ltd.	**15,900**	–
Masteel Refractory Materials Co., Ltd.	**66,886**	–
	82,786	–

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2015	2014
Short term loans:		
The Holding and its subsidiaries		
Anhui Zhonglian Shipping Co., Ltd.	**110,000,000**	50,000,000
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**20,000,000**	–
	130,000,000	50,000,000
Bills receivable:		
The Holding and its subsidiaries		
Masteel Metallurgy Construction Co., Ltd.	**–**	27,500,000
Maanshan Gang Chen Industry Co., Ltd.	**58,237,357**	146,890,062
Anhui BRC & Masteel Weldmesh Co., Ltd.	**–**	16,987,140
Xinchuang Economize Resource	**4,382,352**	2,500,000
Maanshan Masteel Steel Structure Technology Co., Ltd.	**–**	8,192,625
Masteel Heavy Machinery Manufacturing Co., Ltd.	**100,000**	100,000
Masteel Engineering Technology (Group) Co., Ltd.	**7,000,000**	–
	69,719,709	202,169,827
Joint venture of the Group		
Ma-Steel Rail Transportation (Note)	**–**	17,300,000
	–	17,300,000

Note: In 28 May 2015, Ma-Steel Rail Transportation was been accounted into consolidated financial statement of the Group.

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2015	2014
Accounts payable:		
The Holding and its subsidiaries		
The Holding	**6,191,529**	11,189,996
Xinchuang Economize Resource	**70,920,636**	45,141,666
Masteel Engineering Technology (Group) Co., Ltd.	**128,500,973**	106,696,086
Masteel Metallurgy Construction Co., Ltd.	**–**	115,517,235
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**46,679,719**	32,004,943
Maanshan Harbour Group Co., Ltd.	**16,080,076**	17,239,383
Masteel Automation and Information Technology Co., Ltd.	**19,117,929**	15,077,242
Masteel Automobile Transportation Service Co., Ltd.	**19,490,919**	22,706,589
Masteel Equipment Maintenance Engineering Co., Ltd.	**–**	34,279,512
Masteel Shen Ma Metal Co., Ltd.	**14,045,409**	39,582,938
Masteel Heavy Machinery Manufacturing Co., Ltd.	**38,786,784**	28,793,993
Others entities controlled by the Holding	**65,354,402**	26,086,305
	425,168,376	494,315,888
Associates and joint ventures of the Group		
BOC-Ma Steel	**40,667,490**	48,450,879
Shenglong Chemical	**5,666,902**	207,497
	46,334,392	48,658,376

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2015	2014
Advance from customers:		
The Holding and its subsidiaries		
The Holding	**177,646**	119,081
Maanshan Gang Chen Industry Co., Ltd.	**28,947,879**	81,976,436
Masteel Metallurgy Construction Co., Ltd.	**–**	29,605,981
Anhui BRC & Masteel Weldmesh Co., Ltd.	**12,239,725**	15,705,613
Others entities controlled by Holding	**9,778,657**	6,874,734
	51,143,907	134,281,845
Associates and joint ventures of the Group		
Henan JinMa Energy	**–**	121,475
Shenglong Chemicals	**86,559**	–
	86,559	121,475

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2015	2014
Other payables		
The Holding and its subsidiaries		
The Holding	**–**	1,000
Masteel Automobile Transportation Service Co., Ltd.	**4,940,235**	9,012,556
Masteel Equipment Maintenance Engineering Co., Ltd.	**–**	7,576,686
Masteel Engineering Technology (Group) Co., Ltd.	**15,731,388**	5,122,585
Xinchuang Economize Resource	**8,359,710**	4,774,704
Masteel Metallurgy Construction Co., Ltd.	**–**	2,551,706
Maanshan Masteel Steel Structure Technology Co., Ltd.	**–**	1,936,153
Maanshan Masteel Electric Repair Co., Ltd.	**650,686**	1,924,365
Maanshan Gang Chen Industry Co., Ltd.	**1,039,760**	1,148,836
Maanshan Harbour Group Co., Ltd.	**1,218,997**	–
Other entities controlled by the Holding	**8,301,206**	653,824
	40,241,982	34,702,415
Joint ventures of the Group		
BOC-Ma Steel	**70,000**	70,000
	70,000	70,000

