2018 Annual Report

H Share Code: 323
A Share Code: 600808

MAANSHAN IRON & STEEL COMPANY LIMITED

Content

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 annual report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.**

2. **Except for Mr. Wang Xianzhu, an independent director, who had Ms. Zhang Chunxia, also an independent director, to attend the board meeting and vote on behalf of him, all other directors attended the board meeting.**

3. **Ernst & Young Hua Ming LLP issued a standard unqualified audit 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, made 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**

   The Board suggests a final dividend of RMB0.31 per share (tax included) shall be distributed for the year of 2018 and retained earnings will be carried forward to the year of 2019. No capital reserve 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 "(4) Potential risks" of "4.3. Discussion and Analysis on the Company's Future Development" of "Report of The Board" in Section IV 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. **During the reporting period, no appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.**

8. **During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.**

9. **Significant risk warning**

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

10. **Others**

    This report is prepared in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, please subject to Chinese text.

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 Holding	means	Magang (Group) Holding Company Limited
Shareholders' General Meeting	means	the Shareholders' General Meeting of the Company
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
Senior Management	means	the senior management 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
MIIT	means	the Ministry of Industry and Information Technology of the People's Republic of China
CISA	means	China Iron and Steel Association
CRCC	means	China Railway Test & Certification Center
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly owned subsidiary of the Company
Ma Steel (Hong Kong)	means	Ma Steel (Hong Kong) Co., Ltd., a wholly owned subsidiary of the Company
Ma Steel Hefei	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a subsidiary of the Company
Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd., a subsidiary of the Company
MaSteel Finance	means	Magang Group Finance Co. Ltd., a subsidiary of the Company
Environmental Protection Company	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, a joint venture of the Company

I. DEFINITIONS *(CONTINUED)*

In this report, unless the context otherwise requires, the following terms have the following meanings: *(continued)*

Definitions of common terms *(continued)*

Masteel Scrap	means	Maanshan Masteel Scrap Steel Co., Ltd., a subsidiary and joint venture of the Company
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a subsidiary and joint venture of the Company
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a subsidiary and joint venture of the Company
Jinma Energy	means	Henan Jinma Energy Co. Ltd., a joint venture of the Company
Magang Investment	means	Magang Group Investment Ltd., a wholly owned subsidiary of the Group Company
auditors, Ernst & Young	means	Ernst & Young Hua Ming LLP
reporting period	means	From 1 January 2018 to 31 December 2018

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

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

2. CONTACT PERSON

	Secretary of the board of directors, joint company secretary	**Joint company secretary**
Name	He Hongyun	Rebecca Chiu
Correspondence address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-16, 12/F, The Chinese Bank Building, 61-65 Des Voeux Road, Central
Telephone	86-555-2888158/2875251	(852) 2155 2649
Fax	86-555-2887284	(852) 2155 9568
Email address	mggfdms@magang.com.cn	rebeccachiu@chiuandco.com

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 share)； http://www.magang.com.hk (H share)
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

II. Company Introduction and Major Financial Indicators (Continued)

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Brief information on the shares of the Company

Type of shares	Stock exchange for listing of shares	Short name of stock	Stock code
A Shares	The Shanghai Stock Exchange	Magang Stock	600808
H Shares	The Stock Exchange of Hong Kong Limited	Maanshan Iron & Steel	00323

6. OTHER RELATED INFORMATION

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

7. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS

7.1 MAJOR ACCOUNTING DATA

Unit: RMB

Major accounting data	2018	2017	Increase/ decrease compared to previous year (%)	2016
Revenue	**81,951,813,488**	73,228,029,624	11.91	48,275,100,310
Net profit attributable to owners of the parent	**5,943,286,585**	4,128,939,861	43.94	1,228,892,407
Net profit excluding non-recurring gains or losses attributable to owners of the parent	**5,092,357,115**	3,969,088,696	28.30	1,409,936,906
Net cash flows from operating activities	**13,870,430,106**	4,599,822,004	201.54	4,273,705,490

Major financial data	As at the end of 2018	As at the end of 2017	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2016
Net assets attributable to owners of the parent	**28,173,623,272**	23,895,739,812	17.90	19,764,171,955
Total assets	**76,871,999,293**	72,191,589,979	6.48	66,245,531,030
Total share capital	**7,700,681,186**	7,700,681,186	–	7,700,681,186

7.2 MAJOR FINANCIAL INDICATORS

Major financial data	**2018**	2017	Increase/ decrease compared to the previous year (%)	2016
Basic earnings per share (RMB/share)	**0.772**	0.536	44.03	0.160
Diluted earnings per share (RMB/share)	**0.772**	0.536	44.03	0.160
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	**0.661**	0.515	28.35	0.183
Return on net assets (weighted average) (%)	**22.68**	18.92	Increased by 3.76 percentage points	6.43
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**19.44**	18.18	Increased by 1.26 percentage points	7.38

8. MAJOR FINANCIAL DATA BY QUARTER IN 2018

Unit: million RMB

Major financial data	**1st Quarter (Jan-Mar)**	**2nd Quarter (Apr-Jun)**	**3rd Quarter (Jul-Sep)**	**4th Quarter (Oct-Dec)**
Revenue	18,308	21,755	23,054	18,835
Net profit attributable to owners of the parent	1,418	2,011	2,155	359
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,402	1,655	2,120	–85
Net cash flows from operating activities	633	3,547	3,827	5,863

9. NON-RECURRING ITEMS AND AMOUNTS

Unit: RMB

Non-recurring items	2018	2017	2016
Gains/(losses) from disposal of non-current assets	**371,280,264**	–176,952,368	–51,189,196
Government grants recognized in current period profit or loss (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)	**337,543,274**	409,513,631	191,502,761
Employee termination compensation	**–150,464,248**	–216,124,494	–347,468,731
Except for the effective hedging business related to ordinary business of the Company, changes in fair value of financial assets and financial liabilities held-for-trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held-for-trading and financial assets at fair value through other comprehensive income	**225,957,069**	217,458,815	62,627,178
Reversal of provision for receivables assessed for impairment individually	**–**	3,632,383	927,877
Gain from disposal of subsidiaries	**188,829,498**	736,943	–
Gain from fair value adjustment generated in a business combination	**–**	390,855	–
Investment loss caused by passive dilution of equity interests due to the increased capital of joint ventures and associates	**–**	–22,335,060	–
Gain from disposal of an associate	**7,689,556**	–	–
Net non-recurring income or expenses other then the above items	**–1,033,653**	–11,146,562	–19,729,079
Impact of non-controlling interests	**–40,870,094**	–11,689,059	–6,551,217
Impact of income tax	**–88,002,196**	–33,633,919	–11,164,092
Total	**850,929,470**	159,851,165	–181,044,499

10. ITEMS MEASURED AT FAIR VALUE

Unit: RMB

Item	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the current period profit
Financial assets held-for-trading	1,546,139,404	2,084,414,075	538,274,671	174,913,116
Financial liabilities held-for-trading	10,498,810	8,012,670	–2,486,140	2,486,140
Other equity instrument investments	163,375,912	263,122,364	99,746,452	–
Total	1,720,014,126	2,355,549,109	635,534,983	177,399,256

11. OTHERS

THE GROUP'S MAJOR ACCOUNTING AND FINANCIAL DATA FOR FIVE RECENT YEARS

Unit: million RMB

Accounting Financial Data	2018	2017	2016	2015	2014
Revenue	**81,952**	73,228	48,275	45,109	59,821
Profit before tax	**8,239**	5,809	1,369	–4,727	512
Net profit	**7,058**	5,072	1,257	–5,104	264
Basic earnings per share (RMB/share)	**0.772**	0.536	0.160	–0.624	0.029
Diluted earnings per share (RMB/share)	**0.772**	0.536	0.160	–0.624	0.029

III. Overview of the Company's Business

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

(1) MAIN BUSINESS AND OPERATION

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are produces and sales of iron and steel products; the main production processes include iron making, steel making, steel rolling, etc. Major products 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 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 highgrade light industries, home electrical appliances, and medium and highgrade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, highgrade construction plates, and plates for businesses like packageing and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of buildings, home electrical appliances and steel windows.

Long products: Major products include section steel and wire rod. H beams is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. Highspeed wire rod products are mostly used in the production of fasteners, strand steel wires and spring steel wires, and are occasionally used in construction materials. Hot-rolled ribbed bars are mainly used in construction.

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.

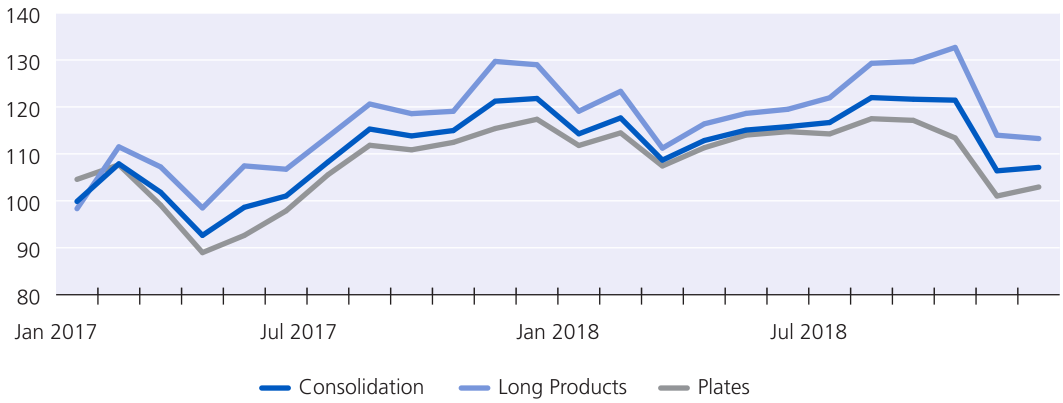
The Company adopts different business models for different products. Plates mainly adopt direct sales, supplemented by dealer sales; long products are mainly sold by dealers, supplemented by direct sales; wheels and axles mainly adopt direct sales.

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

(2) INDUSTRY PERFORMANCE

In 2018, domestic steel prices fluctuated slightly in the first quarter, it gradually went up from April, and after a sudden drop in November, it remained stable in December. For the whole year, the price tendency of long products is better than that of plates. According to China Iron and Steel Association, the monthly average value of consolidated price index for domestic steel products in 2018 was 114.75 with a year-on-year increase of 7.01, increasing by 6.5%.

Table 1：the consolidated price index for domestic steel products in 2017 and 2018



As for imports and exports, according to China Customs, annual steel export was 69.34 million tons with 8.07% of year-on-year decline; and steel import was 13.17 million tons with 0.98% of year-on-year decline. The net export of crude steel is 56.24 million tons with a year-on-year decrease of 9.48%.

As for raw materials and fuels, in 2018 iron ore price was high in the first and fourth quarter, and low in the second and third quarter, and the fluctuation range was smaller than that of the previous year. According to China Customs, the average CIF of import iron ore nationwide was US$69.46/ton and slightly declince from the previous year; price of coke decreased in the first quarter and increased in the second and third quarter, reaching the highest point in the past ten years, and fell back after a high shock in the fourth quarter with dramatic increase in average price than the previous year.

2. DURING THE REPORTING PERIOD, THE STATEMENT OF MATERIAL CHANGE IN THE COMPANY'S MAJOR ASSETS

In 2018, in addition to the impact of changes in the China Accounting Standards, the Company's equity assets, fixed assets, intangible assets, construction in progress and other major assets did not undergo material changes. Among them: overseas assets amounted to RMB5.46 billion, accounting for 7.1% of total assets.

III. Overview of the Company's Business (Continued)

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

1. LOCATION ADVANTAGE

The Company is located in the Eastern China where economic activities are active, and it is close to the downstream market; transportation is convenient.

2. PRODUCT STRUCTURE ADVANTAGE

The unique product structure "plates, long products and wheels and axles", enables the Company to allocate resources flexibly, so as to enlarge the percentage of high value-added products.

3. TECHNICAL ADVANTAGE

During the report period, the Company has issued 220 patents, which included 50 invention patents, 170 utility model. As of 31 December 2018, the Company had owned 1,169 domestic and foreign vaild patents (including 3 foreign patents) and 4,110 technical know-hows (non-patented technologies).

4. TALENTS ADVANTAGE

The Company has always attached great importance to core technical team building. On one hand, it makes double efforts to attract and retain talents of high caliber and to foster leadership. On the other hand, it seeks to turn out leaders in each discipline from the team of senior technology leaders. The Company has 59 senior technology leaders, due to the end of the report period.

IV. Report of the Board

1. CHAIRMAN STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2018.

In accordance with the China Accounting Standards, the Group achieved revenue of RMB81,952 million in 2018, representing a YoY growth of 11.91%. The net profit attributable to owners of the parent was RMB5,943 million, representing a YoY growth of 43.94%. The basic earnings per share was RMB0.772, representing a YoY growth of 44.03%. As at the end of the reporting period, the Group's total assets amounted to RMB76,872 million, representing a YoY growth of 6.48%. Net assets attributable to owners of the parent were RMB28,174 million, representing a YoY growth of 17.90%.

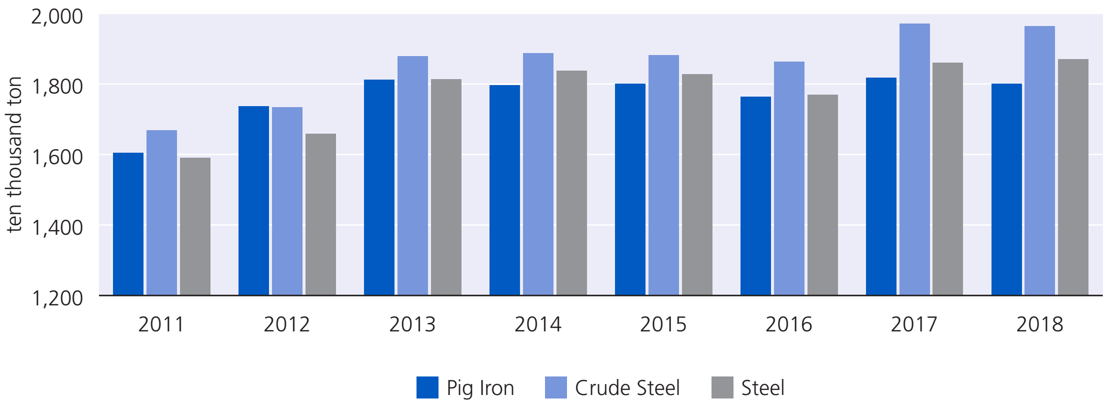
According to the China Accounting Standards, in 2018, the Company achieved a net profit of RMB4,719 million. After accruing 10% of the statutory surplus reserve, the profit available for distribution to shareholders at the end of 2018 was RMB4,961 million. Taking into account the Company's profitability and future sustainable development, the Board of Directors proposed a final dividend of RMB0.31 per share (tax included) in 2018, and the retained earnings were carried forward to 2019, and no capital reserve was transferred to share capital. These distribution plans have yet to be submitted to the annual general meeting for approval.

In 2018, our country adhered to the general tone of steady progress, strived for improvement and macroeconomic regulation, and maintained a stable operation of the economy; it strived to win three tough battles (preventing and defusing financial risks, targeted poverty alleviation and pollution control), made positive progress on key tasks, deepened supply-side structural reforms, and continuously released the vitality of the real economy. The steel industry has completed the goal of cutting overcapacity, and the contradiction of serious excess capacity has been effectively alleviated, and the company's efficiency has improved significantly. According to National Development and Reform Commission of the People's Republic of China, in 2018, the country's pig iron, crude steel and steel production was 771 million tons, 928 million tons and 1,106 million tons, representing a YoY growth of 3.0%, 6.6% and 8.5%. According to CISA, in 2018, member companies achieved a profit of RMB286.272 billion, representing a substantial YoY growth of 41.12%; the asset-liability ratio was 65.02%, 2.63 percentage points lower than that of previous year.

In 2018, the Company implemented the New Development Concept, and actively carried out deployment of the state's supply-side reform while centering on the work morale of "accelerating the improvement of innovation competitiveness", so as to increase momentum by comprehensive innovation, enhance efficiency by total synergy, improve quality by overall lean operation, thereby opening up new dimension for the Company's transformation and development while achieving better operating results:

1. Full completion of decapacity. In 2018, the Company shut down two blast furnaces and two converters, which withdrew 1 million ton iron refining capacity and 1.28 million ton steel refining capacity. So far, the Company has fully completed its three-year decapacity objective, with a total withdrawal of 2.24 million ton iron refining capacity and 2.56 million ton steel refining capacity. Under the circumstances of capacity withdrawal and overhaul of one blast furnace, the Group produced 18.00 million ton of pig iron, 19.64 million ton of crude steel, 18.70 million ton of steel for the year, which were basically the same as compared to that of last year.

Table 2: The Group's production volume of pig iron, crude steel and steel from 2011 to 2018



2. Remarkable results of technical innovations. The Company organized and implemented 124 scientific research projects, carried out 53 new product development projects, realized 167 patent applications, hosted, revised and issued 9 national industry standards for the year. The 863 plan "The material service behavior, key design and production technology of heavy-duty train wheel with axle load of 30 ton" undertaken by the Company has been successfully completed and accepted by the Ministry of Science and Technology of the PRC. "Magang high-speed wheel manufacturing technology innovations" was awarded the first prize of the science and technology award of the metallurgical industry. The Company won the Zijin Innovation Award for the Chinese A-share Listed Companies awarded by Xinhuanet and Zijin Media.

3. Constant deepening of brand building. The Company facilitated our brand strategic action plan by way of project management and took the lead in establishing a brand cultivation management system in the steel industry, selected pilot unit to publish our brand cultivation management manual, which achieved remarkable management innovation results. A number of management innovation achievements of the Company were awarded with CISA Modernized Innovation Achievement Award of Management of Metallurgical Industry in 2018, of which "Equipment efficiency improvement based on overall efficiency evaluation (OEE) system" and "Construction of lean factory with an aim to upgrade products" were awarded first and second prize, respectively, and "Establishment of technology innovation management system with an aim to create a well-known brand of high-speed axle" was awarded third prize. The Company also won the Best Board of Directors among China awarded by Fortune Magazine (Chinese version) and the China's Top 100 Enterprises Award from China Business Top 100, as well as the Golden Wing Award 2018 in the Value and Strength Ranking of Hong Kong Stock Connect awarded by Securities Times.

4. Deepening lean operations. The Company optimized its production mode and resource allocation by promoting the management of target planned values. We established lean factories under the pilot scheme and continuously improved our lean manufacturing level, optimized customer structure and implemented EVI services in depth by improving marketing layout, resulting in a significant increase in end users and direct supply ratio of steel plates, thereby achieving lean marketing. Through continuously building a safe, stable, efficient, sustainable and competitive supply chain, we ensured steady supply economically and realized lean procurement under the conditions of rigid implementation of environmental protection policies.

5. Steady progress of key construction projects. During the reporting period, projects such as section steel upgrading renovation, the production line of premium special steel bar, silicon steel adaptive transformation, six–machine and six-strand billet were completed and put into production. Projects such as the production line of Heavy duty H beam, new silos of coking process, special steel billet continuous casting and auxiliary upgrade have entered preliminary work stage.

6. Significant results of deleverage and debt reduction. In 2018, the Company issued short-term financing billing of RMB1 billion, completed payment of the first tranche and second tranche of medium-term notes in 2015 of RMB4 billion in total, and the first tranche and second tranche of short-term financing bills in 2017 of RMB3 billion and thereby continuously optimized debt structure and reducing interest-bearing liabilities. Upon joint assessment by China Chengxin International Credit Rating Co., Ltd. and China Lianhe Credit Rating Co., Ltd, the Company's credit rating was adjusted upward from "AA+" to "AAA". At the end of 2018, the Group's debt ratio was 58.38%, representing a YoY decrease of 3.89 percentage points.

7. Active fulfillment of social responsibility. The Company kept up efforts to drive coordinated development of the Company, the society and the environment and actively participated in the battle of targeted poverty alleviation and pollution control. It has deployed poverty alleviation teams to station at villages and carry out industrial development, education and partner assistance, which achieved positive results. The Company has been proactively building green modern urban factories and underwent environmental-friendly ultra-low emission reformation. In 2018, 21 environmental protection projects with an investment of RMB230 million were completed. The energy efficiency and environment performance indicators continuously improved, with integrated energy consumption per ton of steel declining 1.18% to 576.5kgce, and fresh water consumption per ton of steel dropping 5.19% to 3.29m^3/t. The Company was named "Integrity Enterprise" in the environmental credit rating of the Department of Ecology and Environment of Anhui Province, and was awarded the "Anhui Listed Companies' Social Responsibility Contribution Award" by the Anhui Association of Listed Companies.

Looking forward to 2019, the PRC will adhere to the general tone of work for steady progress, the new development concept and the promotion of high-quality development. Meanwhile, following the constant adjustment of economic structure, the main driving force for economic growth has shifted from investment to consumption.

In the face of new situations and new changes, the Company will enhance its "effectiveness and efficiency" in 2019, focus on changes and breakthroughs, promote a comprehensive lean operation, so as to continuously enhance corporate innovation and competitiveness, and strive to open up new dimensions in the high-quality development of Magang. As such, the Company will primarily adopt the following measures:

1. Unswerving focus on premium quality. The Company will deepen its adjustment on product structure, implement premium product strategy, accelerate high-end accreditation breakthroughs and expand the proportion of high value-added products, thereby increasing its market share in automotive core area. The Company will continuously expand its high-end home appliance market which involves cold rolling, galvanizing and pickling, vigorously develop markets such as industrial section steel, cold-resistant products, high-strength steel, railway construction materials, and premium special steel bar for automotive parts.

2. Focus on efficient market operations. The Company will strengthen its market tracking, research and judgment, respond to the market promptly and effectively, accurately grasp business opportunities, and lead the procurement, marketing and manufacturing in order to support efficient market operations. The Company will carry on its in-depth promotion of lean procurement, optimize the management of suppliers, speed up the construction of accessories and coke bases, and improve the steady supply of resources, as well as refine its service-oriented marketing system, adhere to the customer-centered working morale, implement customer grade management, grade marketing, enhance customer service experience, and promote product sales and create value to its service.

3. Enhance manufacturing control. The Company will continue to improve the examination, alert system and response system of blast furnaces, carry forward system supporting projects in a speedy manner, and achieve efficient production while maintaining the long-term stability of blast furnaces; strengthen the linkage of production, equipment, energy and logistics systems, optimize resource allocation and line division, reasonably optimize iron to steel ratio, and release the production capacity of superior production lines; enhance quality process control, continuously strengthen optimization of techniques and technologies, and improve order fulfillment rate of key products; continuously improve overall efficiency evaluation (OEE) index evaluation system, deepen the precise management of equipment function, carry forward scientific, efficient and flexible maintenance, and improve system security.

4. Implement the innovation-driven development. Strengthen the technical innovation, vigorously implement "base construction + original technology" model, bringing into full play the effect of national technical innovation platform, increase research in the strategic, forward-looking, fundamental science research project. Implement intelligent upgrade, fasten the implementation of intelligent manufacturing-related equipment program, and build intelligent manufacturing engineering model.

5. Comprehensively build lean plants. With the direction of "zero as target, creation and cultivating people, sustainable improvement, build and share together", focus on the eight elements of "efficiency, quality, cost, delivery date, safety, morale, environment, intelligence", build a special Masteel lean plant construction model, deeply implement brand construction, lean operation and excellent performance management, achieve the comprehensive enhancement in production capability, environment quality, employee literary, psychological profile.

6. Build safe and environment-friendly enterprise. Grasp and establish safety awareness and worst-case scenario thinking, strengthen territorial administration, further optimize and implement safety production responsibility system, deeply develop hidden danger and risk inspection management, prevent any occurrence of safety accidents, enhance safety performance; strictly implement ultra-low emission moderation three-year action plan, quicken the construction in godowns and closure of pits in new area, implement the blue sky, clear water, clean soil defensive war action plan, improve environment performance.

7. Continuously optimize human resources. Level with the benchmarking enterprise in the industry in accordance with the baseline requirement of an annual average of 8% in the human resources optimization rate, persist in reducing total volume, adjusting structure, improving quality, enhance vitality, setting standard for different levels and sectors, establish the position, system and manpower; continuously to implement process reengineering, professional integration, intelligent reengineering and regional practice in major jobs, continuously to resettle and distribute personnel via different channels.

8. Promote build and share together. Emphasis on employee, continuously to stimulate the creative vitality in employees, continuously to satisfy the growing demand for good life from staff, joining force with all the staff to build a good home, endeavor to achieve the full year target.

In the new year, the Board of Directors will fulfill its responsibilities and work harder with the staff. We wish and believe the Company would make great improvement with support from the shareholders and stakeholders.

Ding Yi
Chairman
21 March 2019
Maanshan City, Anhui Province, the PRC

2. MANAGEMENT DISCUSSION AND ANALYSIS

Major Business Performance in the Reporting Period:

(1) Continuously improving market operating capabilities. We optimized the channel layout of the marketing system, pushing the center of our services forward with focus on customer needs and actively exploring strategic target markets. For automobile plates, we newly developed six major engine factories, such as SAIC Volkswagen, Dongfeng Commercial Vehicles and GAC New Energy. For coilcoating plates, we produced at full capacity and the products were applied to key national projects including the Xiong'an New Area Project and the Hong Kong Zhuhai-Macao Bridge. Our high-speed wheels successfully entered Deutsche Bahn and we became the first domestic exporter of high-speed wheels. Our procurement system overcame severe challenges brought about by national environmental policies and increasing safety supervision, achieving safety, quality and efficient and guaranteed supply.

(2) Promoting lean operation of the manufacturing system. We fully implemented the target plan value management, adhering to work mechanisms featuring "routine physical examination, advance warning for guaranteed supply and anomaly countermeasures" for the iron-making system to ensure long-term and stable operation of the blast furnaces. We were in the forefront of the industry by the level of the cost of molten iron. For the steel rolling system, with increasing production and enhancing efficiency as the core, we upheld the "Three No Principles" on the quality front. Through continuous work on optimizing processes and improving product quality, we improved order fulfillment and customer satisfaction rates and thus achieved economic operation.

(3) Achieving new breakthroughs in the certification of key products. We completed certification of six types of wheels for the Technical Specification for Interoperability (TSI) applicable to the rail system of the European Union. Our 320 km/h high-speed wheels were loaded on the trains of Deutsche Bahn. Our automobile plates passed the second-party audit of many original automobile manufacturers including SAIC Volkswagen, FAW Group, Geely Automobile, Zotye Automobile and Qoros Auto. In particular, the galvanized CR340LA automobile plate of Maanshan Iron & Steel obtained General Motor's global first-class engineering certification, which greatly enhanced the recognition and brand presence of the Company's galvanized low-alloy high-strength series in the mid- and high-end automobile plate market. Our H beam steel products passed the re-certification review audit for the export certification of JIS in Japan. Our pickling plate products passed the PED supervision audit of the European Union by TUV Hande Certification Company.

(4) Solidly manageing equipment and energy. We strengthened capabilities to support the equipment system, continuously improving the overall efficiency evaluation (OEE) of equipment to foster improvement of the ability for precise management and control of equipment functions. The Company's production lines were generally stable and efficient, with KPI indicators meeting or exceeding the target plan value. In the "National Competition of Benchmarking in Energy Conservation and Consumption Reduction for Major Large-scale Energy-consuming Steel Production Equipment", the sintering machine A of the No. 3 Iron Plant won the honorary title of "Champion Furnace" among sintering machines of 300 m^2 or above, the $4^{\#}$ blast furnace of the No. 2 Iron Plant, the blast furnace B of the No. 3 Iron Plant and the $2^{\#}$ converter of the No. 4 Steel Rolling Plan won the honorary title of "Excellent Furnace" respectively.

(5) Strengthening of safety, energy and environmental protection work. The Company continuously carried out special actions for the screening, identification and control of major production safety accident hazards, timely perfecting relevant management systems and technical and operational standards, conducting system-wide screening and inspection, and strengthening the construction of an occupational health and environmental safety system featuring fault-free equipment and risk-free operation. By tapping the potential of benchmarking, the Company achieved new breakthroughs in the energy system in terms of energy conservation and consumption reduction, leading to a continuous improvement in energy consumption indicators. The Company firmly established the rationale of "lucid waters and lush mountains are invaluable assets", conscientiously implementing environmental inspections launched by the central government and various rectification measures for winning the Blue Sky War, formulating the Company's three-year action plan to protect our blue skies and to defend our rivers and soil from pollution, systematically identifying from the root cause and resolving the problem of environmental weak links that restrict the Company's future development process, hence ensuring production safety, occupational health and environmental improvement in the Company and achieving sustainable development.

(6) Scientific promotion of management system construction. In accordance with "planning, control, guidance and service" management philosophy and on the basis of two major quality management system standards, namely the new ISO9001 and IATF16949, the Company continued to enhance the policies and objectives, business management, technological innovation, quality improvement, production and manufacturing, infrastructure, risk control, human resources and other management work to improve the effectiveness and efficiency of the management systems.

(7) Human resources optimization. The Company drive forward the reform of the organs, streamlining the institutions and gradually optimizing personnel. Meanwhile, the Company achieved remarkable effort in staff division and placement. The number of administrative staff reduced by 325, or 42% compared with the previous year.

(1) ANALYSIS OF PRINCIPAL OPERATION

1. Analysis of the change in items of the income statement and statement of cash flows

Unit: RMB

Items	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	81,951,813,488	73,228,029,624	11.91
Cost of sales	69,794,982,119	63,556,258,449	9.82
Selling expenses	959,718,246	865,396,451	10.90
General and administrative expenses	1,379,991,907	1,164,112,101	18.54
Research and development expenditure	801,240,784	255,023,306	214.18
Financial expenses	960,457,412	998,780,259	–3.84
Impairment losses	754,443,431	746,374,994	1.08
Credit impairment losses	41,876,945	–	–
Investment income	1,090,099,779	676,516,349	61.13
(Loss)/gain on changes in fair value	–10,213,369	10,145,756	–200.67
Gain/(loss) from disposal of assets	371,280,264	–176,952,368	–
Operating profit	8,085,297,848	5,649,467,742	43.12
Non-operating expenses	6,472,487	16,625,157	–61.07
Profit before tax	8,238,923,928	5,808,966,563	41.83
Income tax expense	1,180,935,234	736,728,434	60.29
Net profit	7,057,988,694	5,072,238,129	39.15
Net profit attributable to owners of the parent	5,943,286,585	4,128,939,861	43.94
Net cash flows from operating activities	13,870,430,106	4,599,822,004	201.54
Net cash flows used in investing activities	–4,011,703,200	–3,524,328,133	–
Net cash flows used in financing activities	–6,027,314,622	–2,376,736,277	–

(1) ***Explanation of the change in items of the income statement***

➢ Revenue increased by 11.91% compared with the previous year, mainly due to increase in sales price and sales volume of steel this year.

➢ Cost of sales increased by 9.82% compared with the previous year, mainly due to increase in purchase price of raw materials and increase in sales volume of steel this year.

➢ Research and development expenses increased by 214.18% compared with the previous year, mainly due to the Company further increased the investment in scientific research, expanded the types of product development, and accelerated product upgrades.

➢ Credit impairment loss is RMB41,876,945 this year and it was nil last year. The main reason is the implementation of the new financial instrument accounting policies during this year and the presentation of some accounts changed accordingly.

➢ Investment income increased by 61.13% compared with the previous year, mainly due to the gain from disposal of subsidiaries and shared profit from joint ventures and associates increased compared with the previous year.

➢ (Loss)/gain on the changes in fair value decreased by 200.67% compared with the previous year, and the main reason is the transfer out of the fair value gain generated from the futures at the end of last year upon settlement.

➢ Gain from disposal of assets is RMB371,280,264, while it was a loss of RMB176,952,368 in previous year, mainly due to the Company's gain from disposal of certain fixed assets and land, and the recognition of gain from disposal of scrap assets by MaSteel Hefei increased this year.

➢ Operating profit, profit before tax, net profit, and net profit attributable to owners of the parent increased by 43.12%, 41.83%, 39.15% and 43.94%, respectively, compared with the previous year. These were all mainly due to the increase of gross margin of steel products this year.

➢ Non-operating expenses decreased by 61.07% compared with the previous year, mainly due to the decrease of the payment for contract indemnity this year.

➢ Income tax expense increased by 60.29% compared with the previous year, mainly due to the profitability of some subsidiaries increased this year and the Company reversed part of the deferred tax assets.

(2) Explanation in the change in items of the statement of cash flows

- Net cash inflows from operating activities is RMB13,870,430,106 which increased by 201.54% compared with the previous year, mainly due to the Company's profitability has increased this year, while the cash inflow from operating activities such as customer deposits of MaSteel Finance has increased.

- Net cash outflows used in investing activities is RMB4,011,703,200, while it was net outflow of RMB3,524,328,133 in previous year, mainly due to the cash payments for acquisition and construction of fixed assets, intangible assets and other long-term assets increased compared with the previous year.

- Net cash outflows used in financing activities is RMB6,027,314,622, while it was net outflow of RMB2,376,736,277 in the previous year, mainly due to the payment for medium term bills, short-term financing bills and cash dividends.

During the reporting period, the Company's net cash flow from operating activities was RMB13.87 billion, while net profit was RMB7.06 billion, and the difference is RMB6.81 billion which is mainly due to the non-cash factors such as depreciation and amortization, inventory impairment and changes in operating receivables and payables.

(3) Financial position and exchange risks

As at 31 December 2018, the total loans of the Group amounted to RMB15,775 million. Except for foreign currency loans amounting to US$558 million and EUR15 million, all other loans were denominated in Renminbi. Among loans denominated in foreign currencies, US dollar loans amounting to US$543 million and Euro loans amounting to EUR15 million carried fixed interest rates and US dollar loans of US$15million at LIBOR plus premium. Among the Renminbi-denominated loans of the Group, loans amounting to RMB5,620 million carried fixed interest rates and loans amounting to RMB6,208 million carried floating interest rates. In addition, the Company issued short-term financing notes with a total amount of RMB1 billion in June 2018.

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. At present, the Group is financing its capital projects primarily with its own funds. At the end of the reporting period, banking facilities available to the Group amounted to approximately RMB22.9 billion.

As at 31 December 2018, the Group's cash and bank balances amounted to RMB9,763 million and notes receivable amounted to RMB4,970 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. In 2018, with the changes in global trade environment, the foreign exchange risk increased. The Company used forward foreign currency purchasing transactions to lock exchange rate and avoid exchange rate risk. On the other hand, the Company rationally allocated the US-dollar assets debt structure to hedge the foreign exchange risk.

2. Analysis of Revenue and Cost of Sales

(1). Analysis of Principal Operation by Industry, Products and Regions

Unit: million RMB

Principal operation by industry

Industry	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year
Iron and Steel	76,196	65,528	14.00	9.85	11.14	Decreased 0.99 percentage points

Principal operation by product

Product	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year
Long products	33,644	27,840	17.25	12.59	11.86	Increased 0.54 percentage points
Steel plates	37,919	33,557	11.50	6.36	9.95	Decreased 2.89 percentage points
Wheels and axles	2,033	2,042	–0.44	12.82	25.74	Decreased 10.32 percentage points

Region	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with same period of last year (%)	Increase/ (decrease) of cost of sales compared with same period of last year (%)	Increase/ (decrease) of gross margin compared with same period of last year
Anhui	30,618	26,020	15.02	17.37	13.53	Increased 2.88 percentage points
Shanghai	12,961	11,104	14.33	10.44	14.09	Decreased 2.74 percentage points
Jiangsu	12,120	10,371	14.43	6.77	5.52	Increased 1.01 percentage points
Zhejiang	5,414	4,741	12.43	18.65	19.94	Decreased 0.94 percentage points
Guangdong	2,387	2,047	14.22	12.33	11.95	Increased 0.29 percentage points
Other Mainland regions	13,188	11,233	14.83	–8.83	–11.36	Increased 2.43 percentage points
Overseas and Hong Kong	5,264	4,279	18.72	81.52	63.52	Increased 9.10 percentage points

Revenue by region

During the reporting period, the Group's revenue from principal operation was RMB80,913 million, wherein the iron & steel revenue was RMB76,196 million, accounting for 94% of the principal operation revenue.

(2). Analysis of Production and Sales Volumes

Unit: ten thousand tonnes

Products	Production Volume	Sales Volume	Inventory	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	908.6	909.9	12.8	1.66	1.13	–11.11
Steel plates	940.3	940.7	4.9	–0.75	–0.68	–7.55
Wheels and axles	21.6	22.0	0.5	11.92	17.02	–50

(3). Analysis of costs

Unit: million RMB

Cost components	Amount in 2018	% of total costs in 2018 (%)	Amounts in 2017	% of total costs in 2017 (%)	Change in amount in 2018 against amount in 2017 (%)
Raw materials	53,081	76.05	48,968	77.05	8.40
Salary	3,735	5.35	3,854	6.06	–3.09
Depreciation and amortization	3,519	5.04	3,520	5.54	–0.03
Fuels and power	3,398	4.87	3,474	5.47	–2.19
Others	6,062	8.69	3,740	5.88	62.09

Other costs increased by 62.09% compared with previous year, mainly due to the increase in maintenance and repairment expenses and other operating expenses.

(4). Analysis of Major Customers and Major Supplies

The amount of total sales to the top five customers was RMB6,299 million, accounting for 8% of the annual sales of which there was no related parties.

The amount of the total purchase from the top five suppliers was RMB11,649 million, accounting for 44% of the annual purchase. Among which, the purchase from the related parties was RMB3,860 million, accounting for 15% of the annual purchases.

Among the major suppliers, the Holding is the controlling shareholder of the Company. Saved as the above, there was 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 the Company) having any beneficial interests in the top five suppliers or customers of the Group in 2018.

3. Expenses

There was no significant change in the Group's selling expenses, general and administration expenses and financial expenses of the year compared with previous year.

4. Research and Development (R&D) Expenditure

R&D expenditure details

	Unit: million RMB
Expensed R&D expenditure in 2018	956.91
Capitalized R&D expenditure in 2018	39.32
Total R&D expenditure	996.23
Total R&D expenditure as a portion of revenue (%)	1.22
Number of the Company's R&D staff (person)	1,748
Percentage of R&D staff number to the Company's total number of employees (%)	7.50
Percentage of capitalized R&D expenditure (%)	3.95

(2) DURING THE REPORTING PERIOD, THE COMPANY HAD NO MATERIAL CHANGE IN PROFIT DUE TO NON-PRINCIPAL BUSINESS

(3) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: RMB

Item	Closing balance of 2018	Percentage of closing balance of 2018 in total assets (%)	Closing balance of 2017	Percentage of closing balance of 2017 in total assets (%)	Year-on-year change (%)
Cash and bank balances	9,762,844,718	12.70	4,978,352,093	6.90	96.11
Financial assets held-for-trading	2,084,414,075	2.71	–	–	–
Financial assets at fair value through profit or loss	–	–	1,546,139,404	2.14	–100.00
Notes and trade receivables	6,091,882,823	7.92	9,341,614,275	12.94	–34.79
Other receivables	147,965,534	0.19	285,228,074	0.40	–48.12
Inventories	11,053,918,748	14.38	11,445,747,808	15.85	–3.42
Financial assets purchased under agreements to resell	2,432,279,109	3.16	1,204,603,000	1.67	101.92
Loans and advances to customers	2,845,298,103	3.70	1,251,315,253	1.73	127.38
Assets classified as held-for-sale	–	–	73,454,334	0.10	–100.00
Held-to-maturity investments	–	–	305,228,376	0.42	–100.00
Non-current assets due within one year	101,201,184	0.13	–	–	–
Other current assets	3,173,122,975	4.13	916,037,331	1.27	246.40
Available-for-sale financial assets	–	–	1,111,168,160	1.54	–100.00
Non-current portion of held-to-maturity investments	–	–	100,854,230	0.14	–100.00
Long-term equity investments	2,809,063,381	3.65	1,525,225,202	2.11	84.17
Other equity instruments investments	263,122,364	0.34	–	–	–
Property, plant and equipment	31,545,176,835	41.04	33,130,499,862	45.86	–4.79
Construction in progress	1,662,672,077	2.16	1,805,955,609	2.50	–7.93
Deferred tax assets	275,626,734	0.36	478,235,280	0.66	–42.37
Deposits and balances from banks and other financial institutions	900,366,111	1.17	200,000,000	0.28	350.18
Customer deposits	4,915,309,311	6.39	2,947,639,610	4.08	66.75
Repurchase agreements	1,133,772,377	1.47	308,100,956	0.43	267.99
Short-term loans	10,917,293,181	14.20	4,630,303,694	6.41	135.78
Financial liabilities held for trading	8,012,670	0.01	–	–	–
Financial liabilities at fair value through profit or loss	–	–	10,498,810	0.01	–100.00
Notes and trade payable	10,342,007,979	13.45	11,778,382,830	16.32	–12.20
Other payables	3,530,746,914	4.59	2,354,327,866	3.26	49.97
Non-current liabilities due within one year	1,470,868,462	1.91	4,928,758,378	6.83	–70.16
Other current liabilities	1,026,897,260	1.34	3,081,026,301	4.27	–66.67
Long-term loans	3,596,387,552	4.68	6,975,958,634	9.66	–48.45
Long-term payables	–	–	210,000,000	0.29	–100.00
Retained earnings	7,405,577,274	9.63	3,643,443,763	5.05	103.26

- Cash and bank balances increased by 96.11% compared with the previous year, mainly due to the increase of the Company's profit which caused the increase of the operating cash inflows, and the customer deposit of MaSteel Finance increased compared with last year.

- Notes and trade receivables decreased by 34.79% compared with the previous year, mainly due to the the total amount of the previous year's notes receivable was relatively high, and the payment of goods were made in the form of endorsement of bills and the maturity of bills this year.

- Other receivables decreased by 48.12% compared with the previous year, mainly due to the settlement of futures and the futures deposit reduced.

- Financial assets purchased under agreements to resell increased by 101.92% compared with the previous year, mainly due to the increase of reverse purchase of MaSteel Finance this year.

- Loans and advances to customers increased by 127.38% compared with the previous year, mainly due to the increase in notes discounted to MaSteel Finance by external companies.

- Assets classified as held for sale decreased by 100.00% compared with the previous year, mainly due to the fact that assets of MaSteel Hefei Industry Site have been transferred to government this year.

- Other current assets increased by 246.40% compared with the previous year, mainly due to the interbank certificates of deposit purchased by MaSteel Finance was included in this account.

- Long-term equity investments increased by 84.17% compared with the end of the previous year, mainly due to the addition of three associates, including Magang Chemicals & Energy, and the investment income from joint ventures and associates increased this year.

- Deferred tax assets decreased by 42.37% compared with the previous year, mainly due to the Company wrote off part of deferred tax assets.

- Deposits and balances from banks and other financial institutions increased by 350.18% compared with the previous year, mainly due to the MaSteel Finance increased interbank lending funds in this year.

- Customer deposits increased by 66.75% compared with the previous year, mainly due to the increase in cash absorbed by MaSteel Finance in this year from related parties.

- Repurchase agreements increased by 267.99% compared with the previous year, mainly due to the decrease rediscount for notes and bonds in other financial institution this year.

- Short-term loans increased by 135.78% compared with the previous year, mainly due to the increase of shot-term loan of the Company and increase of letter of credit of Ma Steel (Hong Kong).

- Other payables increased by 49.97% compared with the previous year, mainly due to the increase of forteiting business.

- Non-current liabilities due within one year decreased by 70.16% compared with the previous year, mainly due to the repayment of medium-term notes.

- Other current liabilities decreased by 66.67% compared with the previous year, mainly due to the one-year short term notes of RMB3 billion issued last year was repaid this year, and one-year short-term notes of RMB1 billion was issued this year.

- Long-term loan decreased by 48.45% compared with the previous year, mainly due to the long-term loan due within one year were classified into non-current liabilities due within one year.

- Long-term payables is nil, while it was RMB210,000,000 at the end of previous year, which is mainly due to the payable was due within one year and was classified into non-current liabilities due within one year.

- Retained earnings increased by 103.26% compared with the previous year, mainly due to profit of the Group increased in this year.

Save for the above changes, changes in financial assets held-for-trading, financial assets at fair value through profit or loss, held-to-maturity investments, non-current liabilities due within one year, available-for-sale financial assets, other equity investments, financial liabilities held-for-trading, financial liabilities at fair value through profit or loss are due to the implementation of new accounting standards for financial instruments during the year and the presentation changed accordingly.

2. Major restricted assets at the end of the reporting period

At the end of the reporting period, the restricted assets of the Company totaling approximately RMB2,005 million consisted of mandatory reserves with the central bank of approximately RMB983 million, bank deposits for notes and letter of credit placed in banks were approximately RMB1,022 million.

(4) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

See Section III. "Overview of the Company's Businesses" of this report for details of the industry performance.

1. Company Information

During the reporting period, the production capacity and utilisation rates were as follows:

Product type	Production capacity (ten thousand tonnes)	Utilisation rate of production capacity (%)
Pig iron	1,833	98
Crude steel	2,170	91
Steel production	1,970	95

2. Steel and Iron Industry Operational Information Analysis

(1) Manufacturing and sales of steel material based on processing techniques

Unit: million RMB

Type based on processing	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Cold-rolled steel	4,801,070	4,833,780	4,800,445	4,822,887	23,015	20,604	20,879	18,262	9.28	11.37
Hot-rolled steel	13,687,895	13,577,833	13,704,774	13,645,056	48,548	44,928	40,518	37,147	16.54	17.32
Wheel and axles	215,567	192,638	220,352	188,808	2,033	1,802	2,042	1,624	–0.44	9.88

(2) Manufacturing and sales based on forms of finished goods

Unit: million RMB

Type based on forms of finished products	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Long Products	9,086,121	8,937,750	9,098,502	8,996,905	33,644	29,881	27,840	24,889	17.25	16.71
Steel Plates	9,402,844	9,473,863	9,406,717	9,471,038	37,919	35,651	33,557	30,520	11.50	14.39
Wheels and axle	215,567	192,638	220,352	188,808	2,033	1,802	2,042	1,624	–0.44	9.88

(3) Steel material sales based on sales channels

Unit: 100 million RMB

Based on sales channels	Revenue		Percentage in total revenue (%)	
	This Year	Last Year	This Year	Last Year
Offline sales	702.2	642.4	84.84	87.72
Online sales	33.8	30.9	4.08	4.22

(4) Supply of iron ore

Supply source of iron ore	Supply volume (tonnes)		Increase/decrease year on year (%)
	This Year	Last Year	
Domestic source	7,848,045	8,303,087	–5.48
Overseas import	21,032,183	20,336,050	3.42

(5) INVESTMENT ANALYSIS

1. General analysis of external equity investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	10,494.24
Changes in investment amount	1,537.23
Investment amount as at the end of previous year of the Company	8,957.01
Increase/decrease in investment amount (%)	17.16

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

Unit: million RMB

Name of Invested Company	Equity Ratio	Main Business	Newly-invested amount during the reporting period
New established companies			
Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	25%	Trade receivables financing, trade receivables delivery and clearing, management and collection, sales subaccount management, credit risk guarantee related to factoring	75
Ma Steel (Shanghai) Leasing Co., Ltd.	25%	Financial lease; lease; purchase lease assets; refine and maintenance of the residual value of lease assets; lease transaction consulting and guarantee	75
Magang Chemical & Energy	45%	Research, development, production, sales of chemical products (excluding hazardous chemicals and precursor chemicals); production, sales and technical consultation service of coke, metal products, home electrical appliances, mechanical and electrical equipment and instrument; engineering design; product evaluation testing	600
Maanshan (Changchun) Iron & Steel Sales Co., Ltd. ("Changchun Sales")	100%	Sale of steel products	10

Name of Invested Company	Equity Ratio	Main Business	Newly-invested amount during the reporting period
Maanshan (Wuhan) Material Technique Co., Ltd. ("Wuhan Material")	85%	Research and development of automobile, home electrical appliances, engineering and machinery material; production and sales of steel and stamping spare parts; storage and service	32
Maanshan Middle East Company	100%	Metallurgy and extended processing of ferrous metals and sale of resulting products, extended processing of iron and steel products	2
Maanshan Metallurgical Power Technology Co., Ltd. ("Meite Metallurgical Power")	100%	Technical consulting, advertising, magazine retailing, exhibition services	0.5
Company with investment changes due to capital increase or equity changes			
Masteel Scrap	45%	Recycling, processing and distribution of scrap metal	–55
MaSteel K. Wah	30%	Production, distribution, transportation of comprehensive slag utilization products and provision of related technical advice and services	–
MG-Valdunes	100%	Design, manufacturing, processing, maintenance and repair of all products and equipment used in rail transport, urban transport and machinery construction; distribution, import and export of various types of steel products	237

Name of Invested Company	Equity Ratio	Main Business	Newly-invested amount during the reporting period
Maanshan (Chongqing) Iron & Steel Sales Co., Ltd.	100%	Sale of steel products	–10
Maanshan (Guangzhou) Iron & Steel Sales Co., Ltd.	100%	Sale of steel products	–10
Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd. ("Shanghai Trading")	100%	Distribution of metal materials, building materials, hardware and electric appliances and iron ore; warehousing and business consulting services	–60

Explanation:

- In March 2018, the Company established a wholly-owned subsidiary, Magang Chemicals & Energy by cash of RMB260 million together with buildings and land of RMB340 million. In August 2018, the Company signed an agreement with the Holding to increase the registered capital of Magang Chemicals & Energy from RMB600,000,000.00 to RMB1,333,333,333.33. Save as an injection of RMB1,406,140.00 into Magang Chemicals & Energy, the Company relinquished the pre-emptive rights for capital injection. The Holding subscribed the new registered capital by totaling RMB733,333,333.33. Upon the completion of the capital injection, the registered capital of the Magang Chemicals & Energy was RMB1.333 billion and the shareholding percentage of the Company in the Magang Chemicals & Energy fell to 45% from 100%.

- In 2018, the Company established a wholly-owned subsidiary, Maanshan Middle East Company, with a registered capital of 4 million Dirhams, and completed the first phase of capital contribution of USD300,000 (equivalent to approximately RMB2.04 million).

- In October 2018, the Company established Wuhan Material with a registered capital of RMB250 million and the Company holds 85% of its shares. In 2018, the Company completed the first phase of capital contribution of RMB31.857 million.

- In August 2018, the Company signed an agreement with the Holding to transfer 55% of the shares held by the Company in Masteel Scrap to the Holding. After the transfer, the shareholding percentage of the Company in Masteel Scrap fell to 45% from 100%.

- In August 2018, the Company signed an agreement with the Holding and Leader Investments Company Limited ("Leader Investments") to increase the registered capital of MaSteel K. Wah from USD8,389,000 to USD19,574,333. The Company relinquished the pre-emptive rights for capital injection. The Holding and Leader Investments subscribed the registered capital of USD7,829,733 and USD3,355,600, respectively. After the capital injection, the shareholding ratio of the Holding is 40%, and the shareholding ratio of Leader Investment is 30% and the shareholding ratio of the Company in New Building Masteel K. Wah decreased to 30% from 70%.

- In August 2018, the board of directors approved to increase the capital of MG-Valdunes by no more than EUR 70 million. The capital increase of EUR30 million (equivalent to RMB237 million) was completed on 21 November 2018.

- The Company's wholly-owned subsidiary, Maanshan (Chongqing) Iron & Steel Sales Co., Ltd. and Maanshan (Guangzhou) Iron & Steel Sales Co., Ltd. were liquidated and deregistered. Shanghai Trading was transferred to liquidation manager in February 2018.

(1) During the reporting period, the Company had not carried out any significant equity investments.

(2) Significant non-equity investment

Unit: million RMB

Project Name	**Budgeted Investment**	**New Investment**	**Project Progress**
Product quality projects	11,303	1,497	62%
Energy-saving and environment protection projects	5,700	565	37%
Equipment advancement and other modification projects	1,802	416	68%
Other projects	N/A	233	N/A
Total		2,711	

By the end of the reporting period, the progress of the major construction in progress are as follows:

Unit: million RMB

Project name	Budget of total investment	Work progress
The update of environmental protection and intelligent transformation project of Masteel's raw material factory	1,500	Calling for and receiving tenders for a section of the project
Heavy duty H – beam project	1,196	Pile foundation construction
CCPP comprehensive utilization power generation project for energy saving and emission reduction	1,025	Relocating and demolishing units involved in the project
1# blast furnace overhaul project in the No. 2 Steel Plant	520	Capping the furnace shell and laying carbon bricks
New silo project in the coal coking company	420	Civil construction
New square billet continuous caster and supporting retrofit project in the Special Steel Company	420	Constructing pile foundation in the annealing furnace area and calling for tenders for a section of the continuous casting machine
Combination of purification system of coal coking company (Southern District) project	380	New AS system single machine, linked machine test drive
Auxiliary supporting project for Masteel's long product upgrading	360	Constructing pile foundation in the water treatment area and building a spare parts warehouse
Beam blank continuous caster project in the heavy-duty H beam production lines	330	Constructing equipment foundation
Flue gas desulfurization and denitrification project for 7# and 8# coking furnaces in the Coking Plant	150	Installing steel structures for the absorption tower and constructing electrical control buildings
Total	6,301	

Project construction fund of the Company comes from the Company's own fund and bank loans. The overhaul project of 1# blast furnace at 2nd iron plant was completed in February 2019.

(3) Financial assets measured at fair value

See "Section 10. Items Measured at Fair Value" in Section II of this report.

(6) DURING THE REPORTING PERIOD, THERE WAS NO SIGNIFICANT DISPOSAL OF THE COMPANY'S ASSETS OR EQUITY.

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

1. Changjiang Steel

The Company has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the production and sales of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales and the import and export of iron ore, iron ore fines and scrap steel. Net profit for the reporting period amounted to RMB2,120 million. At the end of the reporting period, its total assets and net assets amounted to RMB11,037 million and RMB5,531 million, respectively.

In 2018, the revenue from principal operation was RMB15,989 million and the profit from principal operation was RMB3,612 million and net profit was RMB2,120 million or up 6% year-on-year, mainly resulting from the increase in production and sales volume and the increase in product gross margin.

2. MaSteel Finance

MaSteel Finance has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy and relevant consultancy; guarantee provided; agency business to members of the group, bill acceptance and discounting, loans and finance leasing; engagement in interbank borrowing; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; entrustment loans for members of the group, internal transfer and bill settlement, design of settlement and liquidation plans, accepting deposits for members of the group. Net profit for the reporting period amounted to RMB269 million. At the end of the reporting period, its total assets and net assets amounted to RMB16,212 million and RMB2,970 million, respectively.

Indicator	Standard Ratio	Actual Ratio for the Year
Capital adequacy ratio	≥10.5%	25.09%
Liquidity ratio	≥25%	78.55%
Non-performing asset ratio	≤4%	–
Non-preforming loan ratio	≤5%	–
Loan loss reserves adequacy ratio	≥100%	272.22%
Loans from other banks ratio	≤100%	56.14%

3. Other Major Subsidiaries

➢ Masteel Hefei 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, by-products and semi-finished 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 profit for the reporting period amounted to RMB194 million. As at the end of the reporting period, it had total assets amounting to RMB4,746 million and net assets of RMB2,206 million.

➢ MG-VALDUNES, a wholly owned subsidiary of the Group Company, with a registered capital of EUR110.2 million, is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB86 million; at the end of reporting period, the total assets were RMB818 million, and the net assets were RMB439 million.

➢ The Company's wholly-owned subsidiary Maanshan Iron & Steel (Australia) Proprietary Limited, with a registered capital of AUD21.7379 million. It is mainly engaged in investment and trading. Net loss for the reporting period amounted RMB29 million. As at the end of the reporting period, it had total assets amounting to RMB194 million and net assets of RMB188 million.

➢ MaSteel (Hong Kong) has a registered capital of HK$350 million. 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 RMB55 million. As at the end of the reporting period, it had total assets amounting to RMB4,407 million and net assets of RMB316 million.

4. Major Investees

➢ Jinma Energy has a registered capital of RMB535.421 million and the Company directly holds 26.89% of its equity. Its main business include coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the reporting period was approximately RMB852 million. At the end of the reporting period, the total assets were RMB4,075 million and the net assets were RMB2,378 million.

➢ Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. Its main business include coke, ammonium sulfate, coal coke chemical products (excluding other dangerous chemicals) production and sales; mechanical equipment maintenance, processing (excluding special equipment). The net profit for the reporting period was approximately RMB921 million. At the end of the reporting period, the total assets were RMB3,078 million and the net assets were RMB2,290 million.

➢ Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% equity. It's main business include produce, sell air or liquid form of air products, and engage in preparation for other industrial gas products. In the reporting period, the net profits amounted to RMB167 million. At the end of reporting period, the total assets were at RMB621 million, and the net assets were RMB536 million.

3. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

(1) INDUSTRY LANDSCAPE AND TREND

The steel industry has completed the five-year goal of resolving excess capacity ahead of schedule and the market environment has undergone significant changes. However, there are still some problems in the steel production capacity structure. Examples are the continued impulse to increase production capacity in violation of laws driven by interests, the need to stay on guard against the resurgence of substandard steel and the lingering pressure from the rapid release of capacity from compliant companies. The cost pressure caused by the rising prices of raw materials and fuels and the surge in environmental protection operating costs is increasing. Some enterprises are still not up to social expectations in terms of energy conservation and environmental protection levels and ultra-low emission requirements. Enterprises are faced with relatively prominent issues of limited credit as well as difficult and costly financing. There is still a certain gap with foreign countries in terms of independent product innovation capability and some key core technology breakthroughs. The quality stability and consistency of some high-end products still need to be improved.

(2) CORPORATE DEVELOPMENT STRATEGY

Sticking to core status of steel industry, the Company will pursue high-quality development, carry out innovation-driven strategy, enhance lean operation, combine product upgrading and service innovation, focus on brand strategy and low cost strategy, reinforce product, optimize structure,establish brand, create a steel and iron material service provider with unique characteristics,enhance overall business, environment, employee and social performance, and develop the Company with a brand of "good benefit, eco-friendliness, employee morale, customer trust and social respect."

(3) BUSINESS PLAN

In 2019, the Group plans to produce pig iron of 17.72 million tons, crude steel of 19.21 million tons and steel of 18.20 million tons (of which the Company plans to produce pig iron of 14.33 million tons, crude steel of 15.48 million tons and steel of 14.45 million tons), which will decrease by 1.70%, 1.18% and 1.05% respectively, compared with the production in 2018.

(4) POTENTIAL RISKS

1. The risk of weakening demand. In 2019, the gross national product is expected to increase by 6%-6.5%, which is slower than previous year. With the weakened sales in real estate and the complex trade environment, the demand for steel in machinery, automobiles and electrical appliances increased slowly, and the national demand for steel may be weakened when comparing year-on-year. In response to this situation, the Company will focus on its main business. By integrating business and resources integration, pushing for professional and collaborative development, clustering on revolution breakthrough and focusing on value creation, the company endeavours to enhance its overall competitiveness.

2. The risk of strengthening supply. In the new year, the supply side of steel products was facing uncertainties with production limit for heating in winter and environmental protection policy. At the same time, as the operating environment of the industry has shown improvement, the impulses to install new capacity, relaunch "ground steel strip" and restore dissolved capacity still exist. In response to this situation, the Company continues to persist on production based on sales, to adopt a flexible production plan and increase the production flexibility. By focusing on the "expand product variety, improve product quality and strengthen brand-making", fully implementing the EVI model, and concentrating on core products, the company endeavours to solve the negative effect from the factors.

4. THE COMPANY DID NOT FAIL TO COMPLY WITH DISCLOSURE DUE TO INAPPLICABLE STANDARDS OR SPECIFIC REASONS SUCH AS STATE SECRETS, TRADE SECRETS, ETC.

1. PROFIT DISTRIBUTION PROPOSAL OR THE PLAN FOR CONVERTING CAPITAL RESERVE TO BONUS SHARES

(1) FORMULATION, IMPLEMENTATION AND ADJUSTMENT OF A CASH DIVIDEND POLICY

According to 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 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 cash dividend policy. In the process of formulating the profit distribution plan, the independent directors issued independent opinions. The proportion of cash dividends complied with the provisions of the company's articles of association, effectively protecting the legitimate rights and interests of the majority of small and medium investors.

(2) THE PLAN OR PROPOSAL OF THE COMPANY FOR PROFIT DISTRIBUTION OF COMMON SHARES OR FOR CONVERTING CAPITAL RESERVE TO BONUS SHARES FOR THE LAST THREE YEARS (THE REPORTING PERIOD INCLUSIVE)

Unit: Million RMB

Year of Distribution	Bonus Shares Distributed Every Ten Shares (share)	Dividends Distributed Every Ten Shares (tax included) (RMB)	Transferred Shares Every Ten Shares (share)	Amount of Cash Dividends (tax included)	Net profit attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements in the Year of Distribution	Ratios to Net Profits Attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements (%)
2018	–	3.60	–	2,772.2	5,943.3	46.6
2017	–	1.65	–	1,270.6	4,128.9	30.8
2016	–	–	–	–	1,228.9	–

The Board of Directors recommended to distribute 2018 interim cash dividend of RMB0.05 per share (including tax), and no capital reserve will be converted to share capital in the interim. The resolution had been approved by the EGM on 21 November 2018, and implemented by 21 December 2018.

The Board suggests a final dividend of RMB0.31 per share (tax included) shall be distributed for the year of 2018 and retained earnings will be carried forward to the year of 2019. No capital reserve shall be converted to share capital. The resolution shall be approval by the AGM of the Company before implementation.

2. PERFORMANCE OF UNDERTAKINGS

(1) UNDERTAKINGS MADE BY ACTUAL CONTROLLER, SHAREHOLDERS, RELATED PARTIES AND THE COMPANY DURING THE REPORTING PERIOD OR SUBSISTING TO THE REPORTING PERIOD

On 24th July 2015, the Holding, as the controlling shareholder, had undertaken further acquisition 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 subsequent to completion of the further acquisition.

The Holding will redouble its deleverageing efforts in 2019 in response to the de-leverageing drive of the iron and steel industry, which increase the cash pressure of the Holding. In addition, the Group Company actively responded to the call for optimizing the industrial structure and vigorously developed the non-steel industry with a large capital demand. The Holding has not raised enough fund to increase the equity holdings.

While ensuring the normal operation and capital management, the Holding will make more efforts to strengthen financing to implement the acquisition and disclose the development in a legitimate and compliance manner.

(2) NO EXPLANATION OR REASON ON WHETHER THE COMPANY HAS ACHIEVED PROFIT FORECAST ISSUED UNDER THE REPORTING PERIOD ON ITS ASSETS OR PROJECT WAS NEEDED

3. NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS BY THE CONTROLLING SHAREHOLDER OR ITS RELATED PARTIES WAS FOUND DURING THE REPORTING PERIOD, THUS NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS WAS FOUND

4. NO EXPLANATION FROM THE COMPANY ON THE "NON-STANDARD AUDIT OPINIONS" ISSUED BY THE AUDITORS

5. ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND MATERIAL ACCOUNTING ERRORS

(1) ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

➢ **Changes to Revenue Accounting policy**

In 2017, the Ministry of Finance has promulgated the revised "Accounting Standard for Business Enterprises No. 14 – Revenue" ("New Revenue Standard"). The New Revenue Standard establishes a new model to account for revenue arising from contracts with customers. The Company has implemented New Revenue Standard since 1 Janurary 2018. The adoption of the New Revenue Standard did not have significant impact on the Group's and the Company's revenue, net profit and shareholders' equity. Therefore, the Group and the Company did not adjust the financial statements upon initial adoption.

➢ **Changes to Financial Instruments Accounting policy**

In 2017, the Ministry of Finance has promulgated the revised "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standard for Business Enterprises No. 24 – Hedging" and "Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments" (collectively as "New Financial Instruments Standards"). The New Financial Instruments Standards changed the classification and measurement of financial instruments.

On the first implementation date of the New Financial Instruments Standards, the Group assessed the classification and measurement results of its financial instruments as of 31 December 2017 in accordance with the provisions of the unrevised and revised financial instruments standards, and adjusted the classification and measurement results of financial instruments as of 1 January 2018. Such changes of accounting policies had resulted in an increase of RMB6,385,966 in total assets and an increase of RMB4,154,774 in net assets at the opening balance of the consolidated financial statements of the Group (including an increase of RMB32,360,498 in other comprehensive income attributable to owners of the parent, and a decrease of RMB20,317,968 in retained earnings attributable to owners of the parent). The Company's total assets increased by RMB36,653,752, and its net assets increased by RMB27,490,314 at the opening balance of the financial statements of the Company (including an increase in the other comprehensive income of RMB27,490,314).

➢ **Change in Financial Statements Format**

According to "The Circular of the Ministry of Finance on Revising and Issuing the Format of the Financial Statements of General Enterprises for 2018" (Caikuai [2018] No. 15), The Group combined "notes receivable" and "trade receivable" as "notes and trade receivable", combined "interest receivable", "dividends receivable" and "other receivables" as "other receivables", combined "fixed assets" and "disposal on fixed assets" as "fixed assets", combined "notes payable" and "trade payable" as "notes and trade payable", combined "interest payable", "dividends payable" and "other payables" as "other payables", and combined "long-term payables" and "special payables" as "long-term payables". The Group added "R&D expenses" above the item of "financial expenses" in the income statement which accounts for expensed expenditure occurred during the course of research and development. The Group retrospectively represented the comparative statement of financial position and income statement. The changes of accounting policies did not have impact on the Group's and the Company's net profit or shareholders' equity.

➢ **Impacts on Presentation Items of Cash Flow of Asset-Related Government Grants**

Pursuant to the "Notice on Revision of the Format for Issuing the General Enterprise Financial Statements as at the Year 2018" by the Ministry of Finance, in preparation of the statement of cash flow, cash received of assets-related government grants, previously stated in investing activities shall be changed into cash flow used for operating activities. The Group has retrospectively adjusted the comparative data. This change in accounting policies resulted in a decrease in net cash flow generated from investing activities in the Group and the Company's statement of cash flows and an increase in net cash flow generated from operating activities in same amount, but had no impact on net increase in cash and cash equivalents.

(2) DURING THE REPORTING PERIOD, THERE WAS NO CORRECTION DUE TO MATERIAL ACCOUNTING ERRORS.

6. 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	5,385 (including internal control audit fee of RMB600)
Tenure of auditors in the PRC (year)	25

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

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 2018. The Board of Directors has approved the re-appointment and the related resolution was approved at the 2017 Annual General Meeting held on 28 June 2018.

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

8. THERE WERE NO MAJOR LITIGATION OR ARBITRATION CASES DURING THE REPORTING PERIOD

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

10. NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD WAS NEEDED

11. SUBSTANTIAL RELATED PARTY TRANSACTIONS

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS

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

(1) The continuing related party transactions under the 2016-2018 "Sale and Purchase of Ore Agreement"

In 2015, the Company and the Holding signed the 2016-2018 "Sale and Purchase of Ore Agreement", as approved at the shareholders' general meeting. During the period between 1 January 2018 and 31 December 2018, the transaction under the agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, Limestone and dolomite	3,860,073	25

The prices per ton of iron ore, limestone and dolomite the Group purchases from the Holding and its affiliates every year are negotiated between the parties on arm's length by referring to comparable market prices and determined as per general terms and conditions during the term of the contract.

All Directors of the Board who are not associated with the Holding (including Independent Non-executive Directors) considered that those transactions were carried out under normal commercial terms or were no less favorable than the terms agreed between the Company with any independent third party. They were in the best interest of the Company and its shareholders. In the reporting period, such transactions were carried out according to the terms for the "Sale and Purchase of Ore Agreement" and their transaction amount was under the annual cap of 2018 for that agreement, amounting to RMB5,425 million.

(2) The continuing related party transactions under the 2016-2018 "Energy Saving and Environmental Protection Agreement"

In 2015, the Company and Environmental Protection Company signed the 2016-2018 "Energy Saving and Environmental Protection Agreement", as approved at the shareholders' general meeting. In 2018, in view of the latest business conditions between the Company and Environmental Protection Company, both parties signed the "Supplementary Energy Saving and Environmental Protection Agreement", which made amendments to the transaction cap in 2018 in "Energy Saving and Environmental Protection Agreement". Under the supplementary agreement, the cap of energy saving and environmental protection engineering and services provided by Environmental Protection Company to the Company in 2018 increased to RMB837 million (exclusive of taxes). The supplementary agreement was approved at the shareholders' general meeting in November 2018.

During the period between 1 January 2018 and 31 December 2018, the transaction governed by the agreement, was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	743,033	10
Sales of useful resources for steel production including slag and coal ash (wastes)	10,909	1
Total	753,942	

The price the Group receives annually from the Environmental Protection Company for the provision of energy conservation and environmental protection projects and services, as well as the price for the sale of available resources to the Environmental Protection Company, is determined by both parties through fair negotiation during the term of the agreement, with reference to the comparable market transaction price and in accordance with the general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding or the Environmental Protection Company 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 2018 annual cap of RMB862 million specified in the agreement.

(3) The continuing related transactions under the "Continuing Related Transaction Agreement" in 2016 to 2018

In 2015, the Company and the Holding signed the 2016-2018 "Continuing Related Transaction Agreement", as approved at the shareholders' general meeting. In 2018, in view of the latest business conditions between the Company and the Holding, both parties signed the "Supplementary Agreement", and made amendments to the transaction cap in 2018 in "Continuing Related Transaction Agreement", including ① the cap for the Company to sell water, electricity and gas to the Holding in 2018 increased to RMB160 million (exclusive of taxes); the cap for sales in finished goods and related products in 2018 increased to RMB707 million (exclusive of taxes); cap for services provided in 2018 increased to RMB19 million (exclusive of taxes). ② The cap for the Company to procure spare parts and related products from the Holding in 2018 increased to RMB1,667 million (exclusive of taxes); cap for accepting infrastructure technology moderation project services in 2018 was increased to RMB1,350 million(exclusive of taxes); cap for accepting water and land transport and related services in 2018 increased to RMB2,498 million (exclusive of taxes). ③ The total cap governed by the above supplementary Agreement in 2018 increased to RMB6,402 million (exclusive of taxes). The Supplementary Agreement was approved at the shareholders' general meeting held in November 2018.

During the period between 1 January 2018 and 31 December 2018, the transaction in respect of the transaction under the above agreement, was as follows:

Unit: RMB'000

	Amount	**Proportion of transaction of the same category (%)**
Sales of finished goods related commodities and provision of services	688,691	1
Purchase of infrastructure spare-parts and related services	4,658,446	62
Total	5,347,137	

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that such transactions were carried out between the Company and the Holding 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 favorable to the Company when they were compared with normal commercial terms.

During the reporting period, those transactions were approved by the Board and conducted under the related terms of the agreement. The transaction amount did not exceed the annual cap of RMB6,402 million.

(4) The continuing related transactions under the "Financial Services Agreement" in 2018

In December of 2017, Masteel Finance and the Company signed the 2018 "Financial Service Agreement", as approved at the shareholders' general meeting.

From 1 January 2018 to 31 December 2018, the amount of transactions under the agreement is as follows:

Unit: RMB'000

Business Nature	**Amount of loan or deposit**			**Interest income/ expenses**
Deposit	Maximum daily deposit	5,591,861	Interest expenses	36,917
	Monthly average maximum daily deposit	4,824,846		
Loan	Maximum daily loan	498,000	Interest income	21,705
	Monthly average maximum daily loan	498,000		

Other income

Net income from handling fee and commission	445
Income from discount interest	41,557

When Masteel Finance provides the deposit service to the Group Company and its subsidiaries, the interest rate paid on the deposit shall not be higher than the benchmark interest rate and floating range of the same type of deposit set by the People's Bank of China in the same period. It shall not be higher than the interest rate offered by other independent commercial banks in China to the Group Company and its subsidiaries in the same period. When Masteel Finance provides loan services to the Group Company and its subsidiaries, the interest rate charged on the loan shall not be lower than the interest rate range set by the People's Bank of China for the same type of loan in the same period. It shall not be less than the interest rate charged by other independent commercial banks in China to the Group Company and its subsidiaries for the same type of loan interest in the same period. When Masteel Finance provides other financial services to the Group Company and its subsidiaries, the fees shall not be lower than the standard fees published by the People's Bank of China for the same type of financial services in the same period (if applicable). It shall not be less than the fees charged by other independent commercial banks in China for providing the Group Company and its subsidiaries with other financial services of the same type in the same period.

All Directors of the Board who are not associated with the Group Company (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. The maximum daily loan did not exceed the daily cap of RMB500 million, while interests, handling and service fees were less than RMB80 million.