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2015	2014
Loans and advances to customers:		
The Holding and its subsidiaries		
The Holding	**38,000,000**	130,000,000
Luo He Mining	**139,973,938**	125,208,138
Anhui BRC & Masteel Weldmesh Co., Ltd.	**13,779,345**	40,000,000
Masteel International Trade	**61,019,697**	–
Maanshan Iron & Steel Group Mining Co., Ltd.	**251,250,000**	–
Other entities controlled by the Holding	**64,833,022**	354,900,000
	568,856,002	650,108,138
Customer deposits:		
The Holding and its subsidiaries		
The Holding	**1,003,221,893**	661,677,218
Masteel Engineering Technology (Group) Co., Ltd.	**160,410,862**	86,435,768
Maanshan Gang Chen Industry Co., Ltd.	**20,797,705**	18,228,651
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**93,901,242**	–
Masteel International Trade	**64,550,368**	–
Masteel Group Kang Tai Land Development Co., Ltd.	**111,461,440**	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	**79,758,924**	–
Other entities controlled by the Holding	**215,267,964**	343,868,215
	1,749,370,398	1,110,209,852
Joint ventures of the Group		
MaSteel Rail Transportation	**–**	1,007,522
	–	1,007,522

Note: On 28 May 2015, Ma-Steel Rail Transportation was been accounted into consolidated financial statement of the Group.

As of 31 December 2015, all these receivables and payables have no interest, no pledge and will be paid in the future.

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

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 31 December 2015, the Company had made an investment commitment to Ma-Steel OCI Chemical, which is amounting to USD3.46 million.

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	2015	2014
	RMB	RMB
Contracted, but not provided for		
Capital commitments	**9,067,160,505**	6,102,529,000
Investment commitments	**60,891,437**	159,143,150
	9,128,051,942	6,261,672,150

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

XI. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

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.

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 of 31 December 2015, the significant pending litigation of the Group and the Company was as follows:

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Masteel Shanghai Trading regarding a dispute over steel trading, and the relevant claim amounts were RMB10,219,694 and RMB30,581,458, respectively. The lawsuits are currently pending for a judicial decision by the court.

XII. EVENT AFTER THE REPORTING PERIOD

The Group's subsidiary of Anhui Chang Jiang Iron and Steel planned to change the useful life of property, plant and equipment from 1 April 2016, which is as below:

	Estimated useful life In 2015	**Estimated useful life after**	**NOTE**
Buildings	20	30	Increased 10 years
Plant and machinery	10-20	10-20	Remained
Office equipment	10	15	Increased 5 years
Motor vehicles	5	8	Increased 3 years
Buildings	10	5	Decreased 5 years

According to CAS, the change of the accounting estimates should be applied in the future and would bring a decrease of depreciation of RMB106 million, together with an increase in the profit or loss accordingly for 9 months ended from April to December in 2016 for Anhui Chang Jiang Iron and Steel.

As of the date of approval of the financial statements, the group had no other disclosure of events after the balance sheet date except the mentioned issues above.

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from one to eighteen years. The periodic rent is fixed during the operating lease periods.

	2015	2014
Remaining lease period		
Within 1 year, inclusive	**1,373,707**	1,250,000
1 to 2 years, inclusive	**1,250,000**	1,250,000
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**5,157,534**	6,407,534
	9,031,241	10,157,534

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services 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 subsidiaries except for Masteel Financial

- Financial service: Masteel Financial

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

Other information

Product and service information

External principal operation income

	2015	2014
Sale of steel products	**41,911,446,585**	55,585,856,267
Sale of steel billets and pig iron	**941,516,355**	858,707,345
Sale of coke by-products	**423,297,920**	857,921,647
Others	**732,326,675**	965,040,749
	44,008,587,535	58,267,526,008

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Operating segment *(continued)*

Geographical information

External principal operation income

	2015	2014
The PRC	**40,175,752,326**	55,338,273,936
Overseas	**3,832,835,209**	2,929,252,072
	44,008,587,535	58,267,526,008

Non-current assets

	2015	2014
The PRC	**41,601,037,262**	42,622,288,089
Overseas	**233,704,952**	229,068,752
	41,834,742,214	42,851,356,841

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

Major customer information

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

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. OTHER FINANCIAL INFORMATION*

	Group		Company	
	2015	2014	**2015**	2014
Current assets	**20,160,381,786**	24,885,202,986	**15,379,481,751**	19,513,095,013
Less: Current liabilities	**29,731,298,424**	32,704,550,056	**22,270,113,406**	25,444,155,376
Net current liabilities	**(9,570,916,638)**	(7,819,347,070)	**(6,890,631,655)**	(5,931,060,363)

	Group		Company	
	2015	2014	**2015**	2014
Total assets	**62,454,465,955**	68,511,174,810	**53,677,928,665**	58,467,539,306
Less: Current liabilities	**29,731,298,424**	32,704,550,056	**22,270,113,406**	25,444,155,376
Total assets minus current liabilities	**32,723,167,531**	35,806,624,754	**31,407,815,259**	33,023,383,930

4. EMPLOYEE COSTS (EXCLUDING DIRECTORS AND SUPERVISORS' REMUNERATION (NOTE X.5))*

	2015	2014
Wages and salaries	**2,420,410,656**	2,890,824,414
Welfare	**746,703,446**	782,300,023
Pension scheme contributions (i)	**714,783,936**	737,025,341
	3,881,898,038	4,410,149,778

(i) As of 31 December 2015 and 31 December 2014, no contribution was capitalized or waived to reduce the Group's liability to pay pension scheme contributions in the future.

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 aged analysis of trade receivables is as follows:

	2015	2014
Within one year	**1,474,257,377**	1,261,672,931
One to two years	**71,144,875**	34,257,970
Two to three years	**23,011,493**	10,394,544
Over three years	**8,743,458**	8,364,459
	1,577,157,203	1,314,689,904
Less: Provisions for bad debts	**13,382,203**	13,382,203
	1,563,775,000	1,301,307,701

Trade receivable balance is analyzed as follows:

	2015				2014			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**1,562,158,216**	**99**	**(6,927,040)**	**-**	1,300,365,130	99	(6,927,040)	1
Other insignificant but assessed for impairment individually	**14,998,987**	**1**	**(6,455,163)**	**43**	14,324,774	1	(6,455,163)	45
	1,577,157,203	**100**	**(13,382,203)**		1,314,689,904	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the year are disclosed in Note XIV.5.

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

1. TRADE RECEIVABLES *(CONTINUED)*

As of 31 December 2015, trade receivable that use individually significant and assessed for impairment individually were as follow:

	Book value	**Provision for bad debts**	**Percentage**	**Reason**
Company 1	**6,927,040**	**(6,927,040)**	**100%**	**Uncollectable**

As of 31 December 2014, trade receivable that use individually significant and assessed for impairment individually were as follow:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	6,927,040	(6,927,040)	100%	Uncollectable

In 2015, there was no provision for bad debts (2014: None), and there was no recovery or reversal of provision for bad debts (2014:None).

In 2015, there were no trade receivables that had been written off (2014: None).

2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2015	2014
Within one year	**204,859,233**	37,591,747
One to two years	**1,128,177**	19,302,449
Two to three years	**3,110,391**	483,867,376
Over three years	**457,160,989**	6,350,420
	666,258,790	547,111,992
Less: Provisions for bad debts	**420,160,989**	385,288,989
	246,097,801	161,823,003

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

2. OTHER RECEIVABLES *(CONTINUED)*

The movements of provision for bad debts against other receivables for the year are disclosed in Note XIV.5.