(5) The continuing related transactions under the "Integrated Support Services Agreement in 2018

In December 2017, the Company and the Holding signed the 2018 "Integrated Support Services Agreement" as approved by the board of directors of the Company.

From 1 January 2018 to 31 December 2018, the amount of transactions under the agreement is as follows:

Unit: RMB'000

	Amount	**Proportion of transaction of the same category (%)**
Energy, technical support and other products or services purchased by the Holding from the Company	20,564	2
Products, printing services and other professional services purchased from the Holding by the Company	229,516	3
Total	250,080	

The price at which the Company purchases relevant commodities and professional services such as printing from the Holding each year, as well as the price at which it sells commodities such as energy and provides technical services to the Holding are negotiated between the parties on arm's length by referring to comparable market prices and determined as per general terms and conditions during the term of the contract.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. The transaction amount did not exceed the annual cap of RMB408 million.

Some of the aforesaid continuing related party transactions constitute continuing connected transactions as defined in 14A.56 of the Listing Rules for the Main Board of The Stock Exchange of Hong Kong.

Ernst & Young Hua Ming LLP, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised)-Assurance Engagements Other than Audits or Reviews of Historical Financial Information, with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming LLP has issued an unqualified conclusion in respect of the continuing connected transactions disclosed above by the Company in accordance with 14A.56 of the Hong Kong Stock Exchange Listing Rules. A copy of the auditors' letter will be submitted to the Hong Kong Stock Exchange by the Company.

(2) RELATED PARTY TRANSACTIONS IN RESPECT OF ACQUISITION AND DISPOSAL OF ASSETS OR EQUITY

1. Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation

Summary of matter	Index of documents
The purchase of the properties of Maanshan Iron & Steel Surface Engineering Technology Co., Ltd. and Anhui Ma steel Automation Information Technology Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_5.pdf
Transfer of 55% equity of MaSteel Scrap to the Holding, relinquish the pre-emptive rights for capital injection into Magang Chemicals & Energy and MaSteel K. Wah	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-08-16/600808_20180816_4.pdf

(3) SUBSTANTIAL RELATED PARTY TRANSACTIONS IN RESPECT OF JOINTLY INVESTMENT

1. Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation

Summary of matter	Index of documents
Invest to establish Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_4.pdf
Wholly-owned subsidiary Ma Steel (Hong Kong) invests to establish of Ma Steel (Shanghai) Finance Leasing Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_2.pdf

(4) OTHERS

- As of 31 December 2018, there were no obligation or debts between the Company and its related parties except for daily business activities.

- Significant contracts concluded with the controlling shareholder

Other than mentioned above, on 15 August 2018, the Company and the Holding signed the "Sale and Purchase of Ore Agreement" and "Continuing Related Transaction Agreement" for 2019-2022. The Company and Scrap MaSteel, K.Wah and Magang Chemicals & Energy signed 2019-2022 "Continuing Related Transaction Agreement" respectively. The Company and Environmental Protection Company signed the 2019-2022 "Energy Saving and Environmental Protection Agreement". Masteel Finance and the Group Company signed the 2019-2022 "Financial Services Agreement". Such agreements were approved at shareholders' general meeting held in November 2018. In December 2018, the Company and the Holding signed "Integrated Support Services Agreement", as approved by the Board. Saved for the above, the Company or any of its affiliates had concluded no significant contract signed with the Holding at anytime for the year ended 31 December 2018.

12. MATERIAL CONTRACTS AND EXECUTION THEREOF

(1) DURING THE REPORTING PERIOD, THERE WAS NO ENTRUSTMENT, CONTRACTING AND LEASING MADE BY THE COMPANY

(2) GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	–
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	–
Guarantees Offered to Subsidiaries	
Total amount of guarantees newly offered to subsidiaries during the reporting period	–
Total ending balance of guarantees offered to subsidiaries (B)	34.80
Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	34.80
Total amount of guarantees as a percentage of net assets of the Company (%)	10.88
of which:	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	–
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	30
The portion of total guarantees in excess of 50% of net assets (E)	–
Total amount of the preceding three types of guarantees (C+D+E)	30
Explanation on guarantees	During the reporting period, the Company provided MG-Valdunes with a guarantee of EUR42 million (equivalent to RMB330 million); and provided the Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing. The asset-liability ratio of MaSteel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. Additionally, at the end of the reporting period, Changjiang Steel provided to its wholly-owned subsidiary with a guarantee of RMB150 million.

Pursuant to the requirements of the CSRC, the independent directors of the Company carried out due diligence process in relation to the external guarantees offered by the Company. Details are as follows:

(1) As at 31 December 2018, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.

(2) As at 31 December 2018, the Company did not provide any guarantees to related parties in which the Company and the Holding held less than 50% equity interest, non-legal entities or individuals.

(3) As at 31 December 2018, the total amount of guarantees provided by the Company accounted for less than 50% of the net assets as stated in its consolidated financial statements of the most recent year.

(3) DURING THE REPORTING PERIOD, THERE WAS NO ENTRUSTED ASSET MANAGEMENT, ENTRUSTED LOANS AND OTHER WEALTH MANAGEMENT AND DERIVATIVES INVESTMENT WAS MADE BY THE COMPANY.

13. OTHER MAJOR EVENTS

1. Disclosure

Items	Date by published
Announcement on Resolutions of The Board of Directors	2018.1.20
Announcement on Resolutions of The Third Meeting of The Ninth Session of The Supervisory Committee	2018.1.20
Announcement on Estimated Growth in Profit in Annual Results of 2017	2018.1.30
Announcement in Relation to Government Grants Received in 2017	2018.1.30
Change of Company Logo	2018.3.2
Announcement on Resolutions of the Board of Directors	2018.3.6
Announcement on Resolutions of the Board of Directors	2018.3.21
Announcement on Resolutions of the Fourth Meeting of the Ninth Session of the Supervisory Committee	2018.3.21
Announcement of the Operating Data for the Year of 2017	2018.3.21
Announcement on the Changes in Accounting Policies	2018.3.21
Proposed Amendments to the Articles of Association and Appendix	2018.3.21
Announcement on Resolutions of the Board of Directors	2018.4.3
Announcement of Foreign Investment and Related Transactions of Ma Steel (Hong Kong) Iron & Steel Co., Ltd., a wholly-owned subsidiary	2018.4.3
Announcement of Foreign Investment and Related Transactions of Maanshan Iron and Steel Co.	2018.4.3
Announcement of Purchase of Asset and Related Transactions of Maanshan Iron and Steel Co.	2018.4.3
Announcement on Resolutions of the Fifth Meeting of the Ninth Session of Supervisory Committee	2018.4.3
Announcement on Resolutions of the Board of Directors	2018.4.20
Announcement of the Operating Data for First Quarter of 2018	2018.4.20
Announcement on the Completion of the First Phase of Short-term Financing Bonds in 2017	2018.4.24
Announcement on Resolutions of the Board of Directors	2018.5.10
Notice of 2017 Annual General Meeting	2018.5.10
Announcement on Resolutions of the Seventh Meeting of the Ninth Session of Supervisory Committee	2018.5.10
Indicative Notice Regarding Annual General Meeting	2018.6.12
Announcement on Resolutions of the Board of Directors	2018.6.22
Announcement on Resolutions of the Eighth Meeting of the Ninth Session of the Supervisory Committee	2018.6.22
Announcement on Resolutions Passed at the 2017 Annual General Meeting	2018.6.29

Items	Date by published
Announcement on the Issue of the First Short-term Financing Bond in 2018	2018.6.29
Announcement in Relation to the 2018 First Extraordinary General Meeting, 2018 First Class Meeting of the Holders of A Shares and the 2018 First Class Meeting of the Holders of H Shares	2018.7.11
Announcement on the Completion of the First Short-term Financing Bonds in 2015	2018.7.11
Announcement on the Completion of the Second Short-term Financing Bonds in 2015	2018.8.8
Announcement of the Implementation of the 2017 Annual Equity Distribution	2018.8.9
Announcement in Relation to the 2018 First Extraordinary General Meeting, 2018 First Class Meeting of the Holders of A Shares and the 2018 First Class Meeting of the Holders of H Shares	2018.8.9
Announcement in Relation to the Postponement of the 2018 First Extraordinary General Meeting, 2018 First Class Meeting of the Holders of A Shares and the 2018 First Class Meeting of the Holders of H Shares	2018.8.14
Announcement on Resolutions of the Board of Directors	2018.8.16
Announcement on Resolutions of the Ninth Meeting of the Ninth Session of Supervisory Committee	2018.8.16
Announcement on Connected Transaction	2018.8.16
Announcement of Signing a Supplementary Agreement for connected transactions	2018.8.16
Announcement on Connected Transaction	2018.8.16
Announcement on Resolutions of the Board of Directors	2018.8.30
Announcement on Resolutions of the tenth Meeting of the Nineth Session of the Supervisory Committee	2018.8.30
Announcement Regarding the Changes in Accounting Policies	2018.8.30
Announcement of the Operating Data for the First Half of 2018	2018.8.30
Announcement in Respect to Capital Increase and External Investment by Maanshan Iron & Steel Company Limited in Its Wholly Owned Subsidiary	2018.8.30
Announcement on Resolutions of the Board of Directors	2018.9.19
Announcement in Relation to the Cancellation of the 2018 First Extraordinary General Meeting, 2018 First Class Meeting of the Holders of A Shares and the 2018 First Class Meeting of the Holders of H Shares	2018.9.19
Announcement on the Completion of the Second Short-term Financing Bonds in 2017	2018.9.22
Notice Regarding 2018 Second Extraordinary General Meeting	2018.9.29

Items	Date by published
Announcement of the Operating Data for period from January to September of 2018	2018.10.19
Indicative Notice of 2018 Second Extraordinary General Meeting	2018.11.2
Announcement on Resolutions Passed at the 2018 Second Extraordinary General Meeting	2018.11.22
Announcement on Resolutions of the Board of Directors	2018.11.22
Announcement on the Implementation of the Interim Equity Distribution in 2018	2018.12.15
Announcement on Resolutions of the Board of Directors	2018.12.28
Announcement on Resolutions of the Twelfth Meeting of the Ninth Session of Supervisory Committee	2018.12.28
Continuing Connected Transactions Integrated Support Services Agreement	2018.12.28

All of the preceding announcements were published on Shanghai Securities News, the official site of Shanghai Stock Exchange (http://www.see.com.cn) and that of the HKEx (http://www.hkex.com.hk) at the same time.

2. During the reporting period, the Company neither repurchased any of its listed shares, nor bought or resold any listed share.

3. When new shares are offered, the Company is not required under the law of China or the Articles of Association to ask its existing shareholders to buy new shares in the currency of their share holdings first.

4. No director or supervisor of the Company signed any service contract the Company is disallowed to terminate without compensation within one year (excluding statutory compensation).

5. During the reporting period, no director or supervisor of the Company had any material interest, either directly or indirectly, in any contract signed by the Group, the Group Company or any affiliate of the Group Company.

6. As of 31 December 2018, no director, supervisor or senior management member of the Company had any interest in any business that constitutes or may constitute competition against the Company, either directly or indirectly.

7. As of 31 December 2018, no financial, business, family relationship or any other substantive relationship existed among the directors, supervisors and senior management of the Company other than working relationships.

14. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

(1) POVERTY ALLEVIATION WORK BY THE LISTED COMPANY

1. Targeted Poverty Relief Planning

The company earnestly carried out the poverty relief spirits from governments at all levels and persisted on targeted poverty relief. In the dedicated poverty relief of Malou Village of Wangyan Town and Liji Village of Dicheng Town, Funan County, the goal of eliminating poverty was achieved in 2016 and 2017 respectively. With the target decided and policy formulated, the poverty relief by industries and poverty relief by education have further increased the intensity to strengthen the poverty relief results, to prevent from returning to poverty, and to fulfil the social responsibility of a good enterprise.

(1) Working target

To realize the poverty relief target of building a moderately prosperous society in all aspects in 2020 as proposed by the CPC Central Committee, the company plans to increase the collective income of the village and the income in poverty-stricken families by implementing poverty relief by industries. By helping the poverty-stricken families to realize policies such as poverty relief by industries, photovoltaic poverty alleviation, poverty relief by education, poverty relief by employment, poverty relief by health and moderation of unsafe apartments, the poverty-stricken families can get rid of poverty, improve the quality of life, and the family life can enter into a healthy development.

(2) Protective policy

First, start in-depth research and interview. The director of the company takes the lead to enter poverty-stricken villages and conduct research and interview regularly, understanding the work demand, finding out the difficulties in target relief work, and assisting in solving the actual problems.

Second, increase the communication with poverty relief agencies at all levels. Quarterly report to the relevant poverty relief agencies and units of poverty relief work; communicate monthly with the poverty relief office of the county about poverty relief work in the villages; communicate weekly with the poverty relief village working team. Locate the entry and integrating points of target poverty relief work in the villages by upward and download communication.

Third, increase support. Persist on the combination of “blood transfusion” and “blood generation”, increase in survey and research, and optimize the collection of poverty relief projects. Concentrate on poverty relief by industries to enhance the collect economy and increase the income of poverty-stricken families, support the RMB600,000 poverty relief by industries fund of Liji Village committee, invest in enterprise with good performance to increase the collective income of the village by using big account to lead and distribute dividends.

Fourth, continue to implement the account cadre poverty relief work. Organize account cadres to Malou Village and Liji Village to visit the extremely impoverished families, to enhance communication between account cadres with the poverty-stricken families and to understand the living and production situation in a timely manner, assist the poverty-stricken families to solve actual difficulties and problems, and assist the former poverty-stricken families to get rich.

Fifth, bringing into full play of the precision assistance and preparation of the village poverty relief team. Perfectly execute the replacement of designated cadres, continue to designate poverty relief working team to bring into play of the drip and irrigate effect. Concentrate on the village level party building work to fulfil the responsibility of the first secretary of the party branch, strengthen the systematic construction in party building, bringing into play of the demonstration effect of the party member.

2. Annual Review of Targeted Poverty Relief

In 2018, the company fully completed the annual targeted poverty relief plan set out at the start of the year.

(1) Work Group to ensure the effect of poverty relief

The company sets up a poverty relief work leading group with the Chairman being the group leader. During the reporting period, the Chairman Mr. Ding Yi and others surveyed and interviewed the poverty-stricken villages to bring warmth and projects to the villages; the seventh batch of poverty relief cadres in village were designated after the term for the sixth batch ended; organised donation activities on the fifth “National day for Poverty Alleviation” and the 26th “International Day for the Eradication of Poverty”, with the total donation of RMB752,000.

(2) Poverty relief item showing progress

In 2018, the company implemented one poverty relief project, with the accumulated investment of more than RMB600,000. Liji village collectively invested in the big account dividend project and collected RMB60,000; the collective investment of Malou Village into the dividend project of the Funan Zhongben Agricultural Technology Co. Ltd was in the process; the renovation of primary school staff quarters and the hardening of the basketball court at Malon village improved teacher benefits and teaching conditions; effectively implement the "study subsidiary " plan as the system with long-lasting effect before delinking of the national poverty relief policy; the road lighting project at Liji village provided support to the building of a beautiful village.

(3) Poverty relief policy to benefit the livelihood

The poverty relief team of the company paid visits and used Wechat and posters to strongly promote and implement poverty relief projects, so that the poverty-stricken families are fully and able to benefit from the national policies in industry, finance, employment, education, health and ecology.

3. Results of Targeted Poverty Relief Efforts

Currency: RMB'000

Indicator	Figures and Progress
I. Summary	
1. Funding	630.00
2. Materials	30.00
3. Number of persons getting rid of poverty (person)	20
II. Breakdown	
1. Poverty relief by industries	
1.1 Sector of industrial poverty alleviation programs	✓ Agriculture and forestry
1.2 Number of industrial poverty alleviation programs	1
1.3 Funding for industrial poverty alleviation programs	600
1.4 Number of persons getting rid of poverty (person)	20
2. Bottom protection	
2.1 Funding for disabled people	30
2.2 Number of persons with disabilities in poverty (person)	8
III. Awards (Content and level)	Anhui Listed Company Social Responsibility Contribution Award

(2) SOCIAL RESPONSIBILITY WORK

Further details are stated in "Maanshan Iron & Steel Company Limited Social Responsibility Report 2018". Information sources: www.sse.com.cn, www.hkex.com.hk.

(3) ENVIRONMENTAL INFORMATION

1. Notes on environmental protection by the Company and its key subsidiaries listed among key pollution producers by the environment authority

(1) Pollutant emission information

The Company, the Hefei Company and Changjiang Steel operate in highly polluting industries identified by the state environment authority. Main pollutants are waste water, waste gases and solid wastes. Details are as follows:

Name of Company	Pollutant Category	Typical Pollutants	Way of Discharge	Processing Equipment	Number and Distribution of Discharge Outlets
Magang	Waste gases	Dust, NO_x, SO_2	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	248 sets	309 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	74 sets	30
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Recycled totally	36 sets	–
Changjiang Steel	Waste gases	Dust, NOx, SO_2	Discharged after up-to-standard processing	43 sets	50 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	10 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Treatment by qualified service provider	–	–
Hefei Company	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged after up-to-standard processing	10 sets	11 distributed along the production lines
	Waste water	acid and alkali, oil	Discharged after up-to-standard processing	4 sets	1
	Solid wastes	emulsified liquid slag, oil sludge, used oil	Treatment by qualified service provider	–	–

V. Significant Events (Continued)

All the above key pollutant-discharging enterprises have achieved zero discharge of solid waste. The total emission amount of other main typical pollutants during the reporting period and the approved annual emission permit limit are as follows:

Name of Company	Pollutant Category	Typical Pollutants	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang	Waste gases	Dust	34,498.33	5,140
		SO_2	21,069.82	6,391
		NO_x	39,568.21	16,611
	Waste water	COD	1,565.28	614
		ammonia nitrogen	124.56	39
Changjiang Steel	Waste gases	Dust	10,682.51	2,074.8
		SO_2	4,462.12	1,490
		NO_x	7,420.48	4,928.2
	Waste water	COD	270	0.43
		ammonia nitrogen	27	0.03
Hefei Company	Waste gases	Dust	51.82	4
		SO_2	6.04	3.95
		NO_x	38.06	14.93
	Waste water	COD	106.82	25.96
		ammonia nitrogen	16.10	0.31
	Hazardous wastes	emulsified liquid slag	700	632.42
		oil sludge	650	404.48
		used oil	80	25.36

The above key enterprises implement the steel industry series emission standards. In the self-monitoring of the reporting period, the Company's manual monitoring compliance rate is 100%; The daily mean of waste gas was not exceed the standard, and the daily mean of waste water was exceeded once, because there was a rainstorm in Maanshan on that day. The high COD content in the water and the impact of material particles on the monitoring instrument caused the rapid surge of COD, which resulted in the daily mean of waste water exceeding the standard. After maintaining the monitoring pipeline, the monitoring data returned to normal.

(2) *Construction and operation of pollution prevention and control facilities*

In 2018, the company arranged and implemented many environment-friendly ultra-low emission moderation projects. As of the end of the year, 21 projects have been completed, 15 were still in progress, and nine were registered.

In 2018, the pollution prevention equipment of the company were sufficient, technologically feasible and in smooth condition. The main discharge points of waste water and waste gases have installed online monitor, testing and control equipment, and realized clustering in accordance with government requirement; the industrial solid waste treatment equipment was fully installed; all production processes were installed with mufflers, noise reduction and sound insulation equipment. The equipment were controlling noise effectively.

Production processes of Changjiang Steel have installed pollution prevention equipment in accordance with environment assessment requirement. The equipment was in operation with the main production line, and was in smooth operation.

The waste gases treatment equipment of Hefei Company was operating online. It operated along the production line, and was in smooth operation; the waste water pollution prevention equipment was operating online 24 hours a day, and it was in smooth operation.

(3) *Environmental impact assessment of construction projects and other environmental protection administrative licenses*

By conducting environment assessment in advance, the company organized preliminary appraisal procedure to speed up the environment approval assessment. In 2018, the company has finished the following environment approval assessment projects: water treatment upgrading project in No. 2 Silicon Steel Plant, No. 0 CDQ project in the Coking Plant, 6 machines and 6 strands project in No,1 Steel Rolling Plant, waste water treatment upgrading project for 2130 cold-rolling strips in the Cold-rolling Plant, ultra-low emission renovation for 135MW unit in the Thermal Generation Plant and heat treat renovation project for train wheels.

In 2018, the steel segment of the company has obtained pollutant discharge permit. For now, the power generating process, the coking process, iron-making and steel-making process of the Company have obtained pollutant discharge permits, the company have obtained sewage permit.

The production facilities in Changjiang Steel have obtained environmental impact assessment reports and approvals. In September 2018 it completed the application for steel industry sewage permit. In June 2017 it completed the application for thermal power industry sewage permit. In March 2018 the gas power generation ultra-clean discharge and desulfidation project completed construction, passed the environmental inspection and accepted the project. In July the environmental inspection of the 165,000m^3 blast furnace gas cabinet project was approved and the integrated water treatment project completed construction, passed the environmental inspection and was accepted. In September the No.1 blast furnace soft water improvement project and the integrated waste water in-depth membrane treatment and reusing station project have completed environmental inspection and were accepted.

The production facilities in Hefei Company have obtained environmental impact assessment reports and approvals. In May 2018 it has completed the application for the steel industry sewage permit.

(4) Prepared Environment Emergency Response Plans

The Company, Changjiang Steel and Hefei Company have compiled the "Prepared Environment Emergency Response Plans" and have filed these documents with the local environment authority.

(5) Environmental self-monitoring program

The company used continuous auto-monitoring and manual monitoring for self-monitoring. At present, the company has 194 sets of online monitoring devices. By realizing continuous auto-monitoring at the discharge points, the data was transferred to the environment protection department and published in real-time. In respect of factors undetectable by online monitoring, manual monitoring will be carried out according to self-monitoring program. The data will be published on the next day after monitoring.

(6) Other Environmental Information that Should be Disclose

In 2018, the port affair factory was punished for RMB40,000 for the relevant reasons of stacking in open space in the storage ground. The Company has registered for closure and reformation of the storage ground for the intelligent moderation. The cold roll factory was punished for RMB800,000 for the relevant reasons of hydrogen chloride emission, the Company has completed the improvement and moderation on the pickling line and acid fog cleansing tower. The coking factory was punished for RMB750,000 for the relevant reasons of coke oven emission and monitoring, the Company optimized coke oven online monitoring equipment and started the coke oven flue gas desulfurization and denitration project. The resources branch company was punished for RMB830,000 for reasons of transfer and storage of waste water and other waste material, the Company has hardened the floor to prevent leakage, and has built an anti-leaking wall and flood intercepting trench. The above procedures were mostly completed, the intelligent closure of the storage ground and the coke oven flue gas desulfurization and denitration project were progressing on schedule.

2. No explanation on environmental protection situation of companies except the key pollutant producers.

VI. Movements in Share Capital and Shareholders

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	–	–	–	–	–	–	–	–	–
B. Shares without selling restriction	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100
1. RMB ordinary shares	5,967,751,186	77.5	–	–	–	–	–	5,967,751,186	77.5
2. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
3. Foreign shares listed overseas	1,732,930,000	22.5	–	–	–	–	–	1,732,930,000	22.5
4. Other shares	–	–	–	–	–	–	–	–	–
C. Total	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100

In the reporting period, there was no share movements in ordinary shares.

2. SHAREHOLDER AND ACTUAL HOLDERS

(1) TOTAL SHAREHOLDER

Numbers of Shareholder as end of the reporting period (unit)	217,650
Numbers of Shareholder as end of last month (unit)	213,708

(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 within the Reporting Period	No. of Shares at the End of Period	Percentage (%)	No. of Shares under Restricted Condition for Sales	Pledged or Frozen Situations Share status	Number	Shareholder
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.54	–	None	–	State-owned shareholder
Hong Kong Securities Clearing Nominees Limited	2,545,900	1,716,562,800	22.29	–	Unknown	Unknown	Unknown
Central Huijin Investment Ltd.	–	142,155,000	1.85	–	Unknown	Unknown	State-owned shareholder
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	Unknown	31,677,149	0.41	–	Unknown	Unknown	Unknown
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	–5,102,600	28,653,912	0.37	–	Unknown	Unknown	Unknown
Li Xiaozhong	–294,500	16,759,455	0.22	–	Unknown	Unknown	Unknown
Sheng Jun	Unknown	13,651,722	0.18	–	Unknown	Unknown	Unknown
China Asset Management Company Limited – National Social Security Fund 422	Unknown	9,521,500	0.12	–	Unknown	Unknown	Unknown
China Construction Bank Corporation – Bosera Yufu CSI 300 Index Fund	Unknown	8,752,330	0.11	–	Unknown	Unknown	Unknown
Fang Wei	Unknown	7,810,000	0.10	–	Unknown	Unknown	Unknown

Top Ten Shareholders with unrestricted selling condition

Name of Share Holder	The number of unrestricted outstanding shares held	Type and Quantity of Shares Type	Quantity
Magang (Group) Holding Co., Limited	3,506,467,456	ordinary shares in RMB	3,506,467,456
Hong Kong Securities Clearing Nominees Limited	1,716,562,800	Overseas listedshares	1,716,562,800
Central Huijin Investment Ltd.	142,155,000	ordinary shares in RMB	142,155,000
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	31,677,149	ordinary shares in RMB	31,677,149
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	28,653,912	ordinary shares in RMB	28,653,912
Li Xiaozhong	16,759,455	ordinary shares in RMB	16,759,455
Sheng Jun	13,651,722	ordinary shares in RMB	13,651,722
China Asset Management Company Limited – National Social Security Fund 422	9,521,500	ordinary shares in RMB	9,521,500
China Construction Bank Corporation – Bosera Yufu CSI 300 Index Fund	8,752,330	ordinary shares in RMB	8,752,330
Fang Wei	7,810,000	ordinary shares in RMB	7,810,000

Notes on the above shareholders' affiliated relation or concerted action

Magang (Group) Holding Co., Ltd. has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

Top Ten Shareholders with Restricted Selling Condition and the Related Condition

In the reporting period, no other 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.

Hong Kong Securities Clearing Company Nominees Limited held 1,716,562,800 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.

As at 31 December 2018, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations (definition refers to the Securities and Futures Ordinance).

As at 31 December 2018, the Company was aware of below interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

Name of the Shareholder	Identity held or deemed to be interested	Number of shares held or deemed to be in equity Percentage of the company's issued H shares (shares)	Percentage of the company's issued H shares (%)
The Goldman Sachs Group, Inc.	The interests of the corporation controlled by the major shareholder	100,300,629 (Long position)	5.79
		58,803,616 (Short position)	3.39

Name of the Shareholder	Identity held or deemed to be interested	Number of shares held or deemed to be in equity Percentage of the company's issued H shares (shares)	Percentage of the company's issued H shares (%)
Citigroup Inc.	Beneficial holder	126,000 (Long position)	0.01
	The interests of the corporation controlled by the major shareholder	7,819,803 (Long position)	0.45
		6,408,372 (Short position)	0.37
	Approval of Lending Agent	129,767,291 (Shares available for lending)	7.49
BlackRock, Inc.	The interests of the corporation controlled by the major shareholder	103,047,236 (Long position)	5.95
		538,000 (Short position)	0.03
JP Morgan Chase & Co.	The interests of the corporation controlled by the major shareholder	29,199,455 (Long position)	1.68
		58,666,782 (Short position)	3.39
	Investment Manager	106,500 (Long position)	0.01
		2,804,000 (Short position)	0.16
	Beneficial holder	783,834 (Long position)	0.05
	Approval of Lending Agent	68,341,243 (Shares available for lending)	3.94

Save as disclosed above, as at 31 December 2018, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

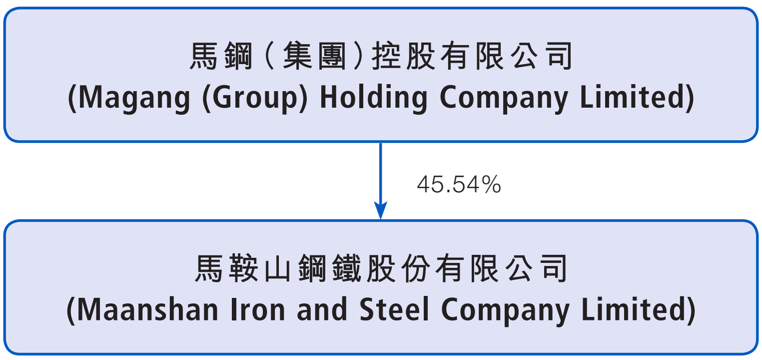
3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

(1) CONTROLLING SHAREHOLDERS

1. Legal Person

Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Wei Yao
Date of Incorporation	1 September 1993
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufactur ing, 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	At the end of the reporting period, in addition to the company's stock, Magang (Group) Holding Company Limited also held 110.67 million shares of Huaibei Mining, holding a shareholding ratio of 0.52%; holding 15.99 million shares of Huishang Bank, with a shareholding ratio of 0.014%. 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

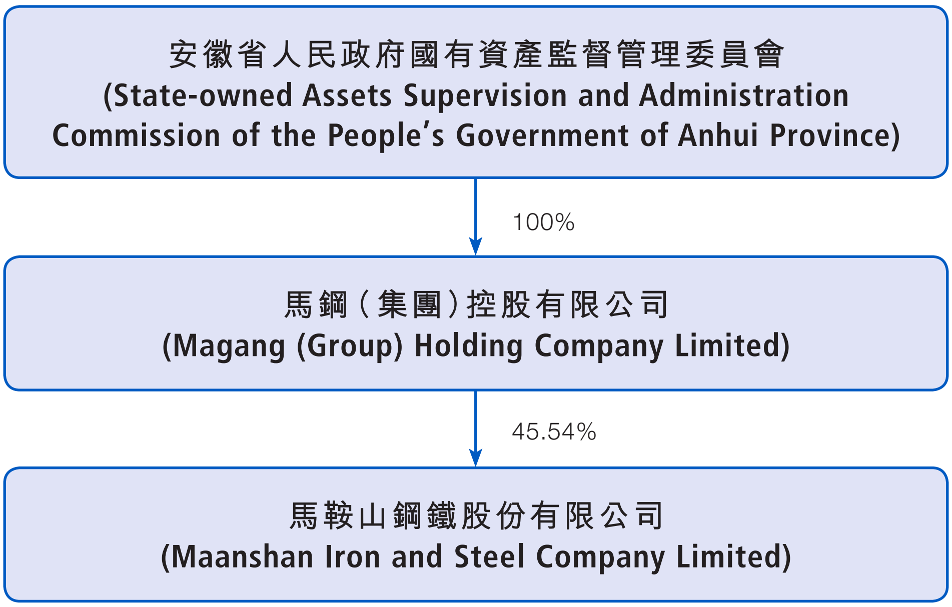


(2) ACTUAL HOLDERS

1. Legal Person

The actual holder of the Company is State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province.

2. Block diagram of property rights and controlling relations between the Company and actual controllers



1. CHANGES IN SHAREHOLDING AND EMOLUMENTS

(1) CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS FOR INCUMBENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE REPORTING PERIOD

(RMB10 thousand)

Name	Position	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments before tax during the reporting period	Receive emoluments from the Company's related parties
Ding Yi	Chairman	Male	55	2013-8-9	2020-11-30	–	Yes
Qian Haifan	Director/General Manager	Male	58	2011-8-31	2020-11-30	82.06	No
Zhang Wenyang	Director/ Deputy General Manager	Male	51	2017-11-30	2020-11-30	66.62	No
Ren Tianbao	Director	Male	55	2011-8-31	2020-11-30	–	Yes
Zhang Chunxia	Independent Director	Female	56	2017-11-30	2020-11-30	10.00	No
Zhu Shaofang	Independent Director	Female	55	2017-11-30	2020-11-30	10.00	No
Wang Xianzhu	Independent Director	Male	39	2017-11-30	2020-11-30	10.00	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	57	2008-8-31	2020-11-30	74.22	No
Zhang Qianchun	Supervisor	Male	57	2017-11-30	2020-11-30	–	Yes
Yan Kailong	Supervisor	Male	54	2015-12-1	2020-11-30	45.66	No
Qin Tongzhou	Independent Supervisor	Male	49	2017-11-30	2020-11-30	7.37	No
Yang Yada	Independent Supervisor	Female	63	2017-11-30	2020-11-30	7.37	No
Lu Kecong	Deputy General Manager	Male	55	2011-7-14	2020-11-30	74.22	No
Tian Jun	Deputy General Manager	Male	58	2017-2-14	2020-11-30	66.93	No
Fu Ming	Deputy General Manager	Male	52	2017-10-11	2020-11-30	66.87	No
He Hongyun	Board Secretary	Female	47	2018-4-19	2020-11-30	31.15	No
Gao Haichao	Deputy General Manager, Chief Engineer	Male	61	2013-2-17	2018-3-5	18.51	No
Total						570.98	

Explanation: Director and General Manager Qian Haifan, Chairman of Supervisory Committee Zhang Xiaofeng and Deputy General Manager Lu Kecong are managed by the Anhui SASAC. The annual emoluments of such persons are fulfilled according to the standards approved by the Anhui SASAC; personal income tax from the annual emoluments of Independent Directors and Independent Supervisors are withheld by the company. The annual emoluments after tax of Independent Directors and Independent Supervisors are RMB80,000 and RMB60,000 respectively.

During the reporting period, none of the Directors, Supervisors and Senior Management held any shares of the Company. The Company's current directors, supervisors and senior management personnel and their working experiences are as follows:

Name	Working Experience
Ding Yi	Mr. Ding is the current Chairman of the Company. He 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.
Qian Haifan	Mr. Qian is the current Director and General Manager of the Company. He 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. Mr. Qian also serves as the Chairman of Mascometal Co., Ltd., MG Trading and Development Gambit in Germany, Masteel America INC., Ma Steel (Australia), Ma Steel (Hefei) Iron & Steel Co., Ltd., Ma Steel (Hefei) Steel Plates Co., Ltd., and Ma Steel (Hong Kong) Co., Ltd. And he also served as the director of Magang Group Investment Limited.
Zhang Wenyang	Mr. Zhang is the current director and deputy general manager of the Company. He served as the deputy manager of the Company's marketing department from August 2011, and became the manager of the Company's marketing department in July 2012. He became the manager of the Company's production department in December 2013 and became the assistant to the Company's general manager and the manager of the manufacturing department in August 2015. On February 14, 2017, he was appointed as the Company's deputy general manager. He served as a director of the Company from November 30, 2017. Mr. Zhang also serves as a Supervisor of Maanshan Ma Steel Scrap Co., Ltd.

Name	Working Experience
Ren Tianbao	Mr. Ren is the current Director of the Company. He was 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.
Zhang Chunxia	Ms. Zhang is the current Independent Director of the Company. In January 2006, she served as a professor-level senior engineer and doctoral supervisor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute. She was an independent director of the company on November 30, 2017. In addition, Ms. Zhang is also a member of the Expert Committee of the China Society of Metals and is the deputy editor of "Steel" Magazine.
Zhu Shaofang	Ms. Zhu is the current Independent Director of the Company. From February 1999 to October 2016, she was the audit manager and partner of Deloitte Touche Tohmatsu Certified Public Accountants LLP and the manageing partner of Nanjing Branch. She served as Independent Director of the company on November 30, 2017.
Wang Xianzhu	Mr. Wang is the current Independent Director of the Company. From March 2012 to September 2013, he served as vice president of the School of Economics, Anhui University of Technology; from September 2013 to November 2015, he served as vice president of the School of Business of Anhui University of Technology. Since 2015, he has served as secretary of the Communist Youth League Committee of Anhui University of Technology; from 2016 to now, he served as the Standing Committee of the Huashan District Party Committee of Maanshan City and the deputy head of the district government (serving temporary positions). He was an independent director of the Company on November 30, 2017.