Other receivable balance is analyzed as follows:

	2015				2014			
	Book value		Provision for bad debts		Book value		Provision fo bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**655,815,368**	**98**	**(415,630,075)**	**63**	527,576,896	96	(380,758,075)	72
Other insignificant but assessed for impairment individually	**10,443,422**	**2**	**(4,530,914)**	**43**	19,535,096	4	(4,530,914)	23
	666,258,790	**100**	**(420,160,989)**		547,111,992	100	(385,288,989)	

As of 31 December 2015, other receivables that use 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%**	Note
Company 2	**127,685,367**	**(127,685,367)**	**100%**	Note
Company 3	**37,243,732**	**(37,243,732)**	**100%**	Note
Company 4	**132,058,434**	**(132,058,434)**	**100%**	Note
Company 5	**92,302,582**	**(55,302,582)**	**60%**	Note
Company 6	**2,400,000**	**(2,400,000)**	**100%**	Note
	452,630,075	**(415,630,075)**	**92%**	

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

2. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2014, other receivables that were 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%	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
	452,758,075	(380,758,075)	84%	

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

In 2015, provision for bad debts of expected uncollected other receivables is RMB35,000,000 (2014: RMB75,244,560), and there was RMB128,000 recovery or reversal of provision for bad debts (2014:None).

In 2015, there was no other receivables had been written off (2014: None).

Other receivables classified by nature:

	2015	2014
Prepayment for trading	**594,230,077**	434,070,112
Prepaid guarantee for steel futures transaction	**42,768,562**	63,733,481
Prepayment of customs duties and VAT	**13,022,912**	22,575,508
Others	**16,237,239**	26,732,891
Provision for bad debts	**(420,160,989)**	(385,288,989)
	246,097,801	161,823,003

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

2. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2015, the top five largest other receivables were as follows:

	Balance	Ratio (%)	Nature	Aging	Balance of bad debts
Company 1	**132,058,434**	**20**	**i**	**More than 3 years**	**132,058,434**
Company 2	**127,685,367**	**19**	**i**	**More than 3 years**	**127,685,367**
Company 3	**92,302,582**	**14**	**i**	**More than 3 years**	**55,302,582**
Company 4	**60,939,960**	**9**	**i**	**More than 3 years**	**60,939,960**
Company 5	**37,243,732**	**6**	**i**	**More than 3 years**	**37,243,732**
	450,230,075	**68**			**413,230,075**

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

	Balance	Ratio (%)	Nature	Aging	Balance of bad debts
Company 1	132,186,434	24	i	2-3 years	132,186,434
Company 2	127,685,367	23	i	2-3 years	127,685,367
Company 3	92,302,582	17	i	2-3 years	20,302,582
Company 4	60,939,960	11	i	2-3 years	60,939,960
Company 5	37,243,732	7	i	2-3 years	37,243,732
	450,358,075	82			378,358,075

i The nature of the other receivable is prepayment for material.

3. INVENTORIES

	2015			2014		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**1,568,921,850**	**(333,960,186)**	**1,234,961,664**	2,308,191,426	(90,011,279)	2,218,180,147
Work in progress	**772,043,075**	**(86,639,975)**	**685,403,100**	733,093,140	(18,362,373)	714,730,767
Finished goods	**1,285,841,324**	**(170,751,556)**	**1,115,089,768**	1,705,838,405	(11,186,556)	1,694,651,849
Spare parts	**1,372,406,287**	**(59,572,961)**	**1,312,833,326**	1,517,027,185	(60,031,494)	1,456,995,691
	4,999,212,536	**(650,924,678)**	**4,348,287,858**	6,264,150,156	(179,591,702)	6,084,558,454

The movements of impairment provision against inventories for the year are disclosed in Note XIV.5.