Name	Working Experience
Zhang Xiaofeng	Mr. Zhang is the current Chairman of Supervisory Committee. In August 2008, he served as chairman of the Group Company and the Company's labor union. He assumed the chairmanship of the Company's Supervisory Committee from August 31, 2008. In addition, Mr. Zhang also served as Chairman of Masteel Group Kangtai Land Development Co., Ltd.
Zhang Qianchun	Mr. Zhang is currently the Supervisor of the Company. In July 2009, he became the manager of the Company's plan finance department. In December 2013, he became the manager of the financial department of Magang (Group) Holding Company Limited In September 2014, he became the deputy chief accountant of Magang (Group) Holding Company Limited. He was appointed as a supervisor of the Company on November 30, 2017. In addition, Mr. Zhang is also a director of Magang Group Investment Limited, Anhui Masteel Engineering Technology Group Co., Ltd. and Magang Group Finance Co., Ltd.
Yan Kailong	Mr. Yan is the current Supervisor of the Company. In May 2012, he was appointed as the director of the equipment protection department of the Company's No. 1 Steel Rolling Mill and senior technical director of the Company. In May 2014, he was appointed deputy director of the Company's No. 1 Steel Rolling Mill, and in December 2014, he was the vice director of the Company's No.1 Cold Rolling Plant. From November 2015, Mr. Yan served concurrently as Vice Chairman of the Maanshan General Labor Union. In December 2015, he served as an employee supervisor of the Company.
Qin Tongzhou	Mr. Qin is currently the Independent Supervisor of the Company. He is also the 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 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, and the independent supervisor of the Company on November 30, 2017.

Name	Working Experience
Yang Yada	Ms. Yang is currently the Independent Supervisor of the Company. She is also the professor, master instructor 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, Deputy Dean and Dean of School of Management of Anhui University of Technology. 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, and Independent Supervisor of the Company on November 30, 2017.
Lu Kecong	Mr. Lu is currently the Deputy General Manager of the Company. He 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 the Chairman of Magang (Group) Logistics Co., Ltd. and Maanshan Iron & Steel Group Mining Co., Ltd., and the Director of Ma Steel (Australia).
Tian Jun	Mr. Tian is currently the Deputy General Manager of the Company. He was appointed as Manager and Deputy Secretary of the Party Committee of No.1 Energy Plant of the Company in February 2011. He was then appointed as Manager of Facilities Department of the Company in April 2014 and assistant to general manager and Manager of Facilities Department of the Company in August 2015. In addition, Mr. Tian serves as Chairman of BOC-Ma Steel Gases Company, Director in Environmental Protection Company, CFHI Maanshan Heavy Industry Co., Ltd. and MG Trading and Development Gambit in Germany.
Fu Ming	Mr. Fu is currently the Deputy General Manager of the Company. In February 2012, he was appointed as the manager of the Company's production department. Since December 2013, he has been the director and deputy party secretary of the Company's second ironmaking plant. He was appointed as the deputy general manager of the company on October 11, 2017.

Name	Working Experience
He Hongyun	Ms. He is currently the Secretary of the board. In November 2010, she was the Secretary of the board of office secretary; June 2015, securities affairs representative office; in April 2017, the board of directors and deputy director of the secretariat. On April 19, 2018, she became Secretary of the board of the company. In addition, Ms. He serves as director of Ma Steel (Hefei) Iron & Steel Co., Ltd., Ma Steel (Hefei) Steel Plates Co., Ltd., and Masteel Finance Co., Ltd., and as supervisor of Ma'anshan Oubang Color-coated Technology Co., Ltd..

(2) NO DIRECTORS AND SENIOR MANAGERS' EQUITY INCENTIVES GRANTED DURING THE REPORTING PERIOD

2. CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN REPORTING PERIO

(1) POSITIONS IN SHAREHOLDERS' COMPANY

Name	Name of shareholders' company	Position in shareholders' company
Ding Yi	Magang (Group) Holding Company Limited	Chairman, General Manager, Deputy secretary of the Party Committee
Zhang Xiaofeng	Magang (Group) Holding Company Limited	Chairman of the Labor Union, Standing Committee of the Party Committee
Qian Haifan	Magang (Group) Holding Company Limited	Director, Standing Committee of the Party Committee
Ren Tianbao	Magang (Group) Holding Company Limited	Deputy General Manager, Party committee member
Lu Kecong	Magang (Group) Holding Company Limited	Director, Standing Committee of the Party Committee
Zhang Qianchun	Magang (Group) Holding Company Limited	Deputy Chief Accountant, Finance Manager, Party committee member

(2) POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities
Zhang Chunxia	Central Iron & Steel Research Institute	PhD Supervisor
	The Chinese Society for Metals	Committee Member
	"Steel" Magazine	Deputy Editor
Wang Xianzhu	Anhui University of Technology	Secretary of the Communist Youth League
Yan Kailong	Maanshan Federation of Trade Unions	Deputy Chairman
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Yang Yada	Anhui University of Technology	Professor of Business School

3. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management

1. The remuneration committee of the Board is responsible for organizing the performance assessment of Executive Directors and Senior Management. The Committee evaluates of the Senior Management in terms of performing duties in accordance with the operating target status, and reports the yearly performance assessment to the Board. After the consideration and approval from the Board, the result is reported to the AGM.

2. The annual remuneration of the non-independent supervisors who receive remuneration from the Company shall be determined by the annual total amount of the remuneration approved by the board of supervisors at the general meeting of shareholders. The result is decided and reported to shareholders at the Annual General Meeting.

3. 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 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 RMB5,709.8 thousand (tax included).

4. CHANGES IN DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Position	Movement	Reasons of movement
Gao Haichao	Standing Deputy General Manager, Chief Engineer	Resignation	Retirement
He Hong Yun	Secretary of the board	Appointment	Board appointment

On 5 March 2018, the Board approved Mr. Gao Haichao, resigned from the positions of the Deputy General Manager and General Engineer of the Company. Detailed information please refer to the announcement at below address. http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-03-06/600808_20180306_1.pdf.

On 19 April 2018, the Board appointed Ms. He Hongyun as secretary to the Board. Detailed information please refer to the announcement at below address. http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-20/600808_20180420_3.pdf.

5. ON 19 APRIL 2018, THE BOARD APPOINTED MS. ZHAO KAISHAN AS THE COMPANY'S JOINT SECRETARY.

6. THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORY AGENCIES IN THE PAST THREE YEARS.

7. EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(1) EMPLOYEES

The number of current employees of the parent company	23,295
The number of current employees of the major subsidiaries	5,159
Total number of current employees	28,454
Number of retired employees whose parent company and major subsidiaries are required to bear expenses	21,542

Professional constitution

Profession category	Number of staff of profession constitution
Production Line	23,361
Sales representative	410
Technician	2,755
Financial staff	159
Administrative Staff	1,769
Total	28,454

Educational level

Education	Number of staff
Postgraduate	882
Graduate	4,106
Junior College	6,991
Vocational secondary or below	16,475
Total	28,454

(2) REMUNERATION POLICY

The company used package method of total wages which emphasis on the value of the post and strengthen the orientation to performance. The evaluation is classified according to the characteristics of second level units and subordinate companies. The total wages are linked and adjusted with the core indicators. With the increase in performance, the total wages will increase. With the decrease in performance, the total wages will decrease. The performance wages are linked with the personal performance on the post, with inclination to critical posts, frontline posts at general level and high level and highly-skilled professionals. More work comes with more money. Less work comes with less money. No work comes with no money. In 2018, the company optimized the wage structure and increased the protective wages.

(3) TRAINING PROGRAM

The Company makes full use of external and internal training resources to provide training opportunities for the growth of employees of different professions. In 2018 the Company launched 239 training activities, with a total of 28,172 employees attending the activities.

VIII. Corporate Governance

I. RELATED INFORMATION OF CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance corporate governance structure since its listing on the Hong Kong Stock Exchange in 1993 and on the Shanghai Stock Exchange in 1994, 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 strengthened the construction of fundamental system. Pursuant to the requirements of "the Company Law", "the Board amended The Articles of Association", "General Manager Working Regulations", "Rules Governing Information Disclosure", and "Internal Control Management Measures for Connected Transactions".

1. CORPORATE GOVERNANCE REPORT

In 2018, 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:

(1) DIRECTORS

Directors and the composition of the Board

The ninth session of the Board of the Company comprised seven Directors, of whom three were Executive Directors and four were Non-executive Directors. Among the Nonexecutive Directors, three of them were Independent Directors, accounting for three-seventh of the members of the Board. Two female directors make up two-seventh of the board.

The Executive Directors and one Non-Executive Director of the ninth session of the Board 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, Ms. Zhu is the member of the Chinese Institute of Certified Public Accountants (CICPA), with years of experience in the accounting profession; Ms. Zhang is a doctoral tutor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute, who is knowledgeable in the steel industry and environmental protection; Mr. Wang has served as Vice-Dean of School of Economics and School of Business of Anhui University of Technology, with a profound knowledge of economics.

All independent directors of the ninth Board of Directors of the company are fully capable of evaluating internal control and reviewing financial reports. The composition of the board of directors fully meets the requirements of domestic and foreign laws, regulations and regulatory documents. The names of all directors are announced in the company newsletter and the independent directors are specifically noted.

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 the independence confirmation letters from the three Independent Directors, which were submitted in accordance with Rule 3.13 of Chapter 3 "Authorized Representatives, Directors, Board Committees and Company Secretary" 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 authorized 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 authorization 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 authorized 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 organizes 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:

– Guide, lead and monitor the Company's affairs to ensure the company's long-term success;

– Develop strategic goals and pay due attention to value creation and risk management;

– 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, Ensuring transparency;

- Accountability. Directors are responsible for their actions or omissions and should consider the opinions of shareholders and stakeholders when appropriate in the decision-making process;

- Ensure the company has enough resources, qualifications and experience in accounting, internal auditing, financial reporting and other functions;

- 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 Strategic Development Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Please refer to "4" of this section for the composition of these committees. Please refer to "5, 6, 7, 8" 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:

- Provide necessary documents to directors to assist them to identify potential issue as soon as possible;
- To organize 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 organizing 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.

(2) REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors' remuneration

The annual aggregate remuneration of all Directors of the ninth session of the Board of the Company shall not exceed RMB2.80 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. Considering 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 nineth session of the Company's Supervisory Committee shall not exceed RMB1.6 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.

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.

(3) 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 3% 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.

(4) THE COMPOSITION OF THE PROFESSIONAL COMMITTEES OF THE BOARD OF DIRECTORS

The company's board of directors has four professional committees: the Strategic Development Committee, the Audit Committee, the Nomination Committee, and the Remuneration Committee.

The composition of each professional committee of the nineth board of directors of the company is as follows:

Directors	Committee: Strategic Development Committee	Audit Committee	Nomination Committee	The Remuneration Committee
Mr. Ding Yi	Chairman		member	
Mr. Ren Tianbao				member
Ms. Zhang Chunxia	member	member	Chairman	member
Ms. Zhu Shaofang	member	Chairman	member	member
Mr. Wang Xianzhu	member	member	member	Chairman

(5) THE STRATEGIC DEVELOPMENT COMMITTEE

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 2018, the Strategic Committee of the Board of Directors totally held one meeting, with all committee members (Mr. Ding Yi, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu) attending in person. Agenda of the meeting was as follows: 1) reviewed the 2017 Duty Performance Report of the Strategic Development Committee.

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.

(6) AUDIT COMMITTEE

The major duties of the Audit 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 audit;

– 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.

The Audit Committee of the ninth session of the Board of the Company held six meetings, with all committee members (Zhu Shaofang, Zhang Chunxia and Wang Xianzhu) attending in person. Details of the meetings in 2018 are as follows:

- Discussed the unaudited 2017 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.

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

- Having considered and approved the resolution on the changes in accounting policies.

- Reviewed the audited 2017 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.

- Following deliberations, it agreed to submit the company's 2017 profit distribution plan to the board of directors for review and approval at the shareholders' meeting.

- Following deliberations, approved the summary report on the Company's auditing work in 2017 conducted by the external auditors.

- Following deliberations,approved the payment of RMB5.385 million to Ernst & Young Hua Ming LLP in 2017, which included an annual audit fee of RMB4.8 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.

- Considered and agreed that Ernst & Young Hua Ming LLP would be re-appointed as the Company's auditors for 2018.

- Following deliberations, the company concluded that the continuing connected transactions contemplated under the "Sale and Purchase of Ore Agreement" between the Company and the Group Company in 2017 were carried out under normal commercial terms or were no less favorable 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 total amount of ore purchases in 2017 was under the annual cap specified in that agreement; the continuing connected transactions contemplated under the Financial Services Agreement between the Finance Company and the Group Company in 2017 were conducted under normal commercial terms and were in the best interest of the Company and its shareholders, without exceeding the specified cap; other connected transactions were concluded as part of daily business activities between the Company and the Group Company, subject to terms at least as favorable to the Company when compared with normal commercial terms. These transactions were conducted according to the terms of relevant agreements during the reporting period, without exceeding the applicable cap.

- Following deliberations, concluded that all external guarantees provided by the Company in 2017 were compliant with the laws and regulations.

- Considered and passed the 2017 Report on Internal Control Assessment of the Company.

- 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 2017.

- Reviewed the Company's unaudited first quarterly, interim and third quarterly financial statement of 2018 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.

- Following deliberations,the company's 2018 interim profit distribution plan is agreed to submit to the board of directors for consideration.

- Discussed and determined the Annual Audit Plan for 2018 with external auditors.

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 2018, 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.

(7) NOMINATION 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 2018, the Nomination Committee held two meeting. All committee members, including Zhang Chunxia, Zhu Shaofang, Wang Xianzhu and Ding Yi presented each meeting in person. Agenda of the meeting was as follows:

- Review on the candidates for the Company's Secretary to the Board, it is of the view that Ms. He Hongyun meets the qualifications, and recommends to the Board for appointment.

- 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 2017.

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.

(8) REMUNERATION 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 2018, the Remuneration Committee of the eighth session of the Board held one meeting. Members (Mr. Wang Xianzhu, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Ren Tianbao) attended the meeting in person. The details of the meeting are as follows:

- Conducted appraisals on business results in 2017 on Board and Senior Management who receive pay from the Company, and estimated remuneration based on the results of work performance appraisals and actual working months.

- Reviewed the Remuneration Committee's Report on Discharge of Duties for 2017.

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.

(9) CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Company enrolls the directors for training classes and workshops organized by stock market regulators, associations of listed companies and other organizations, keeps them updated regularly with latest developments of laws and regulations, as well as market and regulatory dynamics and information gathered by the Company, and creates opportunities of continuing professional development as appropriate. By these means, the directors are informed of the Company's business performance and the market environment and well understand their responsibilities and obligations under listing rules and other applicable rules, and are therefore able to discharge their duties properly.

For example: During the reporting period, Mr Ding Yi, Chairman, Mr. Qian Haifan, Director and General Manager, and Mr. Zhang Wenyang, Director and Deputy General Manager, participated in the training on economic and social macro-policy theory, business development and other related aspects; Ms. Zhu Shaofang, an independent director, participated in the training of directors, supervisors and senior management personnel organized by the Association of Listed Companies of Anhui Province.

(10) RISK MANAGEMENT AND INTERNAL CONTROL

The Board of the Company undertakes to be responsible for the availability and finetuning, as well as effective enforcement of a system of risk management and internal controls at the Company, and for a review of the effectiveness of this system. The Board would like to point out that this system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company measures the impact of the remaining risks on the Company in accordance with Risk Evaluation, the Internal Control Manual, based on the extent of impact of controls on inherent risks and the degree of effective control over the likelihood of occurrence, and identifies key risk exposures according the results of such evaluation. In Risk Control and Management Measures, the Company requires the office of internal controls to manage risks, define risk criteria and priorities, carry out risk evaluation, and come up with countermeasures. A well-established risk ownership structure is in place to guide all departments and entities to manage risks properly. The departments, subsidiaries and branches are responsible for manageing risks associated with their activities. The Department of Business Management shall go through all potential risks the Company may meet with in achieving its business objectives and produce a risk report on a quarterly basis. The Supervision and Audit Department shall carry out a test of internal controls and request other departments and entities to submit a summary report on risks, along with an inventory of risks and a tabulated list of risks identified and assessed on a quarterly basis. Key topics therein are whether all risk exposures have been identified, pertinent countermeasures have been taken, the owners of risks have been accurately defined and the risk management department has carried out regular review.

The Company should maintain a system of risk management and internal controls, which is overarching and applies to the whole lifecycle of business processes and every staff member, so as to rule out the possibility of any gap or loophole; which is focused on high-risk business fields and significant risks that need to identified and managed in a proactive manner; which works in a cost-effective way and is checked for effectiveness and improved constantly; which is designed with checks and balances to form a wellknit organization and sound business environment with reciprocal constraints and supervision in terms of governance structure, organization setup, division of duties and business processes, with equal importance given to efficiency; which complies with the applicable laws and regulations, and fits well into the scale and scope of business, business objectives, risks of the Company and the environment in which the Company operates.

The Supervision and Audit Department reviews the effectiveness of risk countermeasures and risk management and files a Report on Risk Monitoring and Evaluation to the Board every year. During the reporting period, the Company maintained proper control over strategic risk, financial risk, market risk, operational risk, legal risk and environmental risk.

The Company carries out an annual review of internal controls and prepares and submits an Report on Internal Control Assessment to the Board according to good practices of internal controls and the Company's Internal Control Manual. As of the reporting date for internal control assessment (31 December 2018), the Company was free from any material defect in internal controls over financial reporting, based on the identification of material defects in internal controls over financial reporting. In the opinion of the Board, the Company maintained effective internal controls over financial reporting in all material aspects as required by good practices of internal controls and relevant rules. As of the reporting date for internal control assessment, no material deficiency in internal controls other than over financial reporting was found, based on the identification of material deficiency in internal controls other than over financial reporting. Ernst & Young Hua Ming LLP audited the company's internal control related to financial reporting in 2018 and issued an Internal Control Audit Report with standard opinion.

(11) 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 financial statements prepared under the China Accounting Standards and internal control audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5.385 million (tax exclusive), including annual audit fee of RMB4.8 million (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on interim financial statements of RMB585,000. 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 2018, Ernst & Young Hua Ming LLP has provided auditing services to the Group for 25 consecutive years. Ms. An Xiuyan and Ms. Dong Nan were the certified public accountants who have signed the Company's 2018 auditors' reports. Ms. An Xiuyan has provided auditing services to the Company for four consecutive years, while Ms. Dong Nan has provided auditing services to the Company for two consecutive years.

During the reporting period, Ernst & Young Hua Ming LLP charged RMB500,000 for the agreed upon procedures for the implementation of the new accounting standards.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company for HK$43,000, which was a non-audit service.

(12) SHAREHOLDERS' RIGHTS

Any shareholder who holds shares carrying 10% or more of the voting rights in the Company, either individually or jointly, has the right to demand an extraordinary general meeting or any other type of general meetings according to Article 88 of the Articles of Association. When the Company convenes Annual General Meeting, any shareholder who meets the conditions specified in Article 60 of the Articles of Association is entitled to file a new bill with the Company in writing. Shareholders may send inquiries or comments to the Board by mail to the Company's office in Maanshan, Anhui (No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC).

(13) COMMUNICATION WITH SHAREHOLDERS

➢ *Effective communication*

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encourageing them to attend the shareholders' general meetings.

During the reporting period, the Company stated clearly in the notices of 2017 Annual General Meeting, 2018 First Extraordinary General Meeting, First A Shareholders' Class Meeting, First H Shareholders' Class Meeting and 2018 Second Extraordinary General Meeting 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 shareholders' general meeting 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.

In addition, the information available on the Company's website, together with annual reports, semi-annual reports, quarterly reports and announcements and circulars released by the Company, provide shareholders of the Company with a variety of accesses to the Company's information.

➢ *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.

➢ *Investor Relations Management*

The company has been using multi-channels to proactively enhance the communication with local and overseas institutional investors. During the reporting period, the company oragnized one press conference, one results presentation and two roadshows, with more than 150 investors attended and visited; participated in Anhui Listed Companies Investors Online Reception Day in 2018; joined strategic meeting seven times, conducted many one-to-one or one-to-many discussion meetings; in response to the "I am a Shareholder" campaign from the Shanghai Stock Exchange, co-organised with Guoyuan Securities for A Shareholders to enter the company. With those visits and meetings, the understanding of investors towards the company has further enhanced.

(14) SEPARATION OF THE COMPANY AND CONTROLLING SHAREHOLDERS IN PERSONNEL, ASSETS, FINANCE, ORGANIZATION AND BUSINESS

1. 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.

2. 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.

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

4. 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.

5. 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.

(15) OTHER PROVISIONS AS SET OUT IN THE CODE APART FROM THE ABOVE

- The directors of the Company acknowledged their obligation to prepare annual accounts for the year ended 31 December 2018; these annual accounts presented a fair and true overview of the Company's financial position, business results and cashflows. Ernst & Young Hua Ming LLP, the auditor, also acknowledged their responsibilities as the auditor of the Company in the Auditors' Report.

- As Ernst & Young Hua Ming LLP 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 2018. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2017 annual general meeting held on 28 June 2018.

- In order to regulate its management on people with access to insider information, the Company has formulated the "Registration and Management System for People with Access to the Company's Insider Information" and amended regularly. 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.

No significant variance exists between the corporate governance and relevant requirements of CSRC.

II. SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publishing Date of Resolution
2017 Annual General Meeting	2018-6-28	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-06-29/600808_20180629_1.pdf	2018-6-29
2018 Second Extraordinary General Meeting	2018-11-21	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-11-22/600808_20181122_1.pdf	2018-11-22

The first extraordinary general meeting of 2018, The first A-share class meeting, and the first H-share class meeting were originally scheduled to be held on August 28, 2018. Due to work arrangements and other reasons, the company decided to postpone the shareholders' meeting on August 13, 2018. On 18 September 2018, the company was unable to determine the time for the general meeting of shareholders, and according to the provisions of the company's articles of association, the shareholders' meeting was postponed and the share registration date remained unchanged. Taking into account the long delay of the shareholders' meeting, it may affect the shareholders' rights. At the same time, in line with the actual situation of the company, in order to safeguard the legitimate rights and interests of shareholders, the company's board of directors decided to cancel the first extraordinary shareholders meeting in 2018, the first A-share class meeting, the first H-share class shareholder meeting.

All of these general meetings took place in the Company's office building, located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province. Announcements detailing resolutions made at these meetings were released on Shanghai Securities News, the website of SSE (http://www.see.com.cn) and that of the HKEx (http://www.hkex.com.hk).

III. PERFORMANCE OF DIRECTORS

(1) ATTENDANCE OF DIRECTORS IN THE BOARD MEETINGS AND SHAREHOLDERS' GENERAL MEETING

		Attendance of directors in the board meetings						
Name of Director	Independent Director	Required attendance during the year At	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive ersonal absence	In the General Meeting Attendance
Ding Yi	No	14	9	5	0	0	No	2
Qian Haifan	No	14	8	5	1	0	No	2
Zhang Wenyang	No	14	8	5	1	0	No	1
Ren Tianbao	No	14	9	5	0	0	No	2
Zhang Chunxia	Yes	14	9	5	0	0	No	1
Zhu Shaofang	Yes	14	9	5	0	0	No	1
Wang Xianzhu	Yes	14	9	5	0	0	No	2

During the reporting period, all directors of the company did not attend the board meeting in person for two consecutive times.

Number of meetings held by the Board during the reporting year	14
Of which：Number of face-to-face meetings	9
Number of meetings by teleconferencing	5
Number of face-to-face meetings combined with teleconferencing	0

(2) THE INDEPENDENT DIRECTORS HAVE NO OBJECTION TOWARD MATTERS OF THE COMPANY.

IV. THE SPECIAL COMMITTEE UNDER THE BOARD OF DIRECTORS HAS NO OBJECTION TOWARD MATTERS WITHIN THE REPORTING PERIOD.

V. THE SUPERVISORY COMMITTEE FOUND NO RISKS IN THE COMPANY

VI. NO INDUSTRY COMPETITION AMONG THE COMPANY AND CONTROLLING SHAREHOLDERS.

VII. ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company has established an evaluation mechanism for senior executive salaries related to company performance and individual performance. During the reporting period, the mechanism worked effectively. Details of senior executive salaries are set out in Section VII "Directors, Supervisors, Senior Management and Employees".

VIII. WHETHER TO DISCLOSE THE REPORT ON INTERNAL CONTROL SELF-ASSESSMENT

Report on Internal Control Assessment of the Company in 2018 has been discussed and approved by Nineteenth Session of the Ninth Board of Directors of the Company on 21 March 2019, confirming that the Company's internal control in 2018 is effective. Search the follow websites for the report on the internal control assessment at: www.sse.com.cn and www.hkex.com.hk.

There was no material deficiency in internal control during the reporting period.

IX. PRESENTATION OF RELEVANT CONDITIONS CONCERNING THE AUDITING REPORT ON INTERNAL CONTROL

Ernst & Young Hua Ming LLP audited the effectiveness of relevant internal control on financial reporting as of 31 December 2018 and issued unqualified audit report on internal control relating to financial reporting. Search the follow websites for auditing report on internal control: www.sse.com.cn and www.hkex.com.hk.

IX. Financial Statements

CONTENTS

Note: The notes to the financial statements with "*" are disclosed in accordance with the disclosure requirements of the Listing Rules of The Hong Kong Stock Exchange and the Hong Kong Companies Ordinance.

Independent Auditors' Report

Ernst & Young Hua Ming (2019) Shen Zi No. 60438514_A01

Maanshan Iron & Steel Company Limited

To the shareholders of Maanshan Iron & Steel Company Limited

1. OPINION

We have audited the financial statements of Maanshan Iron & Steel Company Limited, which are comprised of the consolidated and company statements of financial position as of 31 December 2018, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of Maanshan Iron & Steel Company Limited present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as of 31 December 2018 and their financial performance and cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of Maanshan Iron & Steel Company Limited in accordance with *the Code of Ethics for Chinese Certified Public Accountants*, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

3. KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As of 31 December 2018, inventories amounted to RMB11,853,042,738 with an impairment of RMB799,123,990 in the consolidated financial statements. Management performed impairment testing of inventories and if the cost is in excess of the net realizable value, impairment of inventories is recognized. Net realizable value is determined based on the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. During the process, management needs to make significant judgement and estimation regarding the future selling price, production costs, selling expenses, related taxes and etc. The disclosures related to the net realisable value of inventories of Maanshan Iron & Steel Company Limited are disclosed in Notes III.12, III. 33 and V.7 to the financial statements.	We obtained an understanding and tested internal controls related to impairment testing of inventories. We reviewed management's model, method and related parameters for impairment testing of inventories, specifically the future selling price, production costs, selling expenses, related taxes and etc. In addition, we also reviewed the disclosures regarding the net realisable value of inventories in the financial statements.

3. KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Expected credit losses	
As of 31 December 2018, financial assets measured at amortized cost in consolidated financial statements included notes and trade receivables, other receivables, financial assets purchased under agreements to resell, loans and advances to customers and debt instruments investment. The carrying amount of financial assets measured at amortized cost was RMB14,566,102,365 with an impairment of RMB570,435,972. Based on expected credit losses model and adopting a simplified approach, the management measured and recognized the impairment of notes and trade receivables and other receivables at an amount equal to lifetime expected credit losses. As for financial assets purchased under agreements to resell, loans and advances to customers and debt instruments investment, the management adopt a general expected credit losses model to calculate the impairment. Management need to make significant judgement and estimation regarding the determination of appropriate expected credit losses model, the determination and application of key parameters and assumptions as well as the prospective adjustments factors. The disclosures related to the impairment of financial assets measured at amortized cost of Maanshan Iron & Steel Company Limited are disclosed in Notes III.9, III.33, V.4, V.6, V.8, V.9, V.12, V.13 and VIII.4 to the financial statements.	We obtained an understanding and tested internal controls related to expected credit losses. According to the historic losses and industry practice, we reviewed the appropriateness of the expected credit losses model adopted by the management, assessed the reasonableness of the key parameters and assumptions adopted in the expected credit losses model, including the default probability, the loss rate in case of default and the default risk exposure, etc. In addition, we also reviewed the disclosure relating to the impairment of financial assets measured at amortized cost in the financial statements.

4. OTHER INFORMATION

The management of Maanshan Iron & Steel Company Limited is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with China Accounting Standards for Business Enterprises, and 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.

In preparing the financial statements, the management is responsible for assessing Maanshan Iron & Steel Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless either intend to liquidate Maanshan Iron & Steel Company Limited or to cease operations or have no realistic alternative but to do so.

The Governance is responsible for overseeing Maanshan Iron & Steel Company Limited's financial reporting process.

6. AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

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

6. AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *(CONTINUED)*

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Maanshan Iron & Steel Company Limited to express an opinion on the financial statements. We are responsible for the guidance, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Governance regarding the planned scope, timing of the audit and significant audit findings, including deficiencies worth of attention in internal control that we identify during our audit.

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

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

Ernst & Young Hua Ming LLP

An Xiu Yan (Engagement Partner)
Chinese Certified Public Accountant

Dong Nan
Chinese Certified Public Accountant

Beijing, the People's Republic of China

21 March 2019

Consolidated Statement of Financial Position

31 December 2018
Renminbi Yuan

ASSETS	Note V	**31 December 2018**	31 December 2017
CURRENT ASSETS			
Cash and bank balances	1	**9,762,844,718**	4,978,352,093
Financial assets held for trading	2	**2,084,414,075**	–
Financial assets at fair value through profit or loss	3	**–**	1,546,139,404
Notes and trade receivables	4	**6,091,882,823**	9,341,614,275
Prepayments	5	**712,340,548**	750,818,831
Other receivables	6	**147,965,534**	285,228,074
Inventories	7	**11,053,918,748**	11,445,747,808
Financial assets purchased under agreements to resell	8	**2,432,279,109**	1,204,603,000
Loans and advances to customers	9	**2,845,298,103**	1,251,315,253
Assets classified as held for sale	10	**–**	73,454,334
Held-to-maturity investments	11	**–**	305,228,376
Non-current assets due within one year	12	**101,201,184**	–
Other current assets	13	**3,173,122,975**	916,037,331
Total current assets		**38,405,267,817**	32,098,538,779
NON-CURRENT ASSETS			
Available-for-sale financial assets	14	**–**	1,111,168,160
Held-to-maturity investments	11	**–**	100,854,230
Long-term equity investments	15	**2,809,063,381**	1,525,225,202
Other equity instruments investments	16	**263,122,364**	–
Investment properties	17	**55,804,755**	57,508,684
Property, plant and equipment	18	**31,545,176,835**	33,130,499,862
Construction in progress	19	**1,662,672,077**	1,805,955,609
Intangible assets	20	**1,855,265,330**	1,883,604,173
Deferred tax assets	21	**275,626,734**	478,235,280
Total non-current assets		**38,466,731,476**	40,093,051,200
TOTAL ASSETS		**76,871,999,293**	72,191,589,979

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position (Continued)

31 December 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**31 December 2018**	31 December 2017
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	23	**900,366,111**	200,000,000
Customer deposits	24	**4,915,309,311**	2,947,639,610
Repurchase agreements	25	**1,133,772,377**	308,100,956
Short-term loans	26	**10,917,293,181**	4,630,303,694
Financial liabilities held for trading	27	**8,012,670**	–
Financial liabilities at fair value through profit or loss	28	**–**	10,498,810
Notes and trade payables	29	**10,342,007,979**	11,778,382,830
Advances from customers	30	**3,572,594,400**	3,842,903,332
Payroll and employee benefits payable	31	**563,642,908**	654,822,505
Taxes payable	32	**1,325,517,987**	1,342,836,597
Other payables	33	**3,530,746,914**	2,354,327,866
Non-current liabilities due within one year	34	**1,470,868,462**	4,928,758,378
Provision	35	**29,997,521**	38,537,369
Other current liabilities	36	**1,026,897,260**	3,081,026,301
Total current liabilities		**39,737,027,081**	36,118,138,248
NON-CURRENT LIABILITIES			
Long-term loans	37	**3,596,387,552**	6,975,958,634
Long-term payables	38	**–**	210,000,000
Long-term employee benefits payable	39	**157,371,474**	160,896,586
Deferred revenue	40	**1,364,795,555**	1,462,490,533
Deferred tax liabilities	21	**24,066,311**	26,841,665
Total non-current liabilities		**5,142,620,892**	8,836,187,418
Total liabilities		**44,879,647,973**	44,954,325,666

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**31 December 2018**	31 December 2017
SHAREHOLDERS' EQUITY			
Share capital	41	**7,700,681,186**	7,700,681,186
Capital reserve	42	**8,352,287,192**	8,352,287,192
Other comprehensive income	43	**(112,702,163)**	(124,156,060)
Special reserve	44	**31,037,123**	31,929,722
Surplus reserve	45	**4,571,901,256**	4,100,007,341
General reserve	46	**224,841,404**	191,546,668
Retained earnings	47	**7,405,577,274**	3,643,443,763
Equity attributable to owners of the parent		**28,173,623,272**	23,895,739,812
Non-controlling interests		**3,818,728,048**	3,341,524,501
Total shareholders' equity		**31,992,351,320**	27,237,264,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**76,871,999,293**	72,191,589,979

The accompanying notes are an integral part of these financial statements.

The financial statements were signed by the following persons:

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

Consolidated Income Statement

For the year ended 31 December 2018
Renminbi Yuan

	Note V	2018	2017
Revenue	48	**81,951,813,488**	73,228,029,624
Less: Cost of sales	48	**69,794,982,119**	63,556,258,449
Taxes and surcharges	49	**810,322,306**	741,194,307
Selling expenses	50	**959,718,246**	865,396,451
General and administrative expenses	51	**1,379,991,907**	1,164,112,101
R&D expenses	52	**801,240,784**	255,023,306
Financial expenses	53	**960,457,412**	998,780,259
including: interest expense		**879,897,330**	920,767,866
interest income		**54,228,185**	34,412,987
Impairment losses	54	**754,443,431**	746,374,994
Credit impairment losses	55	**41,876,945**	–
Add: Other income	56	**185,350,836**	238,868,248
Investment income	57	**1,090,099,779**	676,516,349
including: share of profits of associates and joint ventures		**657,410,287**	490,410,552
(Loss)/gain on the changes in fair value	58	**(10,213,369)**	10,145,756
Gain/(loss) from disposal of non-current assets	59	**371,280,264**	(176,952,368)
Operating profit		**8,085,297,848**	5,649,467,742
Add: Non-operating income	60	**160,098,567**	176,123,978
Less: Non-operating expenses	61	**6,472,487**	16,625,157
Profit before tax		**8,238,923,928**	5,808,966,563
Less: Income tax expense	63	**1,180,935,234**	736,728,434
Net profit		**7,057,988,694**	5,072,238,129
Categorized by operation continuity:			
Net profit from continuing operations		**7,057,988,694**	5,072,238,129
Categorized by ownership:			
Net profit attribute to owners of the parent		**5,943,286,585**	4,128,939,861
Net profit attribute to non-controlling interests		**1,114,702,109**	943,298,268

The accompanying notes are an integral part of these financial statements.