At the balance sheet date, 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 normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the year of 2015 and 2014, there was no reversal of impairment provision against inventories.

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

4. LONG TERM EQUITY INVESTMENTS

	2015	2014
Long term investments under the equity method		
Joint ventures (i)	**316,570,133**	311,964,945
Associates (i)	**713,283,374**	775,727,025
Long term investments under the cost method		
Subsidiaries (ii)	**5,860,625,890**	5,514,554,521
Subtotal	**6,890,479,397**	6,602,246,491
Less: Provision for impairment	**60,000,000**	60,000,000
Total	**6,830,479,397**	6,542,246,491

In the opinion of the directors, there was no material restriction on the realization of investments as at the balance sheet date.

* 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 year are disclosed in Note XIV.5.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Joint ventures and Associates

2015

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	311,422,276	-	-	81,325,413	-	(3,216,898)	(73,500,000)	-	316,030,791	-
MASTEEL-CMI	542,669	-	-	(3,327)	-	-	-	-	539,342	-
Associates										
Henan JinMa Energy (note)	207,497,916	37,623,600	-	(4,023,123)	-	-	-	-	241,098,393	-
Shenglong Chemical	245,813,223	-	-	(2,786,831)	-	(624,054)	-	-	242,402,338	-
Shanghai Iron and Steel Electronic	30,977,774	-	-	1,626,747	-	-	(6,000,000)	-	26,604,521	-
Xinchuang Economize Resource	30,967,723	-	-	5,055,768	-	(483,800)	-	-	35,539,691	-
Maanshan Jinxi Rail Transit Equipment Co., Ltd. (note)	171,476,241	-	(165,930,369)	(5,545,872)	-	-	-	-	-	-
Jiyuan Jinyuan Chemical (note)	45,794,148	-	(44,961,228)	(832,920)	-	-	-	-	-	-
Anhui Linhuan Chemical (note)	43,200,000	28,800,000	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical (note)	-	95,235,280	-	403,151	-	-	-	-	95,638,431	-
	1,087,691,970	161,658,880	(210,891,597)	75,219,006	-	(4,324,752)	(79,500,000)	-	1,029,853,507	-

Note: Please refer to Note V,11 for details.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Joint ventures and Associates *(Continued)*

2014

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of 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	–
Maanshan Jinxi Rail Transit Equipment Co., Ltd. (note)	126,765,329	45,000,000	–	(289,088)	–	–	–	–	171,476,241	–
Jiyuan Jinyuan Chemical (note)	41,555,808	–	–	4,238,340	–	–	–	–	45,794,148	–
Anhui Linhuan Chemical (note)	–	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	–

Note: Please refer to Note V,11 for details.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries

2015

		Movements during the year						
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
New Build Masteel K. Wah.	44,443,067	-	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	-
Ma Steel (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	-	111,032,729
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	73,200,000	-	-	-	-	73,200,000	-	-
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Masteel 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	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	-	-
Ma-Steel Rail Transportation (i)	-	170,091,000	-	165,930,369	-	336,021,369	-	-
Masteel Oubang Color-coated(ii)	-	10,050,000	-	-	-	10,050,000	-	-
	5,454,554,521	180,141,000	-	165,930,369	-	5,800,625,890	60,000,000	111,032,729

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2015 *(Continued)*

i: On 28 May 2015, the Company Limited acquired 50% equity interest of Maanshan Jinxi Rail Transit Equipment Co., Ltd. through public trading, which was held by Jinxi Axle Company Limited before with cash consideration of RMB170,091,000. After the deal, the Company holds 100% share of Maanshan Jinxi Rail Transit Equipment Co., Ltd.. The Company begins to account Ma-Steel Rail Transportation as a subsidiary in cost method rather than 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. On 19 November 2015, the Company had completed the first capital contribution, which is amounting to RMB10,050,000. See Note VI.1.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2014