	Note V	2018	2017
Other comprehensive income, net of tax:		**(20,906,601)**	(6,520,394)
Other comprehensive income attributable to owners of the parent, net of tax	43	**(20,906,601)**	(4,892,606)
Other comprehensive income that may not be reclassified to profit or loss:		**(11,838,378)**	–
Changes in fair value of other equity instruments investments		**(11,838,378)**	–
Other comprehensive income that will be reclassified to profit or loss:		**(9,068,223)**	(4,892,606)
Fair value changes of available-for-sale financial assets		**–**	(4,066,577)
Other comprehensive income that can be reclassified to profit or loss in equity method		**(2,745,469)**	–
Exchange differences on translation of foreign operations		**(6,322,754)**	(826,029)
Other comprehensive income attributable to non-controlling interests, net of tax		**–**	(1,627,788)
Total comprehensive income		**7,037,082,093**	5,065,717,735
Attributable to:			
Owners of the parent		**5,922,379,984**	4,124,047,255
Non-controlling interests		**1,114,702,109**	941,670,480
EARNINGS PER SHARE			
Basic earnings per share (cent/share)	64	**77.18 cents**	53.62 cents
Diluted earnings per share (cent/share)	64	**77.18 cents**	53.62 cents

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
Renminbi Yuan

For the year ended 31 December 2018

	Attributable to owners of the parent									
	Share capital (Note V. 41)	Capital reserve (Note V. 42)	Other comprehensive income (Note V. 43)	Special reserve (Note V. 44)	Surplus reserve (Note V. 45)	General reserve (Note V. 46)	Retained earnings (Note V. 47)	Sub-total	Non-controlling interests	Total shareholder's equity
1. Balance at the end of previous year	7,700,681,186	8,352,287,192	(124,156,060)	31,929,722	4,100,007,341	191,546,668	3,643,443,763	23,895,739,812	3,341,524,501	27,237,264,313
(1) Changes in accounting policies (Note III.34)	-	-	32,360,498	-	-	-	(20,317,968)	12,042,530	(7,887,756)	4,154,774
2. Balance at the beginning of the year	7,700,681,186	8,352,287,192	(91,795,562)	31,929,722	4,100,007,341	191,546,668	3,623,125,795	23,907,782,342	3,333,636,745	27,241,419,087
3. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(20,906,601)	-	-	-	5,943,286,585	5,922,379,984	1,114,702,109	7,037,082,093
2) Capital invested/(withdrawn) by shareholders										
(i) Capital invested by shareholders	-	-	-	-	-	-	-	-	5,625,000	5,625,000
(ii) Disposal of subsidiaries (Note VI. 2)	-	-	-	-	-	-	-	-	(33,622,763)	(33,622,763)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	471,893,915	-	(471,893,915)	-	-	-
(ii) Transfer to general risk reserve	-	-	-	-	-	33,294,736	(33,294,736)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(1,655,646,455)	(1,655,646,455)	(599,962,724)	(2,255,609,179)
4) Special reserve										
(i) Additions	-	-	-	111,418,123	-	-	-	111,418,123	13,344,579	124,762,702
(ii) Utilizations	-	-	-	(114,169,275)	-	-	-	(114,169,275)	(14,994,898)	(129,164,173)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	1,858,553	-	-	-	1,858,553	-	1,858,553
4. Balance at the end of the year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320

For the year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital (Note V. 41)	Capital reserve (Note V. 42)	Other comprehensive income (Note V. 43)	Special reserve (Note V. 44)	Surplus reserve (Note V. 45)	General reserve (Note V. 46)	(Accumulated losses)/ retained earnings (Note V. 47)	Sub-total	Non-controlling interests	Total shareholder's equity
1. Balance at the beginning of the year	7,700,681,186	8,348,726,741	(119,263,454)	27,969,571	3,843,231,617	153,394,916	(190,568,622)	19,764,171,955	2,316,334,486	22,080,506,441
2. Increase/(decrease) during the year										
1) Total comprehensive income	–	–	(4,892,606)	–	–	–	4,128,939,861	4,124,047,255	941,670,480	5,065,717,735
2) Capital invested/(withdrawn) by shareholders										
(i) Capital contribution	–	–	–	–	–	–	–	–	92,940,000	92,940,000
(ii) Business combination	–	–	–	–	–	–	–	–	65,815,493	65,815,493
(iii) Disposal of a subsidiary	–	–	–	–	–	–	–	–	(884,349)	(884,349)
(iv) Purchase of non-controlling interests of subsidiaries	–	3,560,451	–	–	–	–	–	3,560,451	(47,397,069)	(43,836,618)
3) Profits appropriation										
(i) Transfer to surplus reserve	–	–	–	–	256,775,724	–	(256,775,724)	–	–	–
(ii) Transfer to general risk reserve	–	–	–	–	–	38,151,752	(38,151,752)	–	–	–
(iii) Distribution to shareholders	–	–	–	–	–	–	–	–	(28,271,220)	(28,271,220)
3) Special reserve										
(i) Additions	–	–	–	100,875,054	–	–	–	100,875,054	10,722,668	111,597,722
(ii) Utilization	–	–	–	(100,725,325)	–	–	–	(100,725,325)	(9,405,988)	(110,131,313)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	–	3,810,422	–	–	–	3,810,422	–	3,810,422
3. Balance at the end of the year	7,700,681,186	8,352,287,192	(124,156,060)	31,929,722	4,100,007,341	191,546,668	3,643,443,763	23,895,739,812	3,341,524,501	27,237,264,313

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
Renminbi Yuan

		Note V	**2018**	2017
1.	Cash flows from operating activities			
	Cash received from sale of goods and rendering of services		**88,099,085,582**	79,503,561,455
	Tax refunds received		**89,627,633**	6,383,594
	Net decrease in loans and advances to customers		**–**	317,273,741
	Net increase in repurchase agreements of financial assets		**825,671,421**	–
	Net increase in customer deposits		**2,668,035,812**	–
	Cash received for interest charges, fees and commissions		**155,169,236**	98,018,856
	Cash received relating to other operating activities	65(1)	**352,495,095**	420,810,266
	Sub-total of cash inflows		**92,190,084,779**	80,346,047,912
	Cash paid for purchases of goods and services		**(65,851,612,316)**	(66,036,305,432)
	Net increase in deposits in central bank and other financial institution		**(272,649,256)**	(215,975,537)
	Net increase in financial assets purchased under agreements to resell		**(1,228,499,181)**	(974,556,000)
	Net increase in loans and advances to customers		**(1,639,933,298)**	–
	Net decrease in repurchase agreements of financial assets		**–**	(288,464,742)
	Net decrease in customer deposits and deposits from banks and other financial institutions		**–**	(560,585,411)
	Cash paid to or on behalf of employees		**(4,812,499,475)**	(4,257,177,760)
	Taxes and surcharges paid		**(3,999,110,989)**	(2,405,202,516)
	Cash paid for interest charges, fees and commissions		**(72,592,692)**	(54,025,121)
	Cash paid relating to other operating activities	65(2)	**(442,757,466)**	(953,933,389)
	Sub-total of cash outflows		**(78,319,654,673)**	(75,746,225,908)
	Net cash flows from operating activities	66(1)	**13,870,430,106**	4,599,822,004
2.	Cash flows from investing activities			
	Cash received from disposal of investments		**55,669,149,428**	44,940,710,247
	Cash received from investment income		**336,315,552**	139,070,391
	Net cash from acquisition of subsidiaries and other operating units	66(2)	**–**	115,777,566
	Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		**303,112,930**	13,103,681
	Net cash from disposal of a subsidiary and other operating units		**–**	4,854,450
	Cash received relating to other investing activities	65(3)	**131,408,596**	–
	Sub-total of cash inflows		**56,439,986,506**	45,213,516,335

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018
Renminbi Yuan

		Note V	**2018**	2017
2.	Cash flows from investing activities *(continued)*			
	Purchases of property, plant and equipment, intangible assets and other non-current assets		**(2,572,133,839)**	(1,484,519,774)
	Cash paid for investments		**(57,685,087,518)**	(47,106,067,177)
	Purchases of non-controlling interests		**–**	(43,836,618)
	Cash paid relating to other investing activities	65(4)	**(194,468,349)**	(103,420,899)
	Sub-total of cash outflows		**(60,451,689,706)**	(48,737,844,468)
	Net cash flows used in investing activities		**(4,011,703,200)**	(3,524,328,133)
3.	Cash flows from financing activities			
	Cash received from borrowings		**16,920,506,859**	12,648,723,311
	Cash received from issuing bond		**1,000,000,000**	3,000,000,000
	Cash received from investors		**5,625,000**	92,940,000
	Including: capital injection from a subsidiary's non-controlling interests		**5,625,000**	92,940,000
	Cash received relating to other financing activities	65(5)	**–**	210,000,000
	Sub-total of cash inflows		**17,926,131,859**	15,951,663,311
	Repayment of borrowings		**(20,778,250,231)**	(17,371,993,271)
	Cash paid for distribution of dividends or profits and for interest expenses		**(3,175,196,250)**	(956,406,317)
	Including: dividends paid to non-controlling interests by subsidiaries		**(602,443,934)**	(27,934,184)
	Sub-total of cash outflows		**(23,953,446,481)**	(18,328,399,588)
	Net cash flows used in financing activities		**(6,027,314,622)**	(2,376,736,277)
4.	Effect of foreign exchange rate changes on cash and cash equivalents		**162,261,477**	(82,387,266)
5.	Net increase/(decrease) in cash and cash equivalents		**3,993,673,761**	(1,383,629,672)
	Add: cash and cash equivalents at the beginning of the year		**2,940,502,015**	4,324,131,687
6.	Cash and cash equivalents at the end of the year	66(4)	**6,934,175,776**	2,940,502,015

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

31 December 2018
Renminbi Yuan

ASSETS	Note XIV	**31 December 2018**	31 December 2017
CURRENT ASSETS			
Cash and bank balances		**5,993,538,669**	4,169,232,422
Financial assets at fair value through profit or loss		**–**	62,721,800
Notes and trade receivables	1	**7,153,302,308**	10,170,482,595
Prepayments		**997,856,384**	600,539,572
Other receivables	2	**63,844,132**	188,725,018
Inventories		**7,108,599,357**	7,740,789,448
Other current assets		**272,152,842**	294,632,327
Total current assets		**21,589,293,692**	23,227,123,182
NON-CURRENT ASSETS			
Available-for-sale financial assets		**–**	126,722,160
Long-term equity investments	3	**10,146,271,956**	8,830,290,112
Other equity instruments investments		**263,122,364**	–
Investment properties		**55,593,723**	71,554,652
Property, plant and equipment		**23,828,190,594**	25,089,628,791
Construction in progress		**1,382,508,379**	1,356,492,361
Intangible assets		**987,387,010**	904,435,151
Deferred tax assets		**192,801,687**	438,445,874
Total non-current assets		**36,855,875,713**	36,817,569,101
TOTAL ASSETS		**58,445,169,405**	60,044,692,283

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position (Continued)

31 December 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	**31 December 2018**	31 December 2017
CURRENT LIABILITIES		
Short-term loans	**6,570,000,000**	3,226,709,122
Financial liabilities held for trading	**8,012,670**	–
Financial liabilities at fair value through profit or loss	**–**	10,498,810
Notes and trade payables	**11,311,058,229**	10,050,245,456
Advances from customers	**2,382,469,502**	2,626,167,696
Payroll and employee benefits payables	**428,093,317**	502,689,195
Taxes payable	**479,009,037**	795,312,565
Other payables	**2,967,729,141**	1,871,957,462
Non-current liabilities due within one year	**1,345,513,152**	5,928,758,378
Other current liabilities	**1,026,897,260**	3,081,026,301
Total current liabilities	**26,518,782,308**	28,093,364,985
NON-CURRENT LIABILITIES		
Long-term loans	**6,296,387,552**	9,461,264,824
Long-term employee benefits payable	**130,803,630**	132,641,692
Deferred revenue	**721,934,242**	730,152,350
Total non-current liabilities	**7,149,125,424**	10,324,058,866
Total liabilities	**33,667,907,732**	38,417,423,851
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,358,017,477**	8,358,017,477
Other comprehensive income	**12,906,467**	–
Special reserve	**9,496,082**	7,637,529
Surplus reserve	**3,735,114,669**	3,249,950,725
Retained earnings	**4,961,045,792**	2,310,981,515
Total shareholders' equity	**24,777,261,673**	21,627,268,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**58,445,169,405**	60,044,692,283

The accompanying notes are an integral part of these financial statements.

Income Statement

For the year ended 31 December 2018
Renminbi Yuan

	Note XIV	**2018**	2017
Revenue	4	**67,232,862,477**	59,882,440,515
Less: Cost of sales	4	**60,301,176,864**	54,607,086,565
Taxes and surcharges		**594,037,306**	542,554,260
Selling expenses		**431,922,944**	380,917,612
General and administrative expenses		**977,633,833**	862,549,824
R&D expenses		**733,213,870**	198,057,245
Financial expenses		**839,073,012**	1,011,342,956
including: interest expense		**760,470,881**	950,564,300
interest income		**69,756,208**	50,531,829
Impairment losses		**694,051,720**	531,569,167
Credit impairment losses		**4,004,617**	–
Add: Other income		**125,182,466**	172,071,814
Investment income	5	**1,783,607,075**	605,252,360
including: share of profits of associates and joint ventures		**654,348,579**	490,410,552
Loss/(gain) on the changes in fair value		**(10,976,670)**	8,914,844
Gain/(loss) from disposal of non-current assets		**267,685,982**	(176,806,918)
Operating profit		**4,823,247,164**	2,357,794,986
Add: Non-operating income		**158,250,867**	170,961,545
Less: Non-operating expenses		**3,043,411**	11,344,053
Profit before tax		**4,978,454,620**	2,517,412,478
Less: Income tax expense		**259,515,465**	(176,637,134)
Net profit		**4,718,939,155**	2,694,049,612
Categorized by operation continuity			
Net profit from continuing operations		**4,718,939,155**	2,694,049,612
Other comprehensive income, net of tax		**(14,583,847)**	–
Other comprehensive income that may not be reclassified to profit or loss:		**(11,838,378)**	–
Changes in fair value of other equity instruments investments		**(11,838,378)**	–
Other comprehensive income that will be reclassified to profit or loss:		**(2,745,469)**	–
Other comprehensive income that can be reclassified to profit or loss in equity method		**(2,745,469)**	–
Total comprehensive income		**4,704,355,308**	2,694,049,612

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018
Renminbi Yuan

For the year ended 31 December 2018

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the end of previous year	**7,700,681,186**	**8,358,017,477**	**-**	**7,637,529**	**3,249,950,725**	**2,310,981,515**	**21,627,268,432**
(1) Changes in accounting policies (Note III. 34)	**-**	**-**	**27,490,314**	**-**	**-**	**-**	**27,490,314**
2. Balance at the beginning of the year	**7,700,681,186**	**8,358,017,477**	**27,490,314**	**7,637,529**	**3,249,950,725**	**2,310,981,515**	**21,654,758,746**
3. Increase/(decrease) during the year							
1) Total comprehensive income	**-**	**-**	**(14,583,847)**	**-**	**-**	**4,718,939,155**	**4,704,355,308**
2) Capital invested/(withdrawn) by shareholders							
(i) Disposal of subsidiaries	**-**	**-**	**-**	**-**	**13,270,029**	**58,665,492**	**71,935,521**
3) Profits appropriation							
(i) Transfer to surplus reserve	**-**	**-**	**-**	**-**	**471,893,915**	**(471,893,915)**	**-**
(ii) Distribution to shareholders	**-**	**-**	**-**	**-**	**-**	**(1,655,646,455)**	**(1,655,646,455)**
4) Special reserve							
(i) Additions	**-**	**-**	**-**	**73,716,562**	**-**	**-**	**73,716,562**
(ii) Utilization	**-**	**-**	**-**	**(73,716,562)**	**-**	**-**	**(73,716,562)**
(iii) Changes in the share of associates and joint ventures' special reserve, net	**-**	**-**	**-**	**1,858,553**	**-**	**-**	**1,858,553**
4. Balance at the end of the year	**7,700,681,186**	**8,358,017,477**	**12,906,467**	**9,496,082**	**3,735,114,669**	**4,961,045,792**	**24,777,261,673**

For the year ended 31 December 2017

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the beginning of the year	7,700,681,186	8,358,017,477	3,827,107	2,993,175,001	(126,292,373)	18,929,408,398
2. Increase/(decrease) during the year						
1) Total comprehensive income	–	–	–	–	2,694,049,612	2,694,049,612
2) Capital invested/(withdrawn) by shareholders						
(i) Others	–	–	–	–	–	–
3) Profits appropriation						
(i) Transfer to surplus reserve	–	–	–	256,775,724	(256,775,724)	–
(ii) Distribution to shareholders	–	–	–	–	–	–
4) Special reserve						
(i) Additions	–	–	73,326,751	–	–	73,326,751
(ii) Utilization	–	–	(73,326,751)	–	–	(73,326,751)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	3,810,422	–	–	3,810,422
3. Balance at the end of the year	7,700,681,186	8,358,017,477	7,637,529	3,249,950,725	2,310,981,515	21,627,268,432

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2018
Renminbi Yuan

		2018	2017
1.	Cash flows from operating activities		
	Cash received from sale of goods and rendering of services	**63,876,096,169**	61,745,929,515
	Tax refunds received	**57,458,403**	–
	Cash received relating to other operating activities	**446,026,579**	221,939,232
	Sub-total of cash inflows	**64,379,581,151**	61,967,868,747
	Cash paid for purchase of goods and services	**(45,508,197,610)**	(52,080,808,429)
	Cash paid to or on behalf of employees	**(4,045,294,531)**	(3,602,102,114)
	Taxes and surcharges paid	**(2,337,893,194)**	(1,743,793,572)
	Cash paid relating to other operating activities	**(367,581,230)**	(442,739,183)
	Sub-total of cash outflows	**(52,258,966,565)**	(57,869,443,298)
	Net cash flows from operating activities	**12,120,614,586**	4,098,425,449
2.	Cash flows from investing activities		
	Cash received from disposal of investments	**75,097,829**	69,882,249
	Cash received from investment income	**1,145,841,083**	272,553,905
	Net cash received from disposal of items of property, plant and equipment, intangible assets and other long-term assets	**350,557,259**	8,736,415
	Net cash received from disposal of subsidiaries and other operating units	**178,381,854**	8,696,084
	Cash received relating to other investing activities	**143,014,331**	–
	Sub-total of cash inflows	**1,892,892,356**	359,868,653
	Purchase of property, plant and equipment, intangible assets and other non-current assets	**(2,388,497,950)**	(1,539,196,583)
	Cash paid for investments	**(337,950,680)**	(1,454,039,151)
	Net cash paid for acquisition of a subsidiary and other operating units	**(281,434,200)**	–
	Sub-total of cash outflows	**(3,007,882,830)**	(2,993,235,734)
	Net cash flows used in investing activities	**(1,114,990,474)**	(2,633,367,081)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows (Continued)

For the year ended 31 December 2018
Renminbi Yuan

		2018	2017
3.	Cash flows from financing activities		
	Cash received from issuing bond	**1,000,000,000**	3,000,000,000
	Cash received from borrowings	**12,464,795,530**	13,440,721,353
	Sub-total of cash inflows	**13,464,795,530**	16,440,721,353
	Repayment of borrowings	**(19,896,960,892)**	(16,951,993,934)
	Cash paid for the distribution of dividend or profits and for interest expenses	**(2,541,495,659)**	(924,899,777)
	Sub-total of cash outflows	**(22,438,456,551)**	(17,876,893,711)
	Net cash flows used in financing activities	**(8,973,661,021)**	(1,436,172,358)
4.	Effect of foreign exchange rate changes on cash and cash equivalents	**(5,800,614)**	(81,470,338)
5.	Net increase/(decrease) in cash and cash equivalents	**2,026,162,477**	(52,584,328)
	Add: Cash and cash equivalents at the beginning of the year	**3,798,992,422**	3,851,576,750
6.	Cash and cash equivalents at the end of the year	**5,825,154,899**	3,798,992,422

The accompanying notes are an integral part of these financial statements.

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 established in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The unified social credit code of the Company's business license is 91340000610400837Y. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarter of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 31 December 2018, the Company had issued 7,700,681,186 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

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 21 March 2019. According to the Article of Association of the Company, the financial statements will be submitted for examination and approval in shareholders' meeting.

The scope of the consolidated financial statement is determined on the control basic. The change in the scope of consolidation during the period is described in Note VI.

II. 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 financial statements are prepared on going concern basis.

As of 31 December 2018, the net current liabilities of the Group amounted to RMB1,331,759,264. The directors of the Company have considered the availability of funding sources, including but not limited to an unutilized banking facilities of RMB22.9 billion as at 31 December 2018 and the expected cash inflows from the operating activities in the year 2019. The board of directors of the Company believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the board of directors of the Company continues to prepare the Group's financial statements for the year ended 31 December 2018 on a going concern basis.

II. BASIS OF PREPARATION *(CONTINUED)*

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Assets classified as held for sale are disclosed at the lower of carrying amount and fair value less costs to disposal on the date of classification. Provision for asset impairment is provided in accordance with related regulations.

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 provision for impairment of financial assets measured at amortized cost, valuation method of inventories, depreciation of fixed assets, amortization of intangible assets, impairment of non-financial assets excluding the financial instruments (other than goodwill), recognition of deferred tax assets, recognition and measurement of revenue, etc.

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 2018, and the results of their operations and cash flows for the year ended 31 December 2018.

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 currencies for recording purposes in accordance with their own operating environment, which are translated into Renminbi in the preparation of the consolidated financial statements.

4. BUSINESS COMBINATION

Business combinations are classified into "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 acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

The assets and liabilities obtained under common control (including the goodwill arising from the acquisition of the acquiree as part of the ultimate controlling party's investment) are measured at the carrying amounts as recorded by the ultimate controlling party at the acquisition date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium, which is included in the capital reserve. If the balance of the share premium reserve is insufficient, any excess is adjusted to retained earnings.

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.

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

4. BUSINESS COMBINATION *(CONTINUED)*

Business combination involving entities not under common control *(continued)*

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 interest 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 interest 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 interest 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. A subsidiary is a company or entity that is 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 non-controlling 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.

5. CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

By stepping through multiple transactions to dispose of the equity investment in the subsidiary until it loses control, when it is a package transaction, the transactions are treated as a transaction that disposes of the subsidiary and loses control; however, the price difference between the disposal price and the disposal investment before the loss of control and the share of the net assets of the subsidiary is recognized as other comprehensive income in the consolidated financial statements, and is transferred to the current period profit or loss of control when the control is lost. If it is not a package transaction, the corresponding accounting treatment shall be carried out for each transaction. If the control right is not lost, the minority shareholders' equity changes will be treated as an equity transaction. If the control right is lost, the remaining equity shall be re-measured according to its fair value on the date of losing control. The difference between the summary of consideration obtained from the disposal of the equity and the fair value of the remaining equity, less the difference between the share of the original assets and the share of the net assets that have been continuously calculated from the date of purchase from the date of the original shareholding, is included in the current period profit and; If there is a goodwill for the subsidiary, the amount of the goodwill is deducted when calculating the profit and loss of the disposal of the subsidiary; Other comprehensive income related to the original subsidiary's equity investment shall be accounted for on the same basis as the subsidiary's direct disposal of the relevant assets or liabilities when the control is lost, due to the net profit and loss, other comprehensive income and profit distribution related to the original subsidiary. Shareholders' equity recognized in addition to changes in other shareholders' equity, which are transferred to current period profit and loss when control is lost.

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, arising from the join 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 joint arrangements of the Group are all joint ventures.

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.

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

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 exchange rates ruling at the end of reporting period. The exchange differences are recognised in profit or loss, except those arising from the foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined, and the exchange differences are recognised in profit or loss or other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing the consolidated financial statements. All assets and liabilities are translated at the exchange rates ruling at the end of reporting period; shareholders' equity, with the exception of retained earnings, are translated at the exchange rates ruling at the transaction date; all income and expense items in the income statement are translated at the average exchange rates during the period. Exchange differences arising from the translations mentioned above are recognised as other comprehensive income. When an overseas business is disposed of, the cumulative translation differences arising from the overseas business will be transferred to profit or loss in the period. In case of a partial disposal, only the proportionate share of the related exchange translation difference is transferred to profit or loss.

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018)

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

Recognition and derecognition of financial instruments

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Recognition and derecognition of financial instruments *(continued)*

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

(1) The contractual rights to receive cash flows from the financial asset expire; or

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

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

All financial assets purchased or sold in regular way are recognised or derecognised on the trading date when 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, based on the entity's business model for manageing the financial assets and the cash flow characteristics of the financial assets, as measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. A financial asset is measured at its fair value at initial recognition, except the trade receivables or notes receivable arising from the sale of goods or services provided do not contain significant financing components or do not take into account that financing components not exceeding one year, which is measured at its trading price at initial measurement.

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

For financial assets measured at fair value through profit or loss, the relevant transaction costs are charged to profit or loss; for other financial assets, the relevant transaction costs are recognised as initial investment costs.

The subsequent measurement of financial assets depending on their classifications as follows:

Debt instruments investment measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held whose objective is to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income, the gain or loss generated by its' amortisation and impairment should be accounted in the profit or loss for the period. This type of financial asset mainly include cash and bank balances, notes and trade receivables, other receivables, debt investments and long-term receivables. The Group presented the debt investments and long-term receivables due within one year from the balance sheet date as non-current assets due within one year, and the debt investments with the original maturity within one year is presented as other current assets.

Debt instruments investment measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective will be achieved by both collecting contractual cash flows and trading financial assets and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income. Except the interest income, impairment losses and exchange differences should be accounted in the profit or loss for the period, other changes in fair value should be accounted in other comprehensive income. This type of financial asset is presented as other debt investments. Other debt investments due within one year from the balance sheet date are presented as non-current assets due within one year, and other debt investments with original maturities within one year are presented as other current assets.

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

Equity instruments investment measured at fair value through other comprehensive income

The Group irrevocably choose to designate the equity instruments investment not held for trading as financial assets measured at fair value through other comprehensive income at initial recognition. Dividends are recognised in profit or loss (except for dividends which are clearly recovered as part of the investment costs) and the change in fair value shall be recognised in other comprehensive income, no impairment provision is required. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income should be transferred to retained earnings. This type of financial asset is presented as other equity instruments investments.

A financial asset shall be measured at financial asset held-for-trading if one of the following conditions are met: (a) the purpose of obtaining the relevant financial asset is mainly for selling or repurchasing in the near future; (b) it is part of a portfolio of identifiable financial instruments that are centrally managed, and there is objective evidence that the company has recently adopted Short-term profit-making mode; (c) is a derivative, except for derivatives that are designated as effective hedging instruments and derivatives that qualify for financial guarantee contracts.

Financial assets measured at fair value through profit or loss

The financial assets which is excluded in the above-mentioned financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income is presented as financial assets measured at fair value through profit or loss the above-mentioned financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. This type of financial asset is measured at fair value for subsequent measurement, all changes in fair value should be accounted in the profit or loss for the period. Such financial assets are presented as held-for-trading financial assets and are presented as other non-current financial assets which are more than one year from the balance sheet date and are expected to be held for more than one year.

All affected financial assets are reclassified if and only if the Group changes its business model of manageing financial assets.

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Classification and measurement of financial liabilities

The Group classifies its financial liabilities at initial recognition as financial liabilities measured at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. With respect to financial liabilities at fair value through profit or loss, transaction costs are charged to profit or loss; whereas for other financial liabilities, transaction costs are recognised at initial cost.

The subsequent measurement of financial liabilities depending on their classifications as follows:

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss, including financial liabilities held for trading (including derivatives liabilities) and those are designated as at fair value through profit or loss at initial recognition.

A financial liability is classified as held for trading if any of the conditions is met: the financial liability is obliged principally for the purpose of trading or redemption in near future; it is 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 it is a derivative (except for derivatives constitute financial guarantee contract). Such trading financial assets and financial liabilities that are subsequently measured at fair value. All fair value changes are recognised in profit or loss except for those related to hedge accounting.

Once a financial liability is designated as measured at fair value through profit or loss at initial recognition, the Group shall not reclassify it as other financial liability, nor shall the Group reclassify other financial liability to designated financial liability measured at fair value through profit or loss.

Other financial liabilities

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

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Impairment of financial assets

The Group recognizes loss allowance for financial assets measured at amortized cost, debt instruments investment measured at fair value through other comprehensive income and loan commitment based on their expected credit losses.

A credit loss is the difference between the present value of the contractual cash flows that an entity is entitled to receive under the contract discounted at the original effective interest rate and the cash flows an entity expect to receive. In another word, it is the present value of the cash flow shortfall. The Group discounts the cash flows of purchased or original credit-impaired financial assets at adjusted effective interest rates.

For receivables that do not contain significant financing component, the Group adopts a simplified approach and measures the credit loss at an amount equal to lifetime expected credit losses.

For financial assets, loan commitments and financial guarantee contact other than those adopt a simplified approach, the Group assess whether their credit risk at each reporting date has increased significantly. If the financial asset whose credit risk have not increased significantly, it will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial asset whose credit risk have increased significantly but without objective evidence for impairment after initial recognition, it will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial asset that is evidently credit-impaired after initial recognition, it will be included in phase 3, and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses, and calculates interest income according to amortized cost and actual interest rate. For financial instruments with only low credit risk on the balance sheet date, the Group assumes that its credit risk has not increased significantly since the initial recognition.

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

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Impairment of financial assets *(continued)*

The Group assesses the expected credit losses of financial instruments based on individual items and portfolios. The Group has considered the credit risk characteristics of different customers and assessed the expected credit losses of receivables based on the age combination.

When assessing expected credit losses, the Group considers all reasonable and supportable information, including past events, current condition and future economic forecasts.

For the disclosure of the Group's judgment criteria for the significant increase in credit risk, the definition of credit impaired assets, and the assumption of expected credit loss measurement, please refer to Note VIII.4.

When the Group expects failing to collect or partially collect the contractual cash flow of financial assets, the Group will directly write off the book value of the financial assets.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and disclosed in the statement of financial position at net amount if the entity has a currently enforceable legal right to offset the recognized amounts, and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial guarantee contract

A financial guarantee contract is a contract in which the contract holder who has suffered a loss in the issuance direction pays a specified amount when the specific debtor fails to pay the debt in accordance with the terms of the debt instrument. The financial guarantee contract is measured at fair value at initial recognition. Except for the financial guarantee contract designated as financial liabilities measured at fair value through profit or loss, the other financial guarantee contracts are determined in accordance with the higher of the expected credit loss reserve amount and the initial confirmed amount less the accumulated amortization amount determined according to the revenue recognition principle.

9. FINANCIAL INSTRUMENTS (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Derivative financial instruments

The Group uses derivatives such as forward exchange contracts to hedge the exchange risk. Derivatives are measured at its fair value at the transaction date at initial recognition and measured at fair value subsequently. Derivatives with positive fair value would be recognized as assets while those with negative fair value would be recognized as liabilities.

The gain or loss arising from change in fair value of derivatives are recognized in profit or loss, except for those related to hedge accounting.

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of financial asset, an entity shall recalculate the carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss. The carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate). Any costs or expenses incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining life of the modified financial asset.

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial 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.

If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset In this case: (i) if the entity has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer; (ii)if the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

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. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017)

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 receive cash flows from the financial asset expire; or

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

A financial liability is derecognized when, and only when, the current obligation is discharged or cancelled or 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 stipulation 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.

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

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Classification and measurement of financial assets

The Group classifies its financial assets into four categories at initial recognition, including financial assets measured 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 measured at fair value through profit or loss, the directly associated transaction costs are charged to profit or loss; for other financial assets, the directly associated transaction costs are recognized as initial investment costs.

The subsequent measurement of financial assets depends on their classification as follows：

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss comprise financial assets held for trading and those that are designated as measured 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 profit or loss. 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)*

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

Financial assets measured 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 do 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 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 a financial asset at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset measured 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.

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.

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

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. 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.

Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when they are recognized initially as financial liabilities measured 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 profit or loss; whereas for other financial liabilities, transaction costs are recognized at initial cost.

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

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Classification and measurement of financial liabilities *(continued)*

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured 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: incurred principally for the purpose of repurchasing in the near term; 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 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.

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, there is a high probability that they will enter bankruptcy or other financial reorganization and observable data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Impairment of financial assets *(continued)*

Financial assets carried at amortized cost

When an impairment loss has incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition) and takes 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 respect of loans and trade receivables, if the expectation of recovery does not exist and all collaterals are realized or transferred into the Group, loans and trade receivables and the relevant impairment loss will be written-off.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognized in profit or loss when objective evidence of impairment exists. Assets that are individually insignificant are also assessed for impairment individually.

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 profit or loss. 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 profit or loss.

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

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets (continued)

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 recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

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

Impairment losses on debt instruments are reversed through 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 recognized 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 and is recognized in profit or loss. Impairment losses on these assets are not reversed.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

10. FINANCIAL INSTRUMENTS (APPLICABLE FOR 2017) *(CONTINUED)*

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.

11. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS

Receivables of the Group mainly include trade receivables and other receivables. Trade receivables generated from sale of goods and rendering of services are initially recognized by the fair value of contracts signed with buyers or service receivers.

The Group assesses bad debt provision of receivables and loans and advances to customers for the year ended 31 December 2017 as follows:

Receivables

The Group assesses bad debt provision of receivables individually, including:

(1) Receivables that are individually significant and of which bad debt provision is assessed individually.

The Group regards trade receivables as significant if its carrying amounts exceed RMB2 million. Provision for bad debts are recognized if the receivables' present value of estimated future cash flows is less than its carrying amount.

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

11. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS *(CONTINUED)*

Receivables *(continued)*

(2) Receivables that are individually insignificant, but of which bad debt provision is assessed individually.

When there is objective evidence that the Group could not collect receivables as original terms stated, provision for bad debts are recognized if the receivables' present value of estimated future cash flows is less than its carrying amount.

(3) Receivables of which bad debt provision is assessed in portfolios based on credit risk characteristics.

Receivables with no bad debt provision when assessing individually should be assessed for bad debt provision in portfolios based on credit risk characteristics. Receivables with recognized bad debt provision loss shall not be assessed in portfolios based on credit risk characteristics.

The Group applies ageing as credit risk characteristic to determine the receivable portfolios, and the percentage of provision for bad debts based on the ageing analysis is as follows:

	Percentage of bad debt provision
Within 1 year	0%
1 to 2 years	10%
2 to 3 years	20%
More than 3 years	50%

Loans and advances to customers

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 no less than 2.5% of the balance as of the year end.

For the accrual criteria and method of the Group's bad debts provision of receivables and loans and advances to customers from 1 January 2018, please refer to Note III.9.

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

12. INVENTORIES

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

Inventories are initially recognized at cost, which comprises purchase cost, processing cost, and other costs. Costs of delivered inventories, other than construction contracts and spare parts, are determined on the weighted average basis. Costs of general spare parts, lower valued consumables and packing materials are charged to profit or loss at consumption; accident spare parts are amortized in 8 years with 4% residual rate; large rolls on rolling mills are amortized according to the grinding amount.

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 the amounts expected to be realized from their sale or use, provision for inventories is recognized in profit or loss. 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 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 a category basis for raw materials, and on an individual basis for finished goods. For the inventories sold, the relevant inventory provision should be written off accordingly, and the current period's cost of sales should be reversed.

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

13. NON-CURRENT ASSETS HELD FOR SALE

Non-current asset will be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An asset is classified as held for sale when both of the criteria are met: (a) it must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets; (b) its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and a promise to buy should be acquired. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification (If relevant regulations require approval from authorities or regulators to sell, the approval should be acquired.) An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all investment in the subsidiary as held for sale in company's statement of financial position and all assets and liabilities of that subsidiary as held for sale in consolidated statement of financial position when the criteria set out above are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

If the carrying amount of a non-current asset held for sale (except for financial assets and deferred tax assets) exceeds its fair value less cost to sell, an entity shall reduce the carrying amount to its fair vale less cost to sell and any excess of carrying value should be recognized as an impairment loss in profit or loss for that period. Non-current assets held for sale should not be depreciated or amortized.

14. 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 losses 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 of 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 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. 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.

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

14. 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, for the difference which had been charged to profit or loss.

14. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

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 net profit 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 any) should be recognized as investment income or loss. The investor's share of profit distributions 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 recognized it in shareholders' equity.

When long-term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to profit or loss. 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 the 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 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 the cost method to the 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 profit or loss.

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

15. 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 to the Company and its cost can be measured reliably, then it will be included in the cost of investment properties. Otherwise, the subsequent cost will be calculated in the current profits and losses when it occurs.

The Group uses the cost model for subsequent measurement of investment properties and the estimated useful life is determined by the period that it can bring economic benefits to the Group. Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties over its estimated useful life of 24-50 years. The estimated residual value is 3% to 10% of the cost.

16. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized 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 profit or loss.

Property, plant and equipment are initially measured at cost with consideration of any rehabilitation expenditures. 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.

Except for the land abroad purchased by an overseas subsidiary of the Group, depreciation is calculated on the straight-line basis. 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	5 – 10 years	3%	9.7 – 19.4%
Motor vehicles	5 – 8 years	3%	12.1 – 19.4%

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

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

Where different components of property, plant and equipment have different useful lives or generate profit in different ways, the components are depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

17. CONSTRUCTION IN PROGRESS

Construction in progress 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.

18. 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, an 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 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 have 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.

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

18. 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.

19. 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 right	25 years
Land use rights	50 years
Mining rights	25 years
Patent	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 within a period of 25 years using straight-line method.

19. 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 as research expenditures and development expenditures. All research expenditures are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised if, and only if, an entity can demonstrate all of the following: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale. (b) its intention to complete the intangible asset and use or sell it. (c) its ability to use or sell the intangible asset. (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Product development expenditure which does not meet these criteria is expensed when incurred.

20. IMPAIRMENT OF ASSETS

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

The Group assesses whether any indicator of impairment exists as of the end of each reporting period, and, if yes, performs impairment test by estimation of the asset's recoverable amount. For goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indicator of impairment. Intangible assets that not available for use are also tested for impairment annually.