		Movements during the year						
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
New Build Masteel K. Wah.	44,443,067	–	–	–	–	44,443,067	–	(3,080,000)
Ma Steel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	–
Ma Steel (Guangzhou)	80,000,000	–	–	–	–	80,000,000	–	(6,609,865)
Ma Steel (HK)	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)
Ma Steel (Jinhua)	90,000,000	–	–	–	–	90,000,000	–	(6,934,692)
Ma Steel (Australia)	126,312,415	–	–	–	–	126,312,415	–	–
Ma Steel (Hefei)	1,775,000,000	–	–	–	–	1,775,000,000	–	–
Ma Steel (Hefei) Processing	73,200,000	–	–	–	–	73,200,000	–	–
Ma Steel (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	–	–
Masteel 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)

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2014 *(Continued)*

	Opening balance	Movements during the year: Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
Yuyuan Logistics	–	–	–	–	–	–	–	–
Masteel Financial	933,172,609	–	–	–	–	933,172,609	–	–
Hefei Materials	70,000,000	70,000,000	–	–	–	140,000,000	–	–
MG-VALDUNES	–	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	–	–
	4,960,814,490	493,740,031	–	–	–	5,454,554,521	60,000,000	(53,826,164)

5. ASSET IMPAIRMENT PROVISIONS

	2015					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	398,671,192	35,000,000	(128,000)	–	–	433,543,192
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	385,288,989	35,000,000	(128,000)	–	–	420,160,989
Provisions for inventories (i)	179,591,702	1,204,974,141	–	(733,641,165)	–	650,924,678
Including: Raw materials	90,011,279	637,936,253	–	(393,987,346)	–	333,960,186
Semi-finished products	18,362,373	182,310,919	–	(114,033,318)	–	86,639,974
Finished products	11,186,556	384,726,968	–	(225,161,968)	–	170,751,556
Spare parts	60,031,494	–		(458,533)		59,572,961
Provisions for long term investments	60,000,000	–	–	–	–	60,000,000
Including: subsidiaries	60,000,000	–	–	–	–	60,000,000
Impairment of fix assets	–	–	–	–	–	–
Including: Buildings and structures	–	–	–	–	–	–
Plant, machinery and equipment	–	–	–	–	–	–
	638,262,894	1,239,974,141	(128,000)	(733,641,165)	–	1,144,467,870

(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.

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

5. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2014					
	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 products	12,334,950	120,349,153	–	114,321,730	–	18,362,373
Finished products	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 investments	330,000,000	–	–	–	270,000,000	60,000,000
Including: subsidiaries	330,000,000	–	–	–	270,000,000	60,000,000
Impairment of fix assets	–	–	–	–	–	–
Including: Buildings and structures	–	–	–	–	–	–
Plant, machinery and equipment	–	–	–	–	–	–
	1,254,072,785	705,527,220	–	1,051,337,111	270,000,000	638,262,894

(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.

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

6. REVENUE AND COST OF SALES

	2015		2014	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**35,401,618,614**	**35,743,470,461**	48,886,136,473	45,946,752,806
Other operating income	**2,111,281,835**	**2,510,208,378**	2,397,633,333	2,498,790,026
	37,512,900,449	**38,253,678,839**	51,283,769,806	48,445,542,832

Principal operating income is stated as follows:

	2015	2014
Sale of products	**37,497,876,273**	51,233,335,450
Rendering of services	**15,024,176**	50,434,356
	37,512,900,449	51,283,769,806

7. ASSET IMPAIRMENT LOSS

	2015	2014
Provision for bad debts	**34,872,000**	75,244,560
Including: Trade receivables	**–**	–
Other receivables	**34,872,000**	75,244,560
Provision for inventories	**1,204,974,141**	630,282,660
	1,239,846,141	705,527,220

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

8. INVESTMENT INCOME

	2015	2014
Long term equity investment income under the equity method	**75,219,006**	138,150,343
Long term equity investment income under the cost method	**111,032,729**	53,826,164
Investment income from holding available-for-sale financial assets	**12,994,828**	13,896,790
Investment income from disposal of financial assets at fair value through profit and loss	**1,569,555**	–
Investment income from holding financial assets at fair value through profit or loss	**–**	17,127
Investment income from disposal of financial assets of available for sale	**(48,310)**	–
Others	**(7,349,908)**	(826,958)
	193,417,900	205,063,466

As at the end of the reporting period, there was no significant restriction imposed upon the remittance of the Company's investment income.