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

20. 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 generated from the use of assets. The recoverable amount is calculated on individual basis unless it is not applicable, in which case the recoverable amount is determined for the asset group 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 profit or loss and an impairment allowance is provided.

Impairment losses cannot be reversed in subsequent accounting periods.

21. 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 capitalised in the related assets or charged to profit or loss.

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

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 recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings 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 recognized in profit or loss at the earlier of:

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under “Cost of sales”, “General and administrative expenses” and “Financial expenses” in the consolidated statement of comprehensive income 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 recognize termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognizes any related restructuring costs.

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

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

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 recognized in profit or loss.

22. 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; and

(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

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

23. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized as "repurchase agreement" on the statement of financial position, reflecting the economic nature that such cash is a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

24. REVENUE (APPLICABLE FROM 1 JANUARY 2018)

Revenue is recognized when the Group has satisfied its performance obligations in the contract, that is, when the customer obtains control of the relevant goods or services. To obtain control of the relevant good and services is to have the ability to direct the use of, and obtain substantially all of the remaining benefits from of the relevant good and services.

Contracts for the sale of goods

Contracts for the sale of goods between the Group and its customers usually only involves the performance obligations of the transferring of the goods. The Group generally recognizes revenue based on the following considerations, taking into account the timing of the transfer of major risks and rewards of ownership of goods. This includes obtaining the current collection rights of the goods, the transfer of the main risks and rewards of the ownership of the goods, the transfer of the legal ownership of the goods, the transfer of the physical assets of the goods, and the acceptance of the goods by the customer.

Contracts for rendering of services

The service contract between the Group and its customers usually includes performance obligations for transportation, processing, technical consulting or technical services. As a result of the satisfaction of the performance obligation the Group, the customers obtain and consume the economic benefits of the service while the Group provides the service simultaneously. The Group is entitled to recover from the accumulative performance of the contract that has been completed to date, except when progress of the performance cannot be reasonably determined. The Group determines the progress of the performance of the services provided in accordance with the output method. When the progress of the performance cannot be reasonably determined, and the costs incurred by the Group are expected to be compensated, the revenue will be recognized based on the amount of costs incurred, until the progress of the performance can be reasonably determined.

Variable considerations

The contracts between the Group and its certain customers containing sales rebate arrangements (future price reductions based on cumulative sales volumes), which forms a variable consideration. The Group determines the best estimate of the variable consideration based on the expected value or the most probable value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

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

24. REVENUE (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

Sales involving right of return

For sales involving right of return, the Group recognizes revenue at the amount of consideration expected to receive from the customer upon transfer of control of the good to the customer, and recognizes refund liability at the amount expected to be refunded due to the sales return. An asset recognized for an entity's right to recover products from a customer on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, the Group updates the estimation on the future sales return and measurement of both the refund liabilities and assets.

Significant financing component

With existence of a significant financing component in the contract, the Group adjusts the amount of the promised consideration at the amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer ("adjusted price"). The difference between the contract price and the adjusted price is amortized over the contract period at the interest rate reflecting that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer.

The Group did not consider the significant financing components in the contract for the expectation that the customer's control over the acquisition of the commodity and the payment of the customer's payment within one year.

Principal vs. agent

The Group has the right to determine the price of the goods transferred, that is, the Group has control over the products before transferring the steel and other products to the customers, thus the Group is considered as the principal and recognizes revenue based on the total amount received or receivable. Otherwise, the Group is considered to be acting as an agent. As an agent, revenue shall be recognized at the amount of the commission or brokerage that is expected to be collected. The amount is determined based on the net amount of received or receivable deducting any amount payable to the third party, or based on specific commission amount or proportion.

24. REVENUE (APPLICABLE FROM 1 JANUARY 2018) *(CONTINUED)*

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 duration and fee rate agreed in the 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.

25. REVENUE (APPLICABLE FOR 2017)

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to 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 recognized 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.

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

25. REVENUE (APPLICABLE FOR 2017) *(CONTINUED)*

Revenue from the rendering of services

As of 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 to the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion of costs incurred to date to the estimated total costs of the transaction. For the revenue from the rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters into a contract or agreement with other parties which contains both the sale of goods and rendering of services, if the portions of the sale of goods and rendering of services can be separately measured, the portions of the sale of goods and rendering of services are measured individually. If the portions of the 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 the 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 duration and fee rate agreed in the 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.

26. GOVERNMENT GRANTS

Government grants are recognized in profit or loss, when they are highly probable to be received and all conditions are fulfilled. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in form of non-monetary asset, it is measured at fair value of the asset. If the fair value cannot be reliably determined, it is measured at the nominal amount.

Asset-related government grants are recognized 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 recognizes 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 in future period, the grant is recognized as deferred income and should be recognized in profit or loss for the period when the expenses or losses are incurred.

A government grant related to asset can be accounted by being recognized as deferred income, and amortized systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognized in profit or loss immediately for the period). When the asset is sold, transferred, discarded or destroyed within the useful life, the related deferred income should be recognized in profit or loss immediately.

For discounts appropriated to lending banks by the government, and the lending banks provide loans with policy preferential discounts, the Group accounts for the loans with the actual received amount, and calculates the relevant borrowing expenses based on principal and the preferential discounts of the loans.

27. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognized as income or expense in profit or loss, 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.

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

27. INCOME TAX *(CONTINUED)*

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.

The carrying amount of a deferred tax asset is reviewed at the 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.

27. INCOME TAX *(CONTINUED)*

Deferred tax assets and liabilities should be offset and disclosed in net if and only if: the entity has a legally enforceable right to set off current tax and liabilities; and the deferred tax assets and liabilities concerned related to income taxes raised by the same authority on the same taxable entity, or taxable entities which intend, in each future period in which significant amounts of deferred tax are expected to be settled or recovered, to settle their current tax assets and liabilities either on a net basis or simultaneously.

28. 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 profit or loss or capitalised on the straight-line basis over the lease terms, and contingent rental payment is charged to profit or loss when it is incurred.

As lessor in operating leases

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

29. PROFIT DISTRIBUTION

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

30. SAFETY PRODUCTION RESERVE

Safety production reserve sets 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 categorised 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)*

31. GENERAL RESERVE

According to the relevant policy of the MOF, Masteel Group Finance Co., Ltd. ("Masteel Finance") 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 the risk assets.

32. 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 categorised 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 – aluation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

33. 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 provision, 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:

Going concern

As stated in Note II, the going-concern of the Group relies on the cash inflows from borrowings and operating activities, in order to maintain sufficient cash on the due date of the relevant liabilities. The uncertainty of the Group's going-concern exists once the Group cannot obtain sufficient cash. The financial statements do not include any necessary adjustments related to book 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.

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 judgement. 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.

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

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

Judgments *(continued)*

Classification between investment properties and owner-occupied properties (continued)

Judgement is made on an 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

As of 31 December 2018, the Group held 16.34% equity interests in Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Co., Ltd. ("Xinchuang Environmental Protection"). The Company designates one director and one supervisor to Xinchuang Environmental Protection according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Xinchuang Environmental Protection, despite the equity share is under 20%. Thus, the Company had accounted for the investment in Xinchuang Environmental Protection as an associate.

Business model

The classification of a financial asset at initial recognization depends on the Group's business model of manageing financial assets. In judging the business model, the Group considers the methods of corporate evaluation and reporting of financial asset performance to key management personnel, the risks affecting the performance of financial assets and their management methods, and the manner in which relevant management personnel are paid. In assessing whether to set the target for acquiring contractual cash flow, the Group needs to analyse and judge the reasons, time, frequency and value of the sale before the maturity date of the financial assets.

The characteristics of contractual cash flows

The classification of a financial asset at initial recognition depends on the characteristics of its contractual cash flows. This requires a determination of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. It requires judgement to determine whether the contractual cash flows differ significantly with benchmark cash flows when assessing the adjustment of the time value of money. For financial assets with characteristics of paying in advance, it requires judgement to determine whether the fair value of this characteristics is insignificant.

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

Estimation uncertainty

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

Impairment of financial assets

The group adopts expected credit loss model to assess the impairment of financial assets. The application of expected credit losses model requires significant judgements and estimates. The management needs to consider all reasonable and supportable information including forecasts information. When making the judgements and estimates, the Group should also infer the debtor's expected change in credit risk on the basis of the past repayment statistics combining the economic policies, macro-economic indicators and industrial risk factors.

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 asset 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 asset 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 judgement 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.

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

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

Estimation uncertainty *(continued)*

Sales involving right of return

For contracts with sales clause involving right of return, the group forms a reasonable estimate of the rate of return based on sales return historical data, current sales return, and consider all relevant information such as customer changes, market changes and etc. The Group re-evaluates the return rate on each balance sheet date and determines the amount due for return and the cost of return receivable based on the re-evaluated return rate.

Constraint in variable consideration estimate

When the Group assess the variable consideration, it considers all the information that can be reasonably obtained, including historical, current information and forecast information that are reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. When it is estimated that the contract may produce multiple results, the Group estimates the variable consideration amount according to the expectation method. When the contract consists of only two possible outcomes, the Group estimates the variable consideration value according to the most likely value. When the variable uncertainties cease to exist, the variable consideration transaction price should not exceed the amount of accumulated revenue that is not likely to be significantly reversed. Under the above circumstance, the group considers the possibility of revenue reversal and the proportion of the amount of money transferred. The Group considers "highly probable" as higher than 50%. In order to reflect the condition of the reporting period and changes within the reporting period, the Group reassesses the variable consideration amount at each balance sheet date, including whether the reassessment of the variable consideration estimate is constraint consideration estimate is constraint.

Estimation of useful life of fixed assets

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.

Estimation of inventories under net realizable value

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

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

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

Estimation uncertainty *(continued)*

Estimation of inventories under net realizable value (continued)

Net realizable value of inventories is the estimated based on expected 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.

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes in accounting policies

In 2017, the Ministry of Finance has promulgated the revised "Accounting Standard for Business Enterprises No. 14 – Revenue" ("New Revenue Standard"), "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standard for Business Enterprises No. 24 – Hedging" and "Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments" (collectively as "New Financial Instruments Standards"). The Group has adopted the above revised accounting standards from 1 January 2018, and according to the transitional requirements, the comparative information is not restated. The difference generated from the initial adoption would retrospectively adjust the opening balance of retained earnings or other comprehensive income as at 1 January 2018.

New Revenue Standard

The New Revenue Standard establishes a new model to account for revenue arising from contracts with customers. The revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment and estimation, taking into consideration of the contract costs, performance obligations, variable considerations, principal versus agent. The Group measured the cumulative effect for the uncompleted contracts as at 1 January 2018 under the New Revenue Standard, and for the contract change occurred before 1 January 2018, the Group identified fulfilled and outstanding performance obligations, determine the consideration of the transaction, and the allocation of the consideration between the fulfilled and outstanding performance obligations according to the final arrangement of the contract change.

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Revenue Standard (continued)

Based on the assessment on uncompleted sales contracts as at 1 January 2018, the Group believed that the impact by adopting the New Revenue Standard on the Group's financial statements was insignificant which was mainly due to the revenue recognition upon the transfer of risks and rewards coincided with the fulfilment of performance obligations for sales contract for the Group, and also the Group's sales contracts generally include one performance obligation. The assessment results showed that the adoption of the New Revenue Standard did not have significant impact on the Group's and the Company's revenue, net profit and shareholders' equity. Therefore, the Group and the Company did not adjust the financial statements upon initial adoption.

New Financial Instruments Standards

New Financial Instruments Standards changed the classification and measurement for financial instruments and designated 3 categories of the financial assets: financial assets measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is based on the Group's business model for manageing the asset and the instruments' contractual cash flows characteristic. Equity investments are measured at fair value through profit or loss, but entity can choose irrevocably at initial recognition at fair value through other comprehensive income.

The adoption of the New Financial Instruments Standards required the change from "incurred loss approach" to a "forward-looking expected credit loss ("ECL") approach" for the impairment of financial assets measured at amortized cost, debt instrument investment measured at fair value through other comprehensive income, loan commitment and financial guarantee contract.

The new hedge accounting method strengthened the connection between the entity risk management and its financial statements, enlarged the scope of hedging instrument and hedged item, removed the revisit effectiveness test, and defined the rebalancing mechanism and hedging cost.

The Group has designated part of its equity instruments at fair value through other comprehensive income and present them as other equity instruments investments.

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A comparison between the category and measurement of financial assets under the financial instruments recognition standard before and after the amendments as at the first adoption date is as follows:

The Group

	Under the Original Financial Instruments Standards		Under the New Financial Instruments Standards	
	Category	**Carrying amount**	**Category**	**Carrying amount**
Cash and bank balances	Amortized cost (Loans and receivables)	4,978,352,093	Amortized cost	**4,978,352,093**
Notes and trade receivables	Amortized cost (Loans and receivables)	9,341,614,275	Amortized cost	**9,331,752,993**
Other receivables	Amortized cost (Loans and receivables)	247,325,199	Amortized cost	**231,632,102**
Financial assets purchased under agreements to resell	Amortized cost (Loans and receivables)	1,204,603,000	Amortized cost	**1,204,596,477**
Loans and advances to customers	Amortized cost (Loans and receivables)	1,251,315,253	Amortized cost	**1,248,579,521**
Equity investments	Amortized cost (Available-for-sale assets)	126,722,160	Fair value through other comprehensive income (Designated)	**163,375,912**
Financial investments:	Fair value through profit or loss(Held-for-trading)	1,546,139,404	Fair value through profit or loss (Standard requirements)	**1,546,139,404**
	Fair value through other comprehensive income (Available-for-sale assets)	984,446,000	Fair value through other comprehensive income	**984,258,798**
	Amortized cost (Held-to-maturity investments)	406,082,606	Amortized cost	**406,082,606**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A comparison between the category and measurement of financial assets under the financial instruments recognition standard before and after the amendments as at the first adoption date is as follows: *(continued)*

The Company

	Under the Original Financial Instruments Standards		Under the New Financial Instruments Standards	
	Category	**Carrying amount**	**Category**	**Carrying amount**
Cash and bank balances	Amortized cost (Loans and receivables)	4,169,232,422	Amortized cost	**4,169,232,422**
Notes and trade receivables	Amortized cost (Loans and receivables)	10,170,482,595	Amortized cost	**10,170,482,595**
Other receivables	Amortized cost (Loans and receivables)	183,453,189	Amortized cost	**183,453,189**
Equity investments	Fair value through other comprehensive income (Available-for-sale assets)	126,722,160	Fair value through other comprehensive income (Designated)	**163,375,912**
Financial investments:	Fair value through profit or loss (Held-for-trading)	62,721,800	Fair value through profit or loss (Standard requirements)	**62,721,800**

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows:

The Group

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets measured at amortized cost				
Cash and bank balances				
Balance under original accounting standards and under new accounting standards	4,978,352,093			**4,978,352,093**
Notes and trade receivables				
Balance under original accounting standards	9,341,614,275			
Remeasurement: expected credit losses provision			**(9,861,282)**	
Balance under new accounting standards				**9,331,752,993**
Other receivables				
Balance under original accounting standards	247,325,199			
Remeasurement: expected credit losses provision			**(15,693,097)**	
Balance under new accounting standards				**231,632,102**
Financial assets purchased under agreements to resell				
Balance under original accounting standards	1,204,603,000			
Remeasurement: expected credit losses provision			**(6,523)**	
Balance under new accounting standards				**1,204,596,477**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Group *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Loans and advances to customers				
Balance under original accounting standards	1,251,315,253			
Remeasurement: expected credit losses provision			**(2,735,732)**	
Balance under new accounting standards				**1,248,579,521**
Financial investment – amortized cost				
Balance under original accounting standards	–			
Plus: transfer from held-to-maturity investments (original financial instrument standards)		406,082,606		
Balance under new accounting standards				**406,082,606**
Financial investment-held-to-maturity investments				
Balance under original accounting standards	406,082,606			
Less: transfer to amortized cost (new financial instrument standards)		(406,082,606)		
Balance under new accounting standards				**-**
Subtotal of financial assets measured at amortized cost	17,429,292,426	–	**(28,296,634)**	**17,400,995,792**

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Group *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets at fair value through other comprehensive income				
Equity investments– Available-for-sale financial assets				
Balance under original accounting standards	126,722,160			
Less: transfer to financial assets measured at fair value through other comprehensive income-equity instrument(new financial instrument standards)		(126,722,160)		
Balance under new accounting standards				-
Equity investments – Other equity instruments investments				
Balance under original accounting standards	–			
Plus: transfer from available-for-sale financial assets (original financial instrument standards)		126,722,160		
Remeasurement: changes in fair value			**36,653,752**	
Balance under new accounting standards				**163,375,912**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Group *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial investments – Debt instruments investment				
Balance under original accounting standards	–			
Plus: transfer from available-for-sale financial assets (original financial instrument standards)		984,446,000		
Remeasurement: expected credit losses provision			**(187,201)**	
Balance under new accounting standards				**984,258,799**
Financial investments – Available-for-sale financial assets				
Balance under original accounting standards	984,446,000			
Less: transfer to debt instruments investment (new financial instrument standards)		(984,446,000)		
Balance under new accounting standards				**–**
Subtotal of financial assets at fair value through other comprehensive income	1,111,168,160	–	**36,466,551**	**1,147,634,711**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Group *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets at fair value through profit or loss				
Financial investments – financial assets held-for-trading				
Balance under original accounting standards	–			
Plus: transfer from financial assets measured at fair value through profit or loss (original financial instrument standards)		1,546,139,404		
Balance under new accounting standards				**1,546,139,404**
Financial investments-measured at fair value through profit or loss-held-for-trading				
Balance under original accounting standards	1,546,139,404			
Less: transfer to financial assets held-for-trading (new financial instrument standards)		(1,546,139,404)		
Balance under new accounting standards				**-**
Subtotal of financial assets at fair value through profit or loss	1,546,139,404	–	**-**	**1,546,139,404**
Total	20,086,599,990	–	**8,169,917**	**20,094,769,907**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Company

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets at amortized cost				
Cash and bank balances				
Balance under original accounting standards and under new accounting standards	4,169,232,422			**4,169,232,422**
Notes and trade receivables				
Balance under original accounting standards	10,170,482,595			
Remeasurement: expected credit losses provision			-	
Balance under new accounting standards				**10,170,482,595**
Other receivables				
Balance under original accounting standards	183,453,189			
Remeasurement: expected credit losses provision			-	
Balance under new accounting standards				**183,453,189**
Subtotal of financial assets at amortized cost	14,523,168,206	–	-	**14,523,168,206**

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Company *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets at fair value through other comprehensive income				
Equity investments – Available-for-sale financial assets				
Balance under original accounting standards	126,722,160			
Less: transfer to financial assets measured at fair value through other comprehensive income-equity instrument (new financial instrument standards)		(126,722,160)		
Balance under new accounting standards				-
Equity investments – Other equity instruments investments				
Balance under original accounting standards	–			
Plus: transfer from available-for-sale financial assets (original financial instrument standards)		126,722,160		
Remeasurement：changes in fair value			**36,653,752**	
Balance under new accounting standards				**163,375,912**
Subtotal of financial assets at fair value through other comprehensive income	126,722,160	–	**36,653,752**	**163,375,912**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original carrying amount of the financial assets and the new carrying amount of the financial assets based on the classification and measurement under the financial instruments recognition standard after the amendments as at the first adoption date is as follows: *(continued)*

The Company *(continued)*

	Carrying amount under the original standard at 31 December 2017	Reclassification	Remeasurement	Carrying amount under the new standard at 1 January 2018
Financial assets at fair value through profit or loss				
Financial investments – financial assets held-for-trading				
Balance under original accounting standards	–			
Plus: transfer from financial assets measured at fair value through profit or loss (original financial instrument standards)		62,721,800		
Balance under new accounting standards				**62,721,800**
Financial investments – measured at fair value through profit or loss-held-for-trading				
Balance under original accounting standards	62,721,800			
Less: transfer to financial assets held-for-trading (new financial instrument standards)		(62,721,800)		
Balance under new accounting standards				**-**
Subtotal of financial assets at fair value through profit or loss	62,721,800	–	**-**	**62,721,800**
Total	14,712,612,166	–	**36,653,752**	**14,749,265,918**

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original impairment provision for financial assets as at 31 December 2017 and the new loss provision based on the classification and measurement under the New Financial Instruments Standards at the first adoption date is as follows:

The Group

Category	Provision provided under the original standard/provision recognized under the standard for contingent events at 31 December 2017	Reclassification	Remeasurement	Provision provided under the New Financial Instruments Standards at 1 January 2018
Loans and receivable (under the original financial instruments standard)/financial assets measured at amortized cost (under the New Financial Instruments Standards)				
Notes and trade receivables	47,673,210	–	**9,861,282**	**57,534,492**
Other receivables	593,692,160	–	**15,693,097**	**609,385,257**
Financial assets purchased under agreements to resell	–	–	**6,523**	**6,523**
Loans and advances to customers	34,149,119	–	**2,735,732**	**36,884,851**
Available-for-sale financial assets (under the original financial instruments standard)/ financial assets at fair value through other comprehensive income (under the New Financial Instruments Standards)				
Debt instrument investments	–	–	**187,201**	**187,201**
Loan commitment and financial guarantee				
Credit commitment	–	–	**203,555**	**203,555**

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

New Financial Instruments Standards (continued)

A reconciliation between the original impairment provision for financial assets as at 31 December 2017 and the new loss provision based on the classification and measurement under the New Financial Instruments Standards at the first adoption date is as follows: *(continued)*

The Company

Category	Provision provided under the original standard/provision recognized under the standard for contingent events at 31 December 2017	Reclassification	Remeasurement	Provision provided under the New Financial Instruments Standards at 1 January 2018
Loans and receivable (under the original financial instruments standard)/financial assets measured at amortized cost (under the New Financial Instruments Standards)				
Notes and trade receivable	47,921,020	–	-	**47,921,020**
Other receivables	423,714,537	–	-	**423,714,537**

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

Changes in Financial Statements Format

According to the Circular of the Ministry of Finance on Revising and Issuing the Format of the Financial Statements of General Enterprises for 2018 (Caikuai [2018] No. 15), the Group combined “notes receivable” and “trade receivables” as “notes and trade receivables”, and combined “interest receivable”, “dividends receivable” and “other receivables” as “other receivables”, combined “fixed assets” and “disposal on fixed assets” as “fixed assets”, combined “notes payable” and “trade payable” as “notes and trade payable”, combined “interest payable”, “dividends payable” and “other payables” as “other payables”, and combined “long-term payables” and “special payables” together as “long-term payables”. The Group added “Research and Development expenses” above the item of “financial expenses” in the income statement which accounts for expensed expenditure occurred during the course of research and development. The Group retrospectively represented the comparative balance sheet and the income statement. The change of accounting policy did not have any impact on the Group’s and Company’s net profit and shareholders’ equity.

Changes in presentation of cash received from government grant on assets

According to the “Interpretation of 2018 Financial Statements Format for General Enterprises”, cash received from government grant on assets shall be disclosed as cash flow from operating activities which was previously in cash flow from investing activities. The Group retrospectively adjusted the comparative figures by reducing the net cash flow from investing activities and correspondingly increasing the net cash flow from operating activities by the same amount in the Group and the Company’s statement of cash flows, with no impact on the net increase of cash and cash equivalents.

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

The main impact on the financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows:

The Group

	Carrying amount under the original standards at 31 December 2017	The influence of the New Financial Instruments Standards	Others changes in financial statement format	Carrying amount under the new standards at 1 January 2018
Assets:				
Financial assets held-for-trading	–	1,546,139,404	–	1,546,139,404
Financial assets at fair value through profit or loss	1,546,139,404	(1,546,139,404)	–	–
Notes receivable	8,375,166,683	–	(8,375,166,683)	–
Trade receivable	966,447,592	–	(966,447,592)	–
Notes and trade receivable	–	(9,861,282)	9,341,614,275	9,331,752,993
Interest receivable	6,390,787	–	(6,390,787)	–
Other receivables	278,837,287	(15,693,097)	6,390,787	269,534,977
Financial assets purchased under agreements to resell	1,204,603,000	(6,523)	–	1,204,596,477
Loans and advances to customers	1,251,315,253	(2,735,732)	–	1,248,579,521
Held-to-maturity investments	406,082,606	(406,082,606)	–	–
Assets classified as held-for-sale	1,111,168,160	(1,111,168,160)	–	–
Debt instruments investments	–	1,390,341,405	–	1,390,341,405
Other equity instruments investments	–	163,375,912	–	163,375,912
Deferred tax assets	478,235,280	(1,783,951)	–	476,451,329

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

The main impact on the financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows: *(continued)*

The Group *(continued)*

	Carrying amount under the original standards at 31 December 2017	The influence of the New Financial Instruments Standards	Others changes in financial statement format	Carrying amount under the new standards at 1 January 2018
Liabilities:				
Financial liabilities held-for-trading	–	10,498,810	–	10,498,810
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Notes payable	4,809,848,470	–	(4,809,848,470)	–
Trade payable	6,968,534,360	–	(6,968,534,360)	–
Notes and trade payable	–	–	11,778,382,830	11,778,382,830
Interest payable	121,108,052	–	(121,108,052)	–
Dividend payable	9,050,620	–	(9,050,620)	–
Other payable	2,224,169,194	–	130,158,672	2,354,327,866
Provision	38,537,369	(203,555)	–	38,333,814
Deferred tax liabilities	26,841,665	9,163,438	–	36,005,103
Shareholders' equity:				
Other comprehensive income	(124,156,060)	32,360,498	–	(91,795,562)
Retained earning	3,643,443,763	(20,317,968)	–	3,623,125,795
Equity attributable to owners of the parent	23,895,739,812	12,042,530	–	23,907,782,342
Non-controlling interests	3,341,524,501	(7,887,756)	–	3,333,636,745
Total shareholders' equity	27,237,264,313	4,154,774	–	27,241,419,087

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

The main impact on the financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows: *(continued)*

The Group *(continued)*

	The amount incurred in the previous year under the original standards	Others changes in financial statement format	The amount incurred in the previous year under the new standards
Cash received relating to other investing activities	109,905,601	(109,905,601)	–
Cash received relating to other operating activities	310,904,665	109,905,601	420,810,266

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

The main impact on the financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows: *(continued)*

The Company

	Carrying amount under the original standards at 31 December 2017	The influence of the New Financial Instruments Standards	Others changes in financial statement format	Carrying amount under the new standards at 1 January 2018
Assets:				
Financial assets held-for-trading	–	62,721,800	–	62,721,800
Financial assets at fair value through profit or loss	62,721,800	(62,721,800)	–	–
Notes receivable	8,065,941,428	–	(8,065,941,428)	–
Trade receivable	2,104,541,167	–	(2,104,541,167)	–
Notes and trade receivable	–	–	10,170,482,595	10,170,482,595
Other receivables	188,725,018	–	–	188,725,018
Assets classified as held-for-sale	126,722,160	(126,722,160)	–	–
Other equity instruments investments	–	163,375,912	–	163,375,912

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

34. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(CONTINUED)*

Changes in accounting policies *(continued)*

The main impact on the financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows: *(continued)*

The Company *(continued)*

	Carrying amount under the original standards at 31 December 2017	The influence of the New Financial Instruments Standards	Others changes in financial statement format	Carrying amount under the new standards at 1 January 2018
Liabilities：				
Financial liabilities held-for-trading	–	10,498,810	–	10,498,810
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Notes payable	4,077,260,000	–	(4,077,260,000)	–
Trade payable	5,972,985,456	–	(5,972,985,456)	–
Notes and trade payable	–	–	10,050,245,456	10,050,245,456
Interest payable	96,579,964	–	(96,579,964)	–
Dividend payable	6,569,410	–	(6,569,410)	–
Other payable	1,768,808,088	–	103,149,374	1,871,957,462
Deferred tax liabilities	–	9,163,438	–	9,163,438
Shareholders' equity:				
Other comprehensive income	–	27,490,314	–	27,490,314

	The amount incurred in the previous year under the original standards	Others changes in financial statement format	The amount incurred in the previous year under the new standards
Cash received relating to other investing activities	84,797,525	(84,797,525)	–
Cash received relating to other operating activities	137,141,707	84,797,525	221,939,232

IV. TAX

1. THE MAJOR TAXES AND RELATED TAX RATES:

Value-added tax	The VAT rate of domestic sales is 17% before 1 May 2018 and 16% since 1 May 2018. 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 16%.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Income tax	The Group and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their taxable profits.
	Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") was established and registered in Hong Kong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia")) was established and registered in Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S ("MG-VALDUNES") was established and registered in France, the applicable income tax rate is 33.3%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, the applicable income tax rate is 30%.
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 turnover taxes to be paid.
Local education surcharge	Payable based on 2% of the turnover taxes to be paid.
Property tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Environment protection tax	Payable based on the actual air pollution released with RMB1.2 per pollution equivalent. Environment protection tax was levied since 1 January 2018.
Other taxes	In accordance with tax laws and other relevant regulations.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash on hand	**90,260**	69,222
Bank balances	**7,757,669,516**	3,317,292,945
Other monetary assets	**1,021,612,231**	950,166,471
Mandatory reserves of Masteel Finance deposited in the central bank	**983,472,711**	710,823,455
	9,762,844,718	4,978,352,093

As of 31 December 2018, the Group's other monetary assets amounting to RMB1,021,612,231 have been pledged to banks as security (31 December 2017: RMB950,166,471) for bank acceptance notes, letters of credit and performance guarantees.

As of 31 December 2018, the Group had cash and bank balances amounting to RMB822,852,609 that have been deposited outside the PRC (31 December 2017: RMB405,464,133).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months to one year respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 31 December 2018, the Group had time deposits amounting to RMB823,584,000 (31 December 2017: RMB376,860,152) with terms of over three months.

2. FINANCIAL ASSETS HELD FOR TRADING *(APPLICABLE FOR 2018)*

	31 December 2018
Financial assets at fair value through profit or loss	
Debt instrument investments	**2,084,414,075**
	2,084,414,075

As of 31 December 2018, the Group's debt instruments investment was mainly in funds and financial products.

As of 31 December 2018, there were no major restrictions on the realization of the Group's debt instruments investment.

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(APPLICABLE FOR 2017)*

	31 December 2017
Financial assets designated as at fair value through profit or loss	
Including: – derivative financial assets – futures contracts	62,721,800
– investments in equity instruments	1,483,417,604
	1,546,139,404

The fair value of futures contracts was determined by the settlement price of the Dalian Commodity Exchange and Zhengzhou Commodity Exchange on the last trading date in 2017.

As of 31 December 2017, the investments in equity instruments were mainly financial products held by the Group.

As of 31 December 2017, there was no material restriction on the realization of these investments.

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

4. NOTES AND TRADE RECEIVABLES

	31 December 2018	31 December 2017
Notes receivable	**4,970,113,847**	8,375,166,683
Trade receivables	**1,121,768,976**	966,447,592
	6,091,882,823	9,341,614,275

Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	**4,970,113,847**	8,369,466,683
Commercial acceptance notes	**–**	5,700,000
	4,970,113,847	8,375,166,683

As of 31 December 2018, there was no bank acceptance notes (31 December 2017: Nil) pledged for receiving bank borrowings.

As of the financial position date, the undue notes discounted or endorsed were as follows:

	31 December 2018		31 December 2017	
	Derecognized	**Not derecognized**	Derecognized	Not derecognized
Bank acceptance notes	**7,398,304,418**	**159,713,509**	4,778,024,515	53,676,353

As of 31 December 2018 and 31 December 2017, there was no trade receivables transferred from notes receivable because of the drawers' inability to pay.

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables

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

The ageing of trade receivables, based on the invoice date, is analyzed below:

	31 December 2018	31 December 2017
Within one year	**1,090,345,962**	915,981,378
One to two years	**31,834,919**	50,266,296
Two to three years	**26,792,202**	8,034,401
Over three years	**45,506,589**	39,838,727
	1,194,479,672	1,014,120,802
Less: Provisions for bad debts	**72,710,696**	47,673,210
	1,121,768,976	966,447,592

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

The movements of provisions for bad debts against trade receivables were as follows:

	Opening balance (Note)	Increase during the year	Reversal	Transfer out due to disposal of a subsidiary	Other changes	Closing balance
2018	**57,534,492**	**21,483,181**	**(944,761)**	**(5,376,915)**	**14,699**	**72,710,696**
2017	20,729,808	30,468,944	(3,632,383)	–	106,841	47,673,210

Note: Difference between opening balance in 2018 and closing balance in 2017 was due to the adjustment that generated from adoption of the New Financial Instruments Standards. Details are addressed in Note III.34.

The balances of trade receivables are analyzed as follows:

	31 December 2018			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	-	-	-	-
Assessed bad debt provision in portfolios based on credit risk characteristics	1,194,479,672	100	(72,710,696)	6
	1,194,479,672	100	(72,710,696)	

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

	31 December 2017			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	33,846,252	3	(33,846,252)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	972,551,207	96	(8,122,204)	1
Individually insignificant but assessed for bad debt provision individually	7,723,343	1	(5,704,754)	74
	1,014,120,802	100	(47,673,210)	

As of 31 December 2017, those individually significant and assessed for impairment individually were as follows:

	Carrying amount	**Provision**	**Ratio (%)**	**Reason for bad debts**
Company 1	20,279,298	(20,279,298)	100	Note
Company 2	6,927,040	(6,927,040)	100	Note
Company 3	3,920,206	(3,920,206)	100	Note
Company 4	2,719,708	(2,719,708)	100	Note
	33,846,252	(33,846,252)	100	

Note: The Company has confirmed the trade receivables due from these companies were uncollectible. Therefore the bad debts was fully recognize provided.

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

Provision for bad debts of trade receivables of the Group analyzed by ageing is disclosed as follows:

	31 December 2018			31 December 2017		
	Carrying amount expected to default	**Expected credit loss ratio (%)**	**Expected credit loss**	Book value	Bad debts ratio (%)	Provision for bad debts
Within one year	**1,090,345,962**	**1**	**(10,903,460)**	911,939,548	–	–
One to two years	**31,834,919**	**14**	**(4,456,889)**	49,657,707	10	(4,965,771)
Two to three years	**26,792,202**	**51**	**(13,664,023)**	7,735,144	20	(1,547,029)
Over three years	**45,506,589**	**96**	**(43,686,324)**	3,218,808	50	(1,609,404)
	1,194,479,672		**(72,710,696)**	972,551,207		(8,122,204)

During the year, provision for bad debts was RMB21,483,181 (2017: RMB30,468,944), the recovery or reversal of provision for bad debts was RMB944,761 (2017: RMB3,632,383) and the derecognition caused by disposal of subsidiaries was RMB5,376,915.

During the year, there was no provision for bad debts write-off (2017: Nil).

During the year, the Group discounted notes receivable to financial institutions, the amount of notes receivable terminated for recognition was RMB119,530,190 (2017: RMB8,988,510), and recognised the discounted expenditure of RMB2,083,991 which is included in financial expenses (2017: RMB158,079).

As of 31 December 2018 and 31 December 2017, there was no trade receivables that were derecognized due to the transfer of financial assets.

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

The top five trade receivables classified by debtors are as follows:

31 December 2018	**Relationship with the Group**	**Ending balance**	**Ageing**	**Percentage of trade receivables (%)**	**Ending balance of bad debts provision**
Company 1	**Third Party**	**145,378,033**	**Within 1 year**	**13%**	**(1,453,780)**
Company 2	**Third Party**	**49,408,021**	**Within 1 year**	**4%**	**(494,080)**
Company 3	**Third Party**	**48,227,161**	**Within 3 years**	**4%**	**(11,294,390)**
Company 4	**Third Party**	**45,784,171**	**Within 1 year**	**4%**	**(457,842)**
Company 5	**Third Party**	**44,070,494**	**Within 1 year**	**4%**	**(440,705)**
		332,867,880		**29%**	**(14,140,797)**

31 December 2017	Relationship with the Group	Ending Balance	Ageing	Percentage of trade receivables (%)	Ending balance of bad debts provision
Company 1	Third Party	69,731,136	Within 1 year	7%	–
Company 2	Third Party	48,337,864	Within 1 year	5%	–
Company 3	Third Party	48,312,244	Within 3 years	5%	(4,831,224)
Company 4	Third Party	33,886,818	Within 1 year	3%	–
Company 5	Related Party	33,333,133	Within 1 year	3%	–
		233,601,195		23%	(4,831,224)

As of 31 December 2018, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continuingly involved (31 December 2017: Nil).

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

5. PREPAYMENTS

An ageing analysis of the prepayments is as follows:

	31 December 2018		31 December 2017	
	Carrying amount	**Ratio (%)**	Carrying amount	Ratio (%)
Within one year	**696,694,164**	**98**	729,997,738	97
One to two years	**5,422,942**	**1**	6,785,513	1
Two to three years	**385,515**	**–**	2,301,075	–
Over three years	**9,837,927**	**1**	11,734,505	2
	712,340,548	**100**	750,818,831	100

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

The top five prepayments classified by debtors are as follows:

31 December 2018	**Relationship with the Group**	**Ending balance**	**Ageing**	**Percentage of prepayments**
Company 1	**Third Party**	**123,435,252**	**Within 1 year**	**17%**
Company 2	**Third Party**	**60,163,329**	**Within 1 year**	**8%**
Company 3	**Third Party**	**41,348,330**	**Within 1 year**	**6%**
Company 4	**Third Party**	**40,090,000**	**Within 1 year**	**6%**
Company 5	**Third Party**	**39,108,105**	**Within 1 year**	**5%**
		304,145,016		**42%**

5. PREPAYMENTS *(CONTINUED)*

31 December 2017	Relationship with the Group	Ending balance	Ageing	Percentage of prepayments
Company 1	Associate	153,338,367	Within 1 year	20%
Company 2	Third Party	112,221,723	Within 1 year	15%
Company 3	Third Party	99,610,140	Within 1 year	13%
Company 4	Third Party	42,455,500	Within 1 year	6%
Company 5	Third Party	34,483,771	Within 1 year	5%
		442,109,501		59%

6. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Interest receivable	**507,913**	6,390,787
Dividends receivable	**20,346,208**	–
Other receivables	**127,111,413**	278,837,287
	147,965,534	285,228,074

Interest receivable

	31 December 2018	31 December 2017
Interest from loans and advances to customers	**–**	6,390,787
Interest from time deposits	**507,913**	–
	507,913	6,390,787

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

6. OTHER RECEIVABLES *(CONTINUED)*

Dividends receivable

	31 December 2018	31 December 2017
Other equity instruments investments		
– China MCC17 Group Co., Ltd.	**1,760,000**	–
Associate – Masteel Scrap	**8,119,136**	–
Associate – Masteel K. Wah	**1,812,970**	–
Associate – Magang Chemicals & Energy	**8,654,102**	–
	20,346,208	–

Other receivables

An ageing analysis of other receivables is as follows:

	31 December 2018	31 December 2017
Within one year	**123,297,588**	206,680,424
One to two years	**900,006**	66,060,251
Two to three years	**7,626,419**	615,046
Over three years	**411,648,933**	599,173,726
	543,472,946	872,529,447
Less: Provision for bad debts	**416,361,533**	593,692,160
	127,111,413	278,837,287

6. OTHER RECEIVABLES *(CONTINUED)*

The movements of bad debt provision based on the lifetime credit losses is as follows:

	Opening balance (note)	Increase during the year	Reversal	Write off/ Write-back	Transfer out due to disposal of a subsidiary	Other changes	Ending balance
2018	**609,385,257**	**43,735**	**(23,451,112)**	**–**	**(169,618,372)**	**2,025**	**416,361,533**
2017	594,245,515	1,167,321	–	(1,720,676)	–	–	593,692,160

Note: Difference between opening balance in 2018 and ending balance in 2017 was due to the adjustment generated from adoption of the New Financial Instruments Standards. Details are addressed in Note III.34.

	31 December 2018			
	Carrying amount		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed expected credit losses individually	**74,298**	**–**	**–**	**–**
Assessed expected credit losses in portfolios based on credit risk characteristics	**543,398,648**	**100**	**(416,361,533)**	**77**
	543,472,946	**100**	**(416,361,533)**	

	31 December 2017			
	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	587,934,699	67	(587,934,699)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	215,595,435	25	(2,966,381)	1
Individually insignificant but assessed for bad debt provision individually	68,999,313	8	(2,791,080)	4
	872,529,447	100	(593,692,160)	

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

6. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2017, those individually significant and assessed for impairment individually were as follows:

	Carrying amount	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	76,821,224	(76,821,224)	100	(ii)
Company 4	60,939,960	(60,939,960)	100	(i)
Company 5	57,988,833	(57,988,833)	100	(iv)
Company 6	37,243,732	(37,243,732)	100	(i)
Company 7	34,783,463	(34,783,463)	100	(ii)
Company 8	17,079,513	(17,079,513)	100	(ii)
Company 9	10,056,058	(10,056,058)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	5,143,596	(5,143,596)	100	(ii)
Company 14	4,069,419	(4,069,419)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
	587,934,699	(587,934,699)	100	

6. OTHER RECEIVABLES *(CONTINUED)*

(i) The companies were former steel trading suppliers of the Company, which were in operating difficulties. The fair value of the assets which pledged the receivables has changed, management assessed that it was difficult for the Company to collect the receivables as the second in line pledgee, therefore, a full provision for the bad debts was made.

(ii) The companies were former steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd. ("Shanghai Trading") (Disposed in 2018, as reference to Note VI. Changes in the scope of consolidation), a subsidiary of the Company. Management of the Group has assessed that it was difficult to collect the receivables because that the companies were in operating difficulties, and therefore made a full provision for the bad debts.

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

(iv) As the customer had broken the contract and paid part of the debt with real estate, the Company estimated that the rest of the receivables amounting to RMB57,988,833 were uncollectible and therefore made a full provision for bad debts.

Provision for bad debts of other receivables analyzed by ageing is disclosed as follows:

	31 December 2018			31 December 2017		
	Carrying amount expected default	**Expected credit loss ratio (%)**	**Expected credit loss**	Carrying amount	Bad debts ratio (%)	Provision for bad debts
Within one year	**123,223,290**	**2**	**(2,464,466)**	206,680,424	–	–
One to two years	**900,006**	**21**	**(189,001)**	3,420,290	10	(342,029)
Two to three years	**7,626,419**	**27**	**(2,059,133)**	410,026	20	(82,005)
Over three years	**411,648,933**	**100**	**(411,648,933)**	5,084,695	50	(2,542,347)
Total	**543,398,648**		**(416,361,533)**	215,595,435		(2,966,381)

During this year, the provision for bad debts was RMB43,735 (2017: RMB1,167,321), the recovery or reversal of provision for bad debts was RMB23,451,112 (2017: Nil) and the provision for bad debts was RMB169,618,372 due to the change of consolidation scope (2017: Nil).

During the current period, there was no write-off of provision for bad debts (2017: RMB1,720,676).

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

6. OTHER RECEIVABLES *(CONTINUED)*

Other receivables analyzed by nature were as follows:

	31 December 2018	31 December 2017
Due from trading companies	**432,303,988**	636,268,490
Transferring of assets	**43,454,334**	–
Prepaid import tariff and VAT deposit	**8,425,735**	39,396,766
Tax refunds	**237,911**	5,237,911
Deposit for steel futures	**74,298**	131,482,895
Others	**58,976,680**	60,143,385
	543,472,946	872,529,447
Less: Provision for bad debts	**416,361,533**	593,692,160
	127,111,413	278,837,287

As of 31 December 2018, the top five other receivables were as follows:

	Carrying amount	**Ratio in other receivables (%)**	**Nature**	**Ageing**	**Provision for bad debts**
Company 1	**132,058,434**	**24**	**Due from trading companies**	**More than 3 years**	**(132,058,434)**
Company 2	**127,685,367**	**23**	**Due from trading companies**	**More than 3 years**	**(127,685,367)**
Company 3	**60,939,960**	**11**	**Due from trading companies**	**More than 3 years**	**(60,939,960)**
Company 4	**45,390,133**	**8**	**Due from trading companies**	**More than 3 years**	**(45,390,133)**
Company 5	**43,454,334**	**8**	**Due from trading companies**	**Within 1 year**	**(869,087)**
	409,528,228	**74**			**(366,942,981)**

6. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2017, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Ageing	Provision for bad debts
Company 1	132,058,434	15	Due from trading companies	More than 3 years	132,058,434
Company 2	127,685,367	15	Due from trading companies	More than 3 years	127,685,367
Company 3	76,821,224	9	Due from trading companies	More than 3 years	76,821,224
Company 4	73,560,769	8	Deposit	Within 1 year	–
Company 5	60,939,960	7	Due from trading companies	More than 3 years	60,939,960
	471,065,754	54			397,504,985

As of 31 December 2018, the government grants receivable were as follows:

	Government grant project	**Balance**	**Ageing**	**Expected receiving time, amount and basis**
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	More than three years	Note

As of 31 December 2017, the government grants receivable were as follows:

	Government grant project	**Balance**	**Ageing**	**Expected receiving time, amount and basis**
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	5,237,911	More than three years	Note

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and full tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. During the current period, Anhui Changjiang Iron and Steel collected RMB5,000,000, and the remaining amount was expected to collect in 2019.

The balances of other receivables as of 31 December 2018 and 31 December 2017 did not contain any amount derecognized due to the transfer of financial assets.

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

7. INVENTORIES

	31 December 2018			31 December 2017		
	Carrying amount	**Provision for impairment**	**Carrying Amount**	Carrying amount	Provision for impairment	Carrying amount
Raw materials	**5,357,513,992**	**(306,614,876)**	**5,050,899,116**	5,151,178,511	(25,064,421)	5,126,114,090
Work in progress	**2,122,244,677**	**(157,296,973)**	**1,964,947,704**	1,435,040,464	(35,139,247)	1,399,901,217
Finished goods	**2,983,102,649**	**(269,855,384)**	**2,713,247,265**	3,678,581,632	(57,103,281)	3,621,478,351
Spare parts	**1,136,764,306**	**(65,356,757)**	**1,071,407,549**	1,146,576,477	(81,796,976)	1,064,779,501
Others	**253,417,114**	**–**	**253,417,114**	233,474,649	–	233,474,649
	11,853,042,738	**(799,123,990)**	**11,053,918,748**	11,644,851,733	(199,103,925)	11,445,747,808

The movements of impairment provision against inventories for the year are disclosed in Note V.22.

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.

During this year, there was no reversal of impairment provision against inventories (2017: RMB12,395,449).

As of 31 December 2018, the Group had no constraint inventories (31 December 2017: Nil).

8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2018	31 December 2017
Bonds	**2,433,102,181**	1,204,603,000
Less: Provision for impairment	**823,072**	–
	2,432,279,109	1,204,603,000

The movements of impairment provision against financial assets purchased under agreements to resell for the year are disclosed in Note V.22.

Financial assets purchased under agreements to resell are bonds that are bought first and to be sold at a fixed price by Masteel Finance according to the resale agreements. The ending balance was bonds repurchased by pledge.

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Loans	**516,691,043**	531,000,000
Discounted notes	**2,408,706,627**	734,464,372
Factoring	**–**	20,000,000
	2,925,397,670	1,285,464,372
Less:Bad debts provision for loans and advances to customers	**80,099,567**	34,149,119
	2,845,298,103	1,251,315,253

An analysis of loans and advances to customers, based on guarantee methods, is as follows:

	31 December 2018	31 December 2017
Unsecured loans	**2,801,810,456**	835,416,564
Guaranteed loans	**60,138,673**	50,000,000
Pledged loans	**63,448,541**	400,047,808
	2,925,397,670	1,285,464,372

All customers related to loans and advances are the Holding and its subsidiaries. The Group applies a "expected credit loss ("ECL") model" to evaluate the credit loss of loans and advances to customers. As of 31 December 2018, there was no non-performing loan in the Group's loans and advances to customers.

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

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

The movements of provisions for bad debts against loans and advances are as follows:

	Phase I Expected credit loss in next 12 months	Phase II Expected credit loss in the whole lifetime (Individual)	Phase II Expected credit loss in the whole lifetime (In portfolios)	Phase III Financial assets with credit loss already occurred (The whole lifetime)	Total
As at 1 January 2018 (note)	36,884,851	–	–	–	36,884,851
Changes in during the year	–	–	–	–	–
– Shift to Phase II	–	–	–	–	–
– Shift to Phase III	–	–	–	–	–
– Back to Phase II	–	–	–	–	–
– Back to Phase I	–	–	–	–	–
Provided	43,727,871	–	–	–	43,727,871
Reversal	(513,155)	–	–	–	(513,155)
Other changes	–	–	–	–	–
	80,099,567	–	–	–	80,099,567

Note: Difference between opening balance in 2018 and closing balance in 2017 was due to the adjustments that generated from adoption of the New Financial Instruments Standards. Details are addressed in Note III.34.

Loans and advances to customers due from related parties as of 31 December 2018 and 31 December 2017 are stated in Note X. 6 to the financial statements.

10. ASSETS CLASSIFIED AS HELD FOR SALE

	31 December 2018	31 December 2017
Non-current assets classified as held for sale	**–**	73,454,334

10. ASSETS CLASSIFIED AS HELD FOR SALE *(CONTINUED)*

On 25 November 2017, Ma Steel (Hefei) Co., Ltd. ("Ma Steel (Hefei)"), a subsidiary of the Company, signed a legally binding agreement named *The Supplementary Agreement of Compensation for Disposal of Land Use Right Agreement* with Hefei Municipal Land Reserve Center. Hefei Municipal Land Reserve Center had agreed in the agreement to purchase fixed assets of Ma Steel (Hefei) which were on the list of industrial heritage protection. According to the results of third party valuation agency, those fixed assets were valued at RMB73,101,612. As the difference between the valuation and the carrying amount was insignificant, the purchasing consideration was the carrying amount of these assets amounting to RMB73,454,334. At the end of 2017, the fair value for assets classified as held for sale is based on the purchasing consideration. On 18 May 2018, Ma Steel (Hefei) listed these assets for sale on Anhui Assets and Equity Exchange. On 15 June 2018, Jiangxi Baishengda Metal Co., Ltd. and Anhui Xinguangde Renewable Resources Co., Ltd. accepted the transaction terms and committed to acquire the listing assets. And this whole transaction had completed before the end of 2018.

11. HELD-TO-MATURITY INVESTMENTS *(APPLICABLE FOR 2017)*

	31 December 2017		
	Book amount	Provision for impairment	Carrying amount
Current asset			
Treasury bonds	305,228,376	–	305,228,376
Non-current asset			
Treasury bonds	100,854,230	–	100,854,230
	406,082,606	–	406,082,606

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

11. HELD-TO-MATURITY INVESTMENTS ***(APPLICABLE FOR 2017)*** *(CONTINUED)*

Significant held-to-maturity investments are as follows:

	Par value	Nominal interest rate	Actual interest rate	Purchase date	Maturity date
Current asset					
17 interest-bearing bonds 03	100,000,000	2.78%	3.11%	28 April 2017	9 February 2018
17 interest-bearing bonds 03	100,000,000	2.78%	3.53%	21 June 2017	13 February 2018
15 Anhui bonds 01	50,000,000	2.90%	3.79%	9 August 2017	6 June 2018
15 Jiangsu bonds 09	50,000,000	2.89%	3.84%	8 August 2017	6 November 2018
Non-current asset					
12 interest-bearing bonds 10	50,000,000	3.14%	3.565%	18 October 2017	7 June 2019
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019

12. NON-CURRENT ASSETS DUE WITHIN ONE YEAR

	31 December 2018	31 December 2017
Debt instruments investment	**101,201,184**	–

Note: Debt instruments investment held by the Group were mainly national bonds purchased by Masteel Finance.

Significant national bonds are as follows:

	Par value	Nominal interest rate	Effective interest rate	Purchase date	Maturity date
15 interest-bearing bonds 10	50,000,000	3.14%	3.565%	18 October 2017	7 June 2019
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019

13. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Prepaid income tax	**272,152,842**	295,578,934
Deductible value added tax	**523,930,493**	620,091,558
Debt instruments investment (note)	**2,377,039,640**	–
Others	**–**	366,839
	3,173,122,975	916,037,331

Note: Debt instruments investment held by the Group were mainly interbank deposits purchased by Masteel Finance.

	31 December 2018		
	Book amount	**Provision for impairment**	**Carrying amount**
Interbank deposits	**2,377,480,744**	**(441,104)**	**2,377,039,640**

The movements of provisions for bad debts against debt instruments investment are as follows:

	Phase I Expected credit loss in next 12 months	**Phase II Expected credit loss in the whole lifetime (Individual)**	**Phase II Expected credit loss in the whole lifetime (In portfolios)**	**Phase III Financial assets with credit loss already (The whole lifetime)**	**Total**
As at 1 January 2018 (note)	187,201	–	–	–	187,201
Changes during the year	–	–	–	–	–
– Shift to Phase II	–	–	–	–	–
– Shift to Phase III	–	–	–	–	–
– Back to Phase II	–	–	–	–	–
– Back to Phase I	–	–	–	–	–
Provided	253,903	–	–	–	253,903
Reversal	–	–	–	–	–
Other changes	–	–	–	–	–
	441,104	–	–	–	441,104

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

13. OTHER CURRENT ASSETS *(CONTINUED)*

Note: Difference between opening balance in 2018 and closing balance in 2017 was due to the adjustments that generated from adoption of the New Financial Instruments Standards. Details are addressed in Note III.34.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(APPLICABLE FOR 2017)*

	31 December 2017		
	Carrying amount	Provision for impairment	Carrying amount
Available-for-sale debt instruments	984,446,000	–	984,446,000
Available-for-sale equity investment	126,722,160	–	126,722,160
	1,111,168,160	–	1,111,168,160

Available-for-sale financial assets measured at fair value:

	31 December 2017
Available-for-sale debt instruments	
Amortized cost of debt instruments	991,581,802
Fair value	984,446,000
Accumulated fair value changes recognized in other comprehensive income	(7,135,802)
Provision for impairment	–

Note: Available-for-sale debt instruments held by the Group were mainly bonds investment and interbank deposits owned by Masteel Finance.

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

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS ***(APPLICABLE FOR 2017)*** *(CONTINUED)*

Available-for-sale financial assets measured at cost:

31 December 2017

	Carrying amount				Provision for impairment					
	Opening balance	Addition	Decrease	Ending balance	Opening balance	Addition	Decrease	Ending balance	Equity interests (%)	Cash dividend received during the year
Henan Longyu Energy Co., Ltd. ("Henan Longyu")	10,000,000	–	–	10,000,000	–	–	–	–	0.66	–
China MCC17 Group Co., Ltd. ("MCC17")	8,554,800	–	–	8,554,800	–	–	–	–	1.56	1,540,000
Shanghai LuoJing Ore Quay Co., Ltd. ("Shanghai Luojing")	88,767,360	–	–	88,767,360	–	–	–	–	12.00	–
Beijing Zhonglian Steel Ecommerce Co., Ltd. ("Zhonglian Steel")	1,000,000	–	–	1,000,000	–	–	–	–	3.40	–
Anshan Huatai CDQ Engineering Technology Co., Ltd. ("Anshan Huatai")	400,000	–	–	400,000	–	–	–	–	5.00	30,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd. ("CFHI Maanshan")	15,000,000	–	–	15,000,000	–	–	–	–	15.00	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	–	–	3,000,000	–	–	–	–	6.90	–
	126,722,160	–	–	126,722,160	–	–	–	–		1,570,000

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

15. LONG-TERM EQUITY INVESTMENTS

31 December 2018

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	334,457,696	-	-	83,631,261	-	-	(150,000,000)	-	268,088,957	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	546,153	-	-	(44,418)	-	-	-	-	501,735	-
Associates										
Henan JinMa Energy	441,184,749	-	-	222,404,961	(2,745,469)	(305,382)	(47,520,000)	-	613,018,859	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	469,646,241	-	-	294,692,833	-	339,819	(31,992,968)	-	732,685,925	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	22,759,705	-	-	(2,969,594)	-	-	(12,000,000)	-	7,790,111	-
Xinchuang Environmental Protection	48,584,024	-	-	10,054,228	-	471,699	(1,428,658)	-	57,681,293	-
Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical") (note 1)	80,254,391	-	(106,810,899)	26,475,894	-	80,614	-	-	-	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	127,792,243	-	-	17,455,827	-	1,271,803	-	-	146,519,873	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring") (note 2)	-	75,000,000	-	2,647,587	-	-	-	-	77,647,587	-
Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("Ma-Steel Financial Leasing") (note 3)	-	75,000,000	-	3,061,708	-	-	-	-	78,061,708	-
Magang Chemicals & Energy (note 4)	-	600,000,000	-	-	-	-	-	-	600,000,000	-
Masteel K. Wah (note 4)	-	81,118,544	-	-	-	-	-	-	81,118,544	-
Masteel Scrap (note 4)	-	145,948,789	-	-	-	-	-	-	145,948,789	-
	1,525,225,202	977,067,333	(106,810,899)	657,410,287	(2,745,469)	1,858,553	(242,941,626)	-	2,809,063,381	-

* Except for JinMa Energy and Xinchuang Environmental Protection, the above joint ventures and associates accounted for by the equity method are unlisted investments.

15. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

Note 1: On 28th September 2018, Linhuan Coking Co., Ltd. (Linhuan Coking) signed an agreement, *Linhuan Coking Co., Ltd. Merging Anhui Linhuan Chemical Co., Ltd Agreement* (the Agreement), with Anhui Linhuan Chemical, according to which Linhuan Coking would issue shares to all of Anhui Linhuan Chemical's shareholders to merge it. Linhuan Coking as the surviving company after the merger shall take over all the assets, liabilities, business, employees, contracts and other rights and obligations of Anhui Linhuan Chemical, and Anhui Linhuan Chemical would deregister its corporate capacity.

According to the asset appraisal report issued by Zhongshui Zhiyuan Assets Appraisal Co., Ltd. Anhui Linhuan Chemical's equity was valued at RMB805,676,000 on 30th June 2018 (the base date of assets evaluation), while Linhuan Coking's equity was valued at RMB984,904,600. Based on the appraisal report, the merging party shall issue 58,898,033 shares of Linhuan Coking to the Company as a price of RMB1.6415 per share.

After this merger, the Company no longer held equities of Anhui Linhuan Chemical, and held 5.4% equity of Linhuan Coking. The Company considered it would not have a significant influence on Linhuan Coking. Therefore this investment was recognized as other equity instruments investments at its fair value on the date of transaction completion and was measured at fair value ever since (Note V. 16).

Note 2: On 17 April 2018, the Company jointly established Ma-Steel Commercial Factoring with registered capital amounting to RMB300,000,000 with Magang (Group) Investment Co., Ltd., Masteel International Trade and Economic Co., Ltd., Maanshan Iron & Steel Group Mining Co., Ltd. and Anhui Masteel Engineering Technology (Group) Co., Ltd. According to the "Articles of Association" of Ma-Steel Commercial Factoring, the Company invests in cash with a capital investment of RMB75,000,000, the capital investment ratio and shareholding ratio is 25%. On 2 May 2018, the Company invested RMB75,000,000 in cash.

According to the "Articles of Association" of Ma-Steel Commercial Factoring, the Company assign one out of five directors in the board and has the right to participate in decision-making on its financial and operating policies, but cannot control or jointly control with other parties. These policies were formulated so that the Company has significant influence on Ma-Steel Commercial Factoring and adopt the equity method to account for its long-term equity investments as an associate.

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

15. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

Note 3: On 10 April 2018, Ma Steel (HK), the subsidiary of the Company jointly established Ma-Steel Finance Leasing with registered capital amounting to RMB300,000,000 with Magang (Group) Investment Co., Ltd., Maanshan Jiangdong Finance Holding Co., Ltd. and Anhui Xincheng Investment Co., Ltd. According to the "Articles of Association" of Ma Steel Finance Leasing, Ma Steel (HK) invests by cash amounting to RMB75,000,000, and the capital investment ratio and shareholding ratio is 25%.

According to the "Articles of Association" of Ma Steel Finance Leasing, Ma Steel (HK) assign one out of five directors in the board and has the right to participate in decision-making on its financial and operating policies, but cannot control or jointly control with other parties, so that Ma Steel (HK) has significant influence on Ma Steel Finance Leasing and adopt equity method to account for its long-term equity investments as an associate.

Note 4: In December 2018, due to disposal of equity or the dilution of the Company's shareholding ratio as a result from the increase of investee's register capital, the Company lost control of its subsidiaries such as Magang Chemicals & Energy, Masteel K.wah and Masteel Scrap. The Company accounted for them as associates at the fair values on the date of loss of control using equity method. Please refer to Note VI.2 for details.

31 December 2017

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	319,018,068	–	–	90,439,628	–	–	(75,000,000)	–	334,457,696	–
MASTEEL-CMI	541,433	–	–	4,720	–	–	–	–	546,153	–
Mascometal Co.,Ltd. ("Mascometal")	53,284,037	78,431,997	(127,368,631)	(4,347,403)	–	–	–	–	–	–
Associates										
JinMa Energy	296,196,390	–	(22,335,060)	202,392,735	–	930,684	(36,000,000)	–	441,184,749	–
Shenglong Chemical	309,396,424	–	–	179,443,817	–	–	(19,194,000)	–	469,646,241	–
Shanghai Iron and Steel Electronic	27,120,592	–	–	1,639,113	–	–	(6,000,000)	–	22,759,705	–
Xinchuang Environmental Protection	43,780,961	–	–	5,362,627	–	746,827	(1,306,391)	–	48,584,024	–
Anhui Linhuan Chemical	72,000,000	–	–	7,320,968	–	933,423	–	–	80,254,391	–
Ma-Steel OCI Chemical	118,438,408	–	–	8,154,347	–	1,199,488	–	–	127,792,243	–
	1,239,776,313	78,431,997	(149,703,691)	490,410,552	–	3,810,422	(137,500,391)	–	1,525,225,202	–

16. OTHER EQUITY INSTRUMENTS INVESTMENTS

31 December 2018

				Dividend	
	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Equity instruments derecognized in the year	Equity instruments held
Henan Longyu	**10,000,000**	**24,667,011**	**34,667,011**	**–**	**–**
MCC17	**8,554,800**	**48,371,699**	**56,926,499**	**–**	**3,340,000**
Shanghai Luojing	**88,767,360**	**(48,093,703)**	**40,673,657**	**–**	**–**
Zhonglian Steel	**1,000,000**	**(658,341)**	**341,659**	**–**	**–**
Anshan Huatai	**400,000**	**(97,943)**	**302,057**	**–**	**40,000**
CFHI Maanshan (Note 1)	**16,030,500**	**(10,104,421)**	**5,926,079**	**–**	**–**
Guoqi Institute	**3,000,000**	**(110,301)**	**2,889,699**	**–**	**–**
Linhuan Coking (Note 2)	**114,500,456**	**6,895,247**	**121,395,703**	**–**	**–**
	242,253,116	**20,869,248**	**263,122,364**	**–**	**3,380,000**

Note 1: In January 2018, the Group increased investment in CFHI Maanshan by RMB1,030,500.

Note 2: For the information of the newly added other equity instruments investments, please refer to Note V. 15.

As neither the Group participate in the daily operating activities of the above investees, has intention of receiving contractual cash flows, nor does hold them for trading, the above mentioned investments were designated as financial assets measured at fair value through other comprehensive income.

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

17. INVESTMENT PROPERTIES

Investment properties measured using the cost method:

2018

	Plant and buildings
Cost:	
At 1 January 2018	**65,075,379**
Addition	**–**
At 31 December 2018	**65,075,379**
Accumulated depreciation:	
At 1 January 2018	**7,566,695**
Provided	**1,703,929**
At 31 December 2018	**9,270,624**
Provision for impairment:	
At 1 January 2018 and 31 December 2018	**–**
Net carrying amount:	
At 1 January 2018	**55,804,755**
At 31 December 2018	**57,508,684**

17. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties measured using the cost method: *(continued)*

2017

	Plant and buildings
Cost:	
At 1 January 2017	65,075,379
Addition	–
At 31 December 2017	65,075,379
Accumulated depreciation:	
At 1 January 2017	6,241,381
Provided	1,325,314
At 31 December 2017	7,566,695
Provision for impairment:	
At 1 January 2017 and 31 December 2017	–
Net carrying amount:	
At 31 December 2017	57,508,684
At 1 January 2017	58,833,998

* 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)*

18. PROPERTY, PLANT AND EQUIPMENT

	31 December 2018	31 December 2017
Property, plant and equipment	**31,344,685,711**	33,130,499,862
Property, plant and equipment to be disposed	**200,491,124**	–
	31,545,176,835	33,130,499,862

Property, plant and equipment

2018

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 2)	Total
Cost:						
At the beginning of the year	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Addition	17,317,063	44,366,935	15,607,496	3,298,966	-	80,590,460
Transferred from Construction in progress (Note V. 19)	715,446,909	1,973,252,749	11,313,492	7,580,254	-	2,707,593,404
Reclassification	33,474,613	49,452,239	(82,926,852)	-	-	-
Disposal (Note 1)	(1,040,145,132)	(2,742,220,823)	(37,797,137)	(254,813)	-	(3,820,417,905)
Disposal of subsidiaries (Note VI. 2.)	(465,388,928)	(612,956,238)	(8,312,675)	(6,302,609)	-	(1,092,960,450)
Exchange realignment	(130,053)	1,079,566	46,756	29,163	63,223	1,088,655
At the ending of the year	27,572,998,735	53,301,727,894	283,373,647	272,214,833	11,025,179	81,441,340,288
Accumulated depreciation:						
At the beginning of the year	13,242,580,090	36,046,867,181	301,161,332	251,424,893	-	49,842,033,496
Provided	718,997,597	3,027,554,540	19,098,786	6,589,330	-	3,772,240,253
Reclassification	32,975,609	47,463,437	(80,439,046)	-	-	-
Disposal (Note 1)	(579,319,566)	(2,203,981,539)	(33,995,137)	(234,090)	-	(2,817,530,332)
Disposal of subsidiaries (Note VI. 2.)	(252,281,754)	(442,656,199)	(5,710,238)	(1,602,371)	-	(702,250,562)
Exchange realignment	(39,783)	233,794	26,636	12,874	-	233,521
At the ending of the year	13,162,912,193	36,475,481,214	200,142,333	256,190,636	-	50,094,726,376
Impairment:						
At the beginning of the year	104,408,146	487,885,152	619,468	-	-	592,912,766
Disposal (Note 1)	(102,479,945)	(487,885,152)	(619,468)	-	-	(590,984,565)
At the ending of the year	1,928,201	-	-	-	-	1,928,201
Net carrying amount:						
At the ending of the year	14,408,158,341	16,826,246,680	83,231,314	16,024,197	11,025,179	31,344,685,711
At the beginning of the year	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862

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

Property, plant and equipment *(continued)*

2017

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 2)	Total
Cost:						
At the beginning of the year	28,321,868,263	54,592,830,136	387,602,293	266,400,805	10,265,796	83,578,967,293
Addition	6,054,144	85,124,002	7,273,995	1,716,586	–	100,168,727
Business combination	–	112,713	177,003	7,849	–	297,565
Transferred from construction in progress	566,145,962	1,691,818,944	18,616,780	149,156	–	2,276,730,842
Reclassifications	(104,782,703)	96,823,103	7,959,600	–	–	–
Classified as assets held for sale	(40,142,003)	(222,179,917)	–	–	–	(262,321,920)
Disposal (Note 1)	(438,301,782)	(1,295,397,943)	(35,643,585)	(363,583)	–	(1,769,706,893)
Accrual adjustments for construction	–	(363,572,672)	–	–	–	(363,572,672)
Disposal of a subsidiary	–	(5,705,913)	(805,624)	(365,472)	–	(6,877,009)
Exchange realignment	1,582,382	8,901,013	262,105	318,531	696,160	11,760,191
At the ending of the year	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Accumulated depreciation:						
At the beginning of the year	12,872,670,351	34,591,216,575	309,217,755	244,653,433	–	48,017,758,114
Provided	790,935,731	2,741,886,074	20,062,209	7,007,485	–	3,559,891,499
Reclassifications	(9,890,291)	4,818,647	5,071,644	–	–	–
Classified as assets held for sale	(20,576,618)	(168,290,968)	–	–	–	(188,867,586)
Disposal (Note 1)	(390,655,903)	(1,120,558,093)	(32,635,145)	(8,090)	–	(1,543,857,231)
Disposal of a subsidiary	–	(3,675,424)	(750,450)	(338,975)	–	(4,764,849)
Exchange realignment	96,820	1,470,370	195,319	111,040	–	1,873,549
At the ending of the year	13,242,580,090	36,046,867,181	301,161,332	251,424,893	–	49,842,033,496
Impairment:						
At the beginning of the year	6,514,174	32,093,290	–	–	–	38,607,464
Provided	101,594,293	487,885,152	619,468	–	–	590,098,913
Disposal (Note 1)	(3,700,321)	(32,093,290)	–	–	–	(35,793,611)
At the ending of the year	104,408,146	487,885,152	619,468	–	–	592,912,766
Net carrying amount:						
At the ending of the year	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862
At the beginning of the year	15,442,683,738	19,969,520,271	78,384,538	21,747,372	10,265,796	35,522,601,715

Note 1: Disposal was mainly related to the fixed assets sold and discarded by the Company.

Note 2: Land in fixed assets is the land ownership purchased by MG-VALDUNES, a subsidiary of the Group.