9. CASH FLOWS FROM OPERATING ACTIVITIES

	2015	2014
Net (loss)/profit	**(4,172,556,122)**	21,578,607
Add: Provision for bad debts	**34,872,000**	75,244,560
Provision for inventories	**1,204,974,141**	630,282,660
Depreciation of fixed assets	**2,599,172,168**	2,854,134,686
Amortisation of investment properties	**2,063,607**	2,063,607
Amortisation of intangible assets	**29,571,894**	29,601,671
Amortisation of deferred income	**(70,927,623)**	(98,299,872)
Gain on disposal of non-current assets	**(34,997,590)**	(1,906,614)
Financial expenses	**745,916,241**	895,245,110
Investment income	**(193,417,900)**	(205,063,466)
(Loss)/gains on fair value changes of financial assets held for trading	**538,440**	(564,160)
Decrease in deferred tax assets	**269,300,783**	140,450,042
Decrease in inventories	**531,296,455**	436,922,856
Decrease/(increase) in receivables from operating activities	**532,520,506**	(922,131,371)
Increase in payables from operating activities	**131,394,210**	244,729,591
Others	**–**	11,361,096
Net cash flows from operating activities	**1,609,721,210**	4,113,649,003

Supplementary Information Appendixes

31 December 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.

	2015
Items of non-recurring gains or losses	
Gain on disposal of non-current assets	**35,444,537**
Loss on disposal of non-current assets	**(2,478,667)**
Subsidy income	**259,052,828**
Amortisation of deferred income	**87,185,350**
Other non-operating expense and income items, exclude items above	**(12,682,505)**
Gain/(loss) on fair value changes of financial assets held for trading	**819,265**
Investment income from revaluation of equity interest held in the acquired subsidiary before the business combination	**4,160,631**
Investment income from holding financial assets of available for sale	**12,994,828**
Investment income from disposal of financial assets of available for sale	**(48,310)**
Investment income from disposal of financial assets at fair value through profit and loss	**1,569,555**
Investment income from financial products issued by bank	**6,860,189**
Other investment loss	**(7,349,908)**
	385,527,793
Less: Income tax effect of non-recurring gains or losses	**59,931,740**
Non-recurring gains or losses attributable to non-controlling shareholders	**391,055**
Net effect of non-recurring gains or losses	**325,204,998**
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	
Net loss attributable to owner of the parent	**(4,804,299,674)**
Less: net effect of non-recurring gains or losses	**325,204,998**
Net loss attributable to owner of the parent excluding non-recurring gains or losses	**(5,129,504,672)**

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2015	**Return on net assets (%)**	**Earnings per share (RMB)**	
		Basic	**Diluted**
Net loss attributable to owner of the Company	**(23.01)**	**(0.624)**	**(0.624)**
Net loss attributable to owner of the Company excluding non-recurring gains or losses	**(24.57)**	**(0.666)**	**(0.666)**

2014	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owner of the Company	0.95	0.029	0.029
Net loss attributable to owner of the Company excluding non-recurring gains or losses	(0.67)	(0.020)	(0.020)

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.

XI. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department

2. Original copy of the audited accounts prepared under the China Accounting Standards, sealed by Ernst & Young Hua Ming LLP and signed by Ms. An Xiuli and Ms. Chen Yan, certified public accountants in the PRC.

3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period

4. Annual report announced on the website of the Hong Kong Stock Exchange

5. The Articles of Association of the Company

Chairman: **DingYi**

Submission date approved by the Board of Directors: 30 March 2016