As of 31 December 2018, certificates of ownership in respect of 33 buildings of the Group in Mainland China, with an aggregate cost of RMB1,303,217,868 (2017: RMB1,343,778,609), have not been obtained from the relevant government authorities. The directors represented that the Group was in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

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

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

Property, plant and equipment to be disposed

	31 December 2018	31 December 2017
Plant and buildings	**124,035,507**	–
Machinery and equipment	**76,448,844**	–
Transportation vehicle and tools	**6,773**	–
	200,491,124	–

19. CONSTRUCTION IN PROGRESS

	31 December 2018	31 December 2017
Construction in progress	**1,662,672,077**	1,805,955,609
Construction materials	**–**	–
	1,662,672,077	1,805,955,609

Construction in progress

	31 December 2018			31 December 2017		
	Carrying amount	**Provision for impairment**	**Carrying amount**	Carrying amount	Provision for impairment	Carrying amount
Product quality projects	**317,713,236**	**–**	**317,713,236**	575,866,740	–	575,866,740
Energy-saving and environmental protection projects	**427,718,198**	**–**	**427,718,198**	345,489,968	–	345,489,968
Equipment advancement and other modification projects	**665,964,168**	**–**	**665,964,168**	565,711,125	–	565,711,125
Other projects	**251,276,475**	**–**	**251,276,475**	318,887,776	–	318,887,776
Total	**1,662,672,077**	**–**	**1,662,672,077**	1,805,955,609	–	1,805,955,609

19. CONSTRUCTION IN PROGRESS *(CONTINUED)*

In 2018, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.18) RMB	Transferred to intangible assets (Note V.20) RMB	Disposal of subsidiaries RMB	Closing balance RMB	Source of fund	The proportion of projects investment account for budget (%)	Percentage of completion (%)	Capitalized interest accumulated RMB	The capitalised interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	11,302,724	575,866,740	1,497,008,845	(1,755,162,350)	-	-	317,713,235	Internally financed/loan	62	62	11,446,953	-	-
Energy-saving and environmental protection projects	5,700,066	345,489,968	564,539,214	(482,310,984)	-	-	427,718,198	Internally financed/loan	37	37	4,816,770	-	-
Equipment advancement and other modification projects	1,801,949	565,711,125	415,605,706	(184,222,663)	(131,130,000)	-	665,964,168	Internally financed/loan	68	68	7,597,740	-	-
Other projects	N/A	318,887,776	233,439,549	(285,897,407)	(14,828,200)	(325,242)	251,276,476	Internally financed/loan	N/A	N/A	3,005,256	-	-
		1,805,955,609	2,710,593,314	(2,707,593,404)	(145,958,200)	(325,242)	1,662,672,077						
Less: impairment		-	-	-	-	-	-						
		1,805,955,609	2,710,593,314	(2,707,593,404)	(145,958,200)	(325,242)	1,662,672,077				26,866,719	-	

In 2017, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Business combination RMB	Transferred to fixed assets RMB	Closing balance RMB	Source of fund	The proportion of projects investment account for budget (%)	Percentage of completion (%)	Capitalized interest accumulated RMB	The capitalised interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	11,023,853	387,560,165	702,524,220	57,634,890	(571,852,535)	575,866,740	Internally financed/loan	51	51	11,446,953	1,775,312	4.75
Energy-saving and environmental protection projects	2,842,715	448,789,128	347,431,616	-	(450,730,776)	345,489,968	Internally financed/loan	69	69	4,816,770	-	-
Equipment advancement and other modification projects	1,626,014	856,066,507	249,998,243	-	(540,353,625)	565,711,125	Internally financed/loan	79	79	7,597,740	-	-
Other projects	N/A	565,775,598	466,906,084	-	(713,793,906)	318,887,776	Internally financed/loan	N/A	N/A	3,005,256	-	-
		2,258,191,398	1,766,860,163	57,634,890	(2,276,730,842)	1,805,955,609						
Less: impairment		-	-	-	-	-						
		2,258,191,398	1,766,860,163	57,634,890	(2,276,730,842)	1,805,955,609				26,866,719	1,775,312	

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

20. INTANGIBLE ASSETS

2018

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the year	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Addition	–	26,191,855	–	–	26,191,855
Transferred from construction in progress	14,828,200	131,130,000	–	–	145,958,200
Disposals	(328,500)	(27,247,335)	–	–	(27,575,835)
Disposal of subsidiaries	–	(52,001,416)	–	–	(52,001,416)
Exchange realignment	–	–	(7,423,151)	5,079	(7,418,072)
At the ending of the year	151,479,110	2,476,152,224	133,744,221	885,668	2,762,261,223
Accumulated amortization:					
At the beginning of the year	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Provided	6,326,951	51,720,462	82,212,927	43,992	140,304,332
Disposals	(164,617)	(6,013,426)	–	–	(6,178,043)
Disposal of subsidiaries	–	(15,433,016)	–	–	(15,433,016)
Exchange realignment	–	–	(5,203,241)	3,543	(5,199,698)
At the ending of the year	42,294,400	730,295,485	133,744,221	661,787	906,995,893
Impairment:					
At the beginning and ending of the year	–	–	–	–	–
Net carrying amount:					
At the ending of the year	109,184,710	1,745,856,739	–	223,881	1,855,265,330
At the beginning of the year	100,847,344	1,698,057,655	84,432,837	266,337	1,883,604,173

20. INTANGIBLE ASSETS *(CONTINUED)*

2017

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the year	136,979,410	2,288,788,651	139,904,847	692,411	2,566,365,319
Addition	–	109,290,469	–	141,222	109,431,691
Exchange realignment	–	–	1,262,525	46,956	1,309,481
At the ending of the year	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Accumulated amortization:					
At the beginning of the year	30,218,625	664,229,102	49,837,103	311,562	744,596,392
Provided	5,913,441	35,792,363	6,084,938	281,562	48,072,304
Exchange realignment	–	–	812,494	21,128	833,622
At the ending of the year	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Impairment:					
At the beginning and ending of the year	–	–	–	–	–
Net carrying amount:					
At the ending of the year	100,847,344	1,698,057,655	84,432,837	266,337	1,883,604,173
At the beginning of the year	106,760,785	1,624,559,549	90,067,744	380,849	1,821,768,927

Note: The concession right is owned by a subsidiary of the Company, Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply"). On 18 May 2011, Hefei Water Supply obtained a concession right by signing the "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economic Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive fees 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)*

21. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred liabilities before offset:

	31 December 2018		31 December 2017	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	**298,404,365**	**77,373,928**	445,798,480	111,449,620
Sales incentive	**76,803,420**	**19,200,855**	411,343,608	102,835,902
Payroll payable	**134,725,737**	**35,389,057**	195,634,400	48,908,600
Government grants	**385,311,344**	**96,327,836**	589,766,912	147,441,728
Deductible tax loss	**–**	**–**	157,786,860	39,446,715
Others	**199,271,234**	**52,577,064**	156,086,216	39,021,554
	1,094,516,100	**280,868,740**	1,956,416,476	489,104,119

	31 December 2018		31 December 2017	
	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	**96,265,248**	**24,066,311**	107,366,660	26,841,665
Changes in fair value of financial products and funds	**–**	**–**	3,111,908	777,977
Changes in fair value of derivatives financial instruments	**–**	**–**	23,203,200	5,800,800
Changes in fair value of other equity instruments investment	**20,869,248**	**5,217,312**	–	–
Others	**98,772**	**24,694**	17,160,248	4,290,062
	117,233,268	**29,308,317**	150,842,016	37,710,504

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

Net amount of deferred tax assets/liabilities after offset:

	31 December 2018		31 December 2017	
	Offset amount	**Net amount**	Offset amount	Net amount
Deferred tax assets	**5,242,006**	**275,626,734**	10,868,839	478,235,280
Deferred tax liabilities	**5,242,006**	**24,066,311**	10,868,839	26,841,665

The Group's unrecognized deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	31 December 2018	31 December 2017
Deductible temporary differences	**3,016,694,768**	1,373,832,413
Deductible tax losses	**1,941,057,921**	6,712,659,253
	4,957,752,689	8,086,491,666

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

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

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

	31 December 2018	31 December 2017
To expire in 2018	**–**	483,216,836
To expire in 2019	**62,311,487**	781,213,612
To expire in 2020	**890,751,120**	4,555,266,671
To expire in 2021	**614,727,132**	614,738,784
To expire in 2022	**119,141,311**	278,223,350
To expire in 2023 and subsequent years (Note)	**254,126,871**	–
Total	**1,941,057,921**	6,712,659,253

Note: Oversea subsidiaries of the Company have deductible tax losses amounting to RMB238,854,376 without expiration date.

The Group considered it would be not possible to generate enough taxable profit to utilize the above tax losses and therefore did not recognize relevant deferred tax assets.

The Group's unrecognized taxable temporary differences were as follows:

	31 December 2018	31 December 2017
Taxable temporary differences (Note)	**1,395,768,725**	935,869,050

Note: The Group's taxable temporary differences of unrecognized deferred tax liabilities generated from long-term equity investment in its domestic joint ventures, associates and overseas subsidiaries. These taxable temporary differences would be reversed with tax consequences on the Group through future disposal of shares or receipt of dividends from oversea subsidiaries. Since the Group can control the dividend plans of overseas subsidiaries and would not dispose equity investments in these joint ventures and associates in the foreseeable future, it had not recognize deferred tax liabilities according to the above mentioned taxable temporary differences.

22. ASSETS IMPAIRMENT PROVISIONS

31 December 2018

	Opening balance (i)	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back/ write-off	Disposal of subsidiaries (Note VI. 2.)	Other changes	Closing balance
Provisions for bad debts	**703,804,600**	**65,254,787**	**(24,909,028)**	**–**	**(174,995,287)**	**16,724**	**569,171,796**
Including: Trade receivables	**57,534,492**	**21,483,181**	**(944,761)**	**–**	**(5,376,915)**	**14,699**	**72,710,696**
Other receivables	**609,385,257**	**43,735**	**(23,451,112)**	**–**	**(169,618,372)**	**2,025**	**416,361,533**
Loans and advances to customers	**36,884,851**	**43,727,871**	**(513,155)**	**–**	**–**	**–**	**80,099,567**
Financial assets purchased under agreements to resell	**6,523**	**818,673**	**(2,124)**	**–**	**–**	**–**	**823,072**
Debt instruments investment	**187,201**	**253,903**	**–**	**–**	**–**	**–**	**441,104**
Inventory impairment provision (ii)	**199,103,925**	**754,443,431**	**–**	**(141,111,110)**	**(13,579,733)**	**267,477**	**799,123,990**
Including: Raw materials	**25,064,421**	**302,355,662**	**–**	**(20,863,398)**	**–**	**58,191**	**306,614,876**
Work in progress	**35,139,247**	**175,763,642**	**–**	**(47,569,999)**	**(6,174,135)**	**138,218**	**157,296,973**
Finished goods	**57,103,281**	**275,564,098**	**–**	**(55,473,013)**	**(7,405,598)**	**66,616**	**269,855,384**
Spare parts	**81,796,976**	**760,029**	**–**	**(17,204,700)**	**–**	**4,452**	**65,356,757**
Property, plant and equipment impairment provision	**592,912,766**	**–**	**–**	**(590,984,565)**	**–**	**–**	**1,928,201**
Including: Buildings and plant	**104,408,146**	**–**	**–**	**(102,479,945)**	**–**	**–**	**1,928,201**
Machinery and equipment	**487,885,152**	**–**	**–**	**(487,885,152)**	**–**	**–**	**–**
Transportation vehicles and tools	**619,468**	**–**	**–**	**(619,468)**	**–**	**–**	**–**
	1,496,015,015	**820,770,794**	**(24,911,152)**	**(732,095,675)**	**(188,575,020)**	**284,201**	**1,371,488,163**

(i) Difference between opening balance in 2018 and closing balance in 2017 was due to the adjustment that generated from the adoption of the New Financial Instruments Standards. Please refer to Note III.34 for details.

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

22. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

31 December 2017

	Opening balance	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back/ write-off	Other changes	Closing balance
Provisions for bad debts	662,500,880	31,636,265	(17,008,821)	(1,720,676)	106,841	675,514,489
Including: Trade receivables	20,729,808	30,468,944	(3,632,383)	–	106,841	47,673,210
Other receivables	594,245,515	1,167,321	–	(1,720,676)	–	593,692,160
Loans and advances to customers	47,525,557	–	(13,376,438)	–	–	34,149,119
Inventory impairment provision (ii)	292,506,001	154,044,086	(12,395,449)	(237,097,173)	2,046,460	199,103,925
Including: Raw materials	83,746,075	90,248,757	–	(149,188,032)	257,621	25,064,421
Work in progress	17,659,670	28,815,862	–	(11,697,458)	361,173	35,139,247
Finished goods	64,188,089	23,880,267	(131,387)	(31,420,615)	586,927	57,103,281
Spare parts	126,912,167	11,099,200	(12,264,062)	(44,791,068)	840,739	81,796,976
Property, plant and equipment impairment provision	38,607,464	590,098,913	–	(35,793,611)	–	592,912,766
Including: Buildings and plant	6,514,174	101,594,293	–	(3,700,321)	–	104,408,146
Machinery and equipment	32,093,290	487,885,152	–	(32,093,290)	–	487,885,152
Transportation vehicle and tools	–	619,468	–	–	–	619,468
	993,614,345	775,779,264	(29,404,270)	(274,611,460)	2,153,301	1,467,531,180

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

23. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Domestic bank deposits	**900,366,111**	200,000,000

24. CUSTOMER DEPOSITS

	31 December 2018	31 December 2017
Demand deposits	**4,062,206,474**	2,365,945,211
Notice deposits	**541,791,622**	186,300,000
Time deposits	**311,311,215**	395,394,399
	4,915,309,311	2,947,639,610

Details of customer deposits of Masteel Finance related to the related parties at 31 December 2018 and 31 December 2017 are disclosed in Note X.6.

25. REPURCHASE AGREEMENTS

	31 December 2018	31 December 2017
Bonds	**283,348,863**	99,000,000
Notes	**850,423,514**	209,100,956
	1,133,772,377	308,100,956

Repurchase agreements is the money arising from notes and bonds discounted by Masteel Finance to other financial institutions according to the repurchase agreements.

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

26. SHORT-TERM LOANS

	31 December 2018	31 December 2017
Guaranteed loans (Note)	**950,000,000**	–
Unsecured loans	**6,265,000,000**	4,062,713,077
Inward documentary notes and letters of credit	**3,702,293,181**	567,590,617
	10,917,293,181	4,630,303,694

Note: The guaranteed loans were provided by the Holding as disclosed in Note X.5.

As of 31 December 2018, the interest rates of the above short-term loans ranged from 2.870%-5.050% (31 December 2017: 0.670%-6.000%).

As of 31 December 2018, the Group had no overdue short-term loans.

27. FINANCIAL LIABILITIES HELD FOR TRADING *(APPLICABLE FOR 2018)*

	31 December 2018
Derivative financial liabilities –	
Forward foreign exchange contracts	**8,012,670**

As of 31 December 2018, the fair value of forward foreign exchange contracts held by the Company was determined by the forward foreign exchange rate on the last trading day in 2018.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(APPLICABLE FOR 2017)*

	31 December 2017
Derivative financial liabilities	
– Forward foreign exchange contracts	10,498,810

29. NOTES AND TRADE PAYABLES

	31 December 2018	31 December 2017
Notes payable	**2,638,271,437**	4,809,848,470
Trade payables	**7,703,736,542**	6,968,534,360
	10,342,007,979	11,778,382,830

Notes payable

	31 December 2018	31 December 2017
Bank acceptance notes	**2,638,271,437**	4,724,648,470
Commercial acceptance notes	**–**	85,200,000
	2,638,271,437	4,809,848,470

As of 31 December 2018 and 31 December 2017, the ageing of the Group's notes payable was all within six months, and there were no overdue notes.

Trade payables

The trade payable is interest-free and is normally settled within three months.

The ageing analysis of trade payable, based on the invoice date, is as follows:

	31 December 2018	31 December 2017
Within one year	**7,551,105,922**	6,681,492,997
One to two years	**39,150,817**	167,589,414
Two to three years	**22,709,232**	32,970,687
Over three years	**90,770,571**	86,481,262
	7,703,736,542	6,968,534,360

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

29. NOTES AND TRADE PAYABLES *(CONTINUED)*

Trade payables *(continued)*

The amounts due to related parties among the balances of notes and trade payables as of 31 December 2018 and 31 December 2017 are stated in Note X.6 to the financial statements.

As of 31 December 2018, the material trade payables aged over one year were as follows:

	Amount due	Reason for non-settlement
Company 1	**19,000,000**	Note
Company 2	**16,614,066**	Note
Company 3	**12,450,444**	Note
Company 4	**10,111,310**	Note
Company 5	**4,755,173**	Note
	62,930,993	

Note: The Group's trade payables aged over one year are mainly related to equipment and construction proceeds pending for settlement.

30. ADVANCES FROM CUSTOMERS

	31 December 2018	31 December 2017
Advances from customers	**3,572,594,400**	3,842,903,332

As of 31 December 2018, the material advance received aged over one year were as follows:

	Amount of advance received	Reason for outstanding
Company 1	**4,687,664**	Note
Company 2	**3,963,590**	Note
Company 3	**2,365,691**	Note
Company 4	**2,185,715**	Note
Company 5	**1,473,059**	Note
	14,675,719	

Note: the Group's advances from customers aged over one year were mainly advances from customers related to the contracts not fully executed.

31. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Short-term employee benefits	**565,738,070**	**3,973,779,936**	**4,051,635,013**	**487,882,993**
Post-employment benefits (defined contribution plans)	**7,132,446**	**606,215,622**	**604,973,401**	**8,374,667**
Supplementary retirement benefits due within one year (i) (Note V.39)	**1,161,421**	**1,020,924**	**1,161,421**	**1,020,924**
One-off termination compensation (ii)	**–**	**89,643,801**	**89,643,801**	**–**
Early retirement benefits due within one year (Note V.39)	**80,790,568**	**66,364,324**	**80,790,568**	**66,364,324**
	654,822,505	**4,737,024,607**	**4,828,204,204**	**563,642,908**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	516,403,174	3,467,001,129	3,417,666,233	565,738,070
Post-employment benefits (defined contribution plans)	471,321	673,267,980	666,606,855	7,132,446
Supplementary retirement benefits within one year (i) (Note V.39)	1,127,023	1,161,421	1,127,023	1,161,421
One-off termination compensation (ii)	–	107,286,887	107,286,887	–
Early retirement benefits due within one year (Note V.39)	32,443,165	80,790,568	32,443,165	80,790,568
	550,444,683	4,329,507,985	4,225,130,163	654,822,505

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

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

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

(ii) One-off termination compensation is the termination compensation paid by the Company to its employees due to human resource optimization.

Short-term employee benefits:

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	**506,914,156**	**3,150,517,661**	**3,239,695,043**	**417,736,774**
Welfare	**33,507,007**	**179,183,973**	**171,649,500**	**41,041,480**
Social insurance	**10,262**	**240,870,918**	**240,873,467**	**7,713**
Including: Medical insurance	**5,279**	**214,583,868**	**214,585,968**	**3,179**
Work-related injury insurance	**4,983**	**20,191,337**	**20,192,127**	**4,193**
Maternity insurance	**–**	**6,095,713**	**6,095,372**	**341**
Housing fund	**19,797,170**	**310,193,382**	**306,900,064**	**23,090,488**
Labor union fee and employee education fee employee education fee	**5,509,475**	**93,014,002**	**92,516,939**	**6,006,538**
	565,738,070	**3,973,779,936**	**4,051,635,013**	**487,882,993**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	469,991,142	2,784,341,875	2,747,418,861	506,914,156
Welfare	19,192,058	147,716,422	133,401,473	33,507,007
Social insurance	–	192,845,639	192,835,377	10,262
Including: Medical insurance	–	161,571,149	161,565,870	5,279
Work-related injury insurance	–	25,622,179	25,617,196	4,983
Maternity insurance	–	5,652,311	5,652,311	–
Housing fund	20,309,142	263,549,318	264,061,290	19,797,170
Labor union fee and employee education fee	6,910,832	78,547,875	79,949,232	5,509,475
	516,403,174	3,467,001,129	3,417,666,233	565,738,070

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

Defined contribution plans:

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pension insurance	**6,144**	**497,069,660**	**497,070,128**	**5,676**
Unemployment insurance	**604**	**10,974,273**	**10,973,964**	**913**
Supplementary pension scheme	**7,125,698**	**98,171,689**	**96,929,309**	**8,368,078**
	7,132,446	**606,215,622**	**604,973,401**	**8,374,667**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	–	499,715,846	499,709,702	6,144
Unemployment insurance	–	10,175,588	10,174,984	604
Supplementary pension scheme	471,321	163,376,546	156,722,169	7,125,698
	471,321	673,267,980	666,606,855	7,132,446

As of 31 December 2018 and 31 December 2017, 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 used the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

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

32. TAXES PAYABLE

	31 December 2018	31 December 2017
Value-added tax	**544,873,710**	863,764,937
Corporate income tax	**343,992,816**	282,828,579
Land use tax	**116,465,613**	61,308,427
Personal income tax	**110,073,047**	5,936,904
Water conservancy funds	**77,688,904**	13,693,460
City construction and maintenance tax	**49,690,863**	54,922,631
Environment protection tax	**12,816,164**	–
Other taxes	**69,916,870**	60,381,659
	1,325,517,987	1,342,836,597

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

33. OTHER PAYABLES

	31 December 2018	31 December 2017
Interest payables	**118,764,492**	121,108,052
Dividends payable	**6,612,733**	9,050,620
Other payables	**3,405,369,689**	2,224,169,194
	3,530,746,914	2,354,327,866

Interest payables

	31 December 2018	31 December 2017
Interest payables for short-term loans	**108,540,149**	24,498,349
Instalment interest payables for long-term loans repayable on due date	**10,224,343**	8,789,429
Interest payables for medium-term notes	**–**	87,820,274
	118,764,492	121,108,052

As of 31 December 2018, there was no overdue interest payable.

33. OTHER PAYABLES *(CONTINUED)*

Dividends payable

	31 December 2018	31 December 2017
Dividends payable	**6,612,733**	9,050,620

As of 31 December 2018, there was no dividends payable aged over than one year.

Other payables

	31 December 2018	31 December 2017
Payable for forfaiting	**1,423,959,369**	503,388,810
Special funds	**514,353,560**	459,310,193
Payable for construction, maintenance and inspection fees	**444,470,596**	294,339,562
Sales incentives	**255,535,312**	323,548,997
Employee settlement for productivity shutting down	**152,568,484**	152,568,484
Special found for the elimination of backward capacities	**95,885,000**	95,885,000
Tax risk provision	**85,000,000**	85,000,000
Social welfare and housing fund payable	**41,117,478**	36,507,942
Service fees payable	**21,071,470**	36,033,091
Accrued interest for letters of credit	**4,046,598**	7,158,738
Others	**367,361,822**	230,428,377
	3,405,369,689	2,224,169,194

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

33. OTHER PAYABLES *(CONTINUED)*

At of 31 December 2018, significant other payables aged over one year were as follows:

	Amount payable	**Reason for non-settlement**
Company 1	**152,568,484**	Note
Company 2	**95,885,000**	Note
Company 3	**85,000,000**	Note
Company 4	**8,000,000**	Note
Company 5	**3,000,000**	Note
	344,453,484	

Note: The Group's other payables aged over one year were mainly advance for the settlement of employees, special found for the elimination of backward capacities, Tax risk provision and the performance guarantee received for the construction and purchase of materials. Since the project did not meet terms of settlement, or the contracts were not completed, the payments were not settled.

34. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	31 December 2018	31 December 2017
Long-term loans due within one year (Note V.37)	**1,260,868,462**	933,091,711
Bonds payable due within one year	**–**	3,995,666,667
Long-term payables due within one year (Note V.38)	**210,000,000**	–
	1,470,868,462	4,928,758,378

34. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(CONTINUED)*

As of 31 December 2018, the bonds payable balances were as follows:

	Issue date	Term to maturity	Amount on offer	Opening balance	Current year issuance	Amortisation 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**	**1,998,000,000**	**–**	**2,000,000**	**(2,000,000,000)**	**–**	**52,505,753**
2015 second issue	**2015/08**	**3 years**	**2,000,000,000**	**1,997,666,667**	**–**	**2,333,333**	**(2,000,000,000)**	**–**	**57,073,973**
			4,000,000,000	**3,995,666,667**	**–**	**4,333,333**	**(4,000,000,000)**	**–**	**109,579,726**

As of 31 December 2017, the bonds payable balances were as follows:

	Issue date	Term to maturity	Amount on offer	Opening balance	Current year issuance	Amortisation 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	1,994,000,000	–	4,000,000	–	1,998,000,000	101,400,000
2015 second issue	2015/08	3 years	2,000,000,000	1,993,666,667	–	4,000,000	–	1,997,666,667	96,000,000
			4,000,000,000	3,987,666,667	–	8,000,000	–	3,995,666,667	197,400,000

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 would expire within two years. The medium-term note was allowed to be issued by stages in its registration period of validity.

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

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

35. PROVISION

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	**14,663,809**	**4,377,071**	**11,906,419**	**7,134,461**
Pending onerous contract (Note)	**20,963,088**	**19,623,870**	**21,083,993**	**19,502,965**
Others	**2,910,472**	**3,365,407**	**2,915,784**	**3,360,095**
	38,537,369	**27,366,348**	**35,906,196**	**29,997,521**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	10,867,075	7,780,695	3,983,961	14,663,809
Pending onerous contract (Note)	14,284,847	21,931,794	15,253,553	20,963,088
Others	4,428,513	937,896	2,455,937	2,910,472
	29,580,435	30,650,385	21,693,451	38,537,369

Note 1: As of 31 December 2018, the accrued liabilities of the pending onerous contract represented expected loss from executing some sales orders entered into by the Group's subsidiary, MG-VALDUNES. Management estimated that the cost of executing those orders would exceed the agreed price according to which, the Group estimated provision.

36. OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Short-term financing bonds (Note)	**1,026,897,260**	3,081,026,301

Note: The Group issued short-term financing bonds amounting to RMB1,000,000,000 on 26 June 2018. The ending balance of outstanding short-term financing bonds includes interest amounting to RMB26,897,260.

37. LONG-TERM LOANS

	31 December 2018	31 December 2017
Guaranteed loans (Note)	**1,767,026,304**	1,927,075,136
Unsecured loans	**3,090,229,710**	5,981,975,209
	4,857,256,014	7,909,050,345
Less: Long-term loans due within one year (Note V.34)	**1,260,868,462**	933,091,711
	3,596,387,552	6,975,958,634

Note: The guaranteed loans were provided by the Holding as disclosed in Note X.5.

As of 31 December 2018, the interest rates of the above long-term loans ranged from 1.20% to 5.94% (31 December 2017: from 1.20% to 4.75%).

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

	31 December 2018	31 December 2017
*Within one year or on demand (Note V.34)	**1,260,868,462**	933,091,711
One to two years (inclusive)	**2,117,187,552**	5,670,785,522
Two to three years (inclusive)	**1,350,000,000**	1,109,173,112
Three to five years (inclusive)	**50,000,000**	100,000,000
Over five years	**79,200,000**	96,000,000
	4,857,256,014	7,909,050,345

Note: As of 31 December 2018, there was no notes pledged for non-current liabilities due within one year (2017: Nil).

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

38. LONG-TERM PAYABLES

	31 December 2018	31 December 2017
Payables to a non-controlling interests of a subsidiary	**210,000,000**	210,000,000
Less: non-current liability due within one year (Note V.34)	**210,000,000**	–
	–	210,000,000

39. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE

	31 December 2018	31 December 2017
1. Post-employment benefits		
– net liability of defined benefit plans (Note 1)	**197,167,953**	213,432,260
Less: Early retirement benefits due within one year	**66,364,324**	80,790,568
2. Supplementary retirement benefit (Note 2)	**27,588,769**	29,416,315
Less: Supplementary retirement benefit due within one year	**1,020,924**	1,161,421
	157,371,474	160,896,586

Note 1: Post-employment benefits – net defined benefit liability

2018	Opening balance	Increase	Unrecognized financing expense	Decrease	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefit	213,432,260	60,820,447	8,116,882	(85,201,636)	197,167,953	66,364,324	130,803,629

Note 2: Supplementary retirement benefit

2018	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefit	29,416,315	1,575,571	(3,403,117)	27,588,769	1,020,924	26,567,845

39. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Early retirement benefits expected to be paid by the Group:

	31 December 2018	31 December 2017
Undiscounted value		
Within one year	**66,364,324**	80,790,568
One to two years	**43,196,619**	43,752,545
Two to three years	**31,477,355**	31,489,509
Over three years	**79,007,635**	84,114,801
	220,045,933	240,147,423
Financing expense unrecognized	**(22,877,980)**	(26,715,163)
	197,167,953	213,432,260
Less: Due within one year	**66,364,324**	80,790,568
	130,803,629	132,641,692

Early retirement benefit scheme was implemented by the Company due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Company calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirement. The Company forecasted the amount of early retirement benefits needed to be paid in the future years using a growth rate of 2.15% which is based on the average growth rate of CPI. When deciding the payment responsibility in the future for the employees participating in the early retirement plan, the Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasure bond rate of 31 December 2018 and accounted in general and administrative expenses. As of 31 December 2018, the current portion of the payment responsibility was accounted for in short-term employee benefits.

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

40. DEFERRED REVENUE

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (Note)	**652,138,319**	**–**	**116,388,109**	**535,750,210**
Government grant	**810,352,214**	**79,097,213**	**60,404,082**	**829,045,345**
	1,462,490,533	**79,097,213**	**176,792,191**	**1,364,795,555**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (Note)	652,138,319	–	–	652,138,319
Government grant	617,358,219	251,905,601	58,911,606	810,352,214
	1,269,496,538	251,905,601	58,911,606	1,462,490,533

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

40. DEFERRED REVENUE *(CONTINUED)*

As of 31 December 2018, liabilities related to government grants were as follows:

	Opening balance	Increase during the current year	Included in other income	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	**81,841,669**	**–**	**(4,400,000)**	**77,441,669**	**assets**
Subsidy for hot-rolled 1580 project	**36,828,750**	**–**	**(1,980,000)**	**34,848,750**	**assets**
New-zone Thermal Power Plant CCPP system engineering	**26,753,972**	**–**	**(4,312,000)**	**22,441,972**	**assets**
EMU steel wheel production line project	**32,774,990**	**–**	**(2,200,000)**	**30,574,990**	**assets**
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	**12,379,700**	**–**	**(567,600)**	**11,812,100**	**assets**
Fixed assets subsidy for thin plate project	**29,174,766**	**25,000,000**	**(4,716,743)**	**49,458,023**	**assets**
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	**12,878,727**	**–**	**(590,484)**	**12,288,243**	**assets**
Alloy bar production line refinement project of electric furnace plant	**33,349,080**	**–**	**(1,483,680)**	**31,865,400**	**assets**
Subsidy for Maanshan railway industry (Maanshan)	**12,152,100**	**–**	**(1,008,000)**	**11,144,100**	**assets**
Comprehensive utilization of gas for power generation of a thermal power plant	**23,608,343**	**–**	**(1,090,760)**	**22,517,583**	**assets**
Subsidy funds for 4# blast furnace project	**184,486,667**	**–**	**(8,624,004)**	**175,862,663**	**assets**
Subsidies for galvanizing projects	**–**	**10,000,000**	**(677,966)**	**9,322,034**	
Others	**324,123,450**	**44,097,213**	**(28,752,845)**	**339,467,818**	**assets**
Total	**810,352,214**	**79,097,213**	**(60,404,082)**	**829,045,345**	

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

40. DEFERRED REVENUE *(CONTINUED)*

As of 31 December 2017, liabilities related to government grants were as follows:

	Opening balance	Increase during the current year	Included in other income	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	86,241,669	–	(4,400,000)	81,841,669	assets
Subsidy for hot-rolled 1580 project	38,808,750	–	(1,980,000)	36,828,750	assets
New-zone Thermal Power Plant CCPP system engineering	31,065,972	–	(4,312,000)	26,753,972	assets
EMU steel wheel production line project	34,974,990	–	(2,200,000)	32,774,990	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	12,900,000	–	(520,300)	12,379,700	assets
Fixed assets subsidy for thin plate project	31,448,673	–	(2,273,907)	29,174,766	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	13,420,000	–	(541,273)	12,878,727	assets
Alloy bar production line refinement project of electric furnace plant	33,720,000	–	(370,920)	33,349,080	assets
Subsidy for Maanshan railway industry (Maanshan)	13,160,100	–	(1,008,000)	12,152,100	assets
Comprehensive utilization of gas for power generation of a thermal power plant	24,699,103	–	(1,090,760)	23,608,343	assets
Subsidy for 4# blast furnace project	–	196,000,000	(11,513,333)	184,486,667	assets
Others	296,918,962	55,905,601	(28,701,113)	324,123,450	assets
Total	617,358,219	251,905,601	(58,911,606)	810,352,214	

Note: The compensation for disposal of land use rights was counted into deferred income, which was received from Hefei Land Reserve Center by Ma Steel (Hefei).

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

41. SHARE CAPITAL

31 December 2018

Registered, issued and fully paid	At 1 January 2018 Number of shares	At 1 January 2018 Percentage (%)	Increase/(decrease) during the year Shares issued	Increase/(decrease) during the year Others	Increase/(decrease) during the year Sub-total	At 31 December 2018 Number of shares	At 31 December 2018 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

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

41. SHARE CAPITAL *(CONTINUED)*

31 December 2017

Registered, issued and fully paid	At 1 January 2017 Number of shares	At 1 January 2017 Percentage (%)	Increase/(decrease) during the year Shares issued	Increase/(decrease) during the year Others	Increase/(decrease) during the year Sub-total	At 31 December 2017 Number of shares	At 31 December 2017 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 per value for each A share or H share is RMB1.00.

42. CAPITAL RESERVE

31 December 2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**8,332,628,114**	**–**	**–**	**8,332,628,114**
Others	**19,659,078**	**–**	**–**	**19,659,078**
Total	**8,352,287,192**	**–**	**–**	**8,352,287,192**

31 December 2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,329,067,663	3,560,451	–	8,332,628,114
Others	19,659,078	–	–	19,659,078
Total	8,348,726,741	3,560,451	–	8,352,287,192

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

43. OTHER COMPREHENSIVE INCOME

Accumulated balance of other comprehensive income attributable to owners of the parent in the consolidation statement of financial position:

	31 December 2017	Changes in accounting policies	1 January 2018	Increase/ (decrease)	31 December 2018
Other comprehensive income that may not be reclassified to profit or loss					
Change in fair value of other equity instruments investments	–	27,490,314	27,490,314	(11,838,378)	15,651,936
Other comprehensive income that will be reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	(4,870,184)	4,870,184	–	–	–
Other comprehensive income to be reclassified to profit or loss under the equity method	–	–	–	(2,745,469)	(2,745,469)
Exchange differences arising from foreign currency translation	(119,285,876)	–	(119,285,876)	(6,322,754)	(125,608,630)
	(124,156,060)	32,360,498	(91,795,562)	(20,906,601)	(112,702,163)

43. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

Amount of other comprehensive income in the consolidation income statement:

2018

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current period	Less: charged to other comprehensive income before and reclassified to retained earnings in current period	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instruments investments	(15,784,504)	–	–	3,946,126	(11,838,378)	–
Other comprehensive income that will be reclassified to profit or loss:						
Other comprehensive income to be reclassified to profit or loss under the equity method	(2,745,469)	–	–	–	(2,745,469)	–
Exchange differences arising from foreign currency translation	(6,322,754)	–	–	–	(6,322,754)	–
	(24,852,727)	–	–	3,946,126	(20,906,601)	–

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

43. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

2017

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current period	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that may not be reclassified to profit or loss:					
Changes in fair value of available-for-sale financial assets	(7,135,802)	1,177,445	1,489,590	(4,066,577)	(402,190)
Other comprehensive income that will be reclassified to profit or loss:					
Exchange differences arising from foreign currency translation	(2,051,627)	–	–	(826,029)	(1,225,598)
	(9,187,429)	1,177,445	1,489,590	(4,892,606)	(1,627,788)

44. SPECIAL RESERVE

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	**31,929,722**	**113,276,676**	**(114,169,275)**	**31,037,123**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	27,969,571	104,685,476	(100,725,325)	31,929,722

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 the Ministry of Finance and State Administration of Work Safety on 14 February 2012. The fees are mainly related to the industries of mining, gas, communication and transportation, metallurgy, manufacturing, and construction services.

45. SURPLUS RESERVE

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	**3,409,656,105**	**471,893,915**	**–**	**3,881,550,020**
Discretionary surplus reserve (ii)	**529,154,989**	**–**	**–**	**529,154,989**
Reserve fund (iii)	**95,685,328**	**–**	**–**	**95,685,328**
Enterprise expansion fund (iii)	**65,510,919**	**–**	**–**	**65,510,919**
	4,100,007,341	**471,893,915**	**–**	**4,571,901,256**

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

45. SURPLUS RESERVE *(CONTINUED)*

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,152,880,381	256,775,724	–	3,409,656,105
Discretionary surplus reserve (ii)	529,154,989	–	–	529,154,989
Reserve fund (iii)	95,685,328	–	–	95,685,328
Enterprise expansion fund (iii)	65,510,919	–	–	65,510,919
	3,843,231,617	256,775,724	–	4,100,007,341

(i) In accordance with the Company Law of the PRC and the Articles of association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the 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.

(ii) The Company is 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 the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

46. GENERAL RESERVE

	31 December 2018	31 December 2017
General reserve (Note)	**224,841,404**	191,546,668

Note: According to the relevant policy of the MOF, Masteel Finance accrues the general reserve from net profit as profit distribution. The balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

47. RETAINED EARNINGS

	2018	2017
Retained earnings/(accumulated losses) at end of last year	**3,643,443,763**	(190,568,622)
Accounting policies changes adjustment (Note III.34)	**(20,317,968)**	–
Retained earnings/(accumulated losses) at beginning of the year	**3,623,125,795**	(190,568,622)
Net profit attributable to owners of the parent	**5,943,286,585**	4,128,939,861
Less: Transfer to surplus reserve	**471,893,915**	256,775,724
Transfer to general reserve	**33,294,736**	38,151,752
Distribute to shareholders (Note V. 68)	**1,655,646,455**	–
Retained earnings at the end of the year	**7,405,577,274**	3,643,443,763

48. REVENUE AND COST OF SALES

	2018		2017	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**80,913,246,025**	**68,957,076,057**	72,215,954,654	62,587,000,733
Other operating income	**1,038,567,463**	**837,906,062**	1,012,074,970	969,257,716
	81,951,813,488	**69,794,982,119**	73,228,029,624	63,556,258,449

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

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

Revenue is presented as follows:

	2018	2017
Sale of products	**81,537,043,721**	72,877,928,972
Rendering of services	**265,991,317**	249,735,948
Rental income	**11,182,578**	9,543,934
Others	**137,595,872**	90,820,770
	81,951,813,488	73,228,029,624

Timing of revenue recognition

	2018	2017
Recognize at a point in time		
Sale of steel products	**76,195,952,578**	69,360,774,708
Sales of other products	**5,341,091,143**	3,517,154,264
Recognize over time		
Financial services	**148,778,450**	100,364,704
Processing	**133,062,594**	115,571,937
Agency commission	**69,777,068**	69,077,914
Packageing services	**49,322,771**	38,142,836
Lease income	**11,182,578**	9,543,934
Others	**2,646,306**	17,399,327
	81,951,813,488	73,228,029,624

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

Timing of revenue recognition *(continued)*

Note: For sales of products, the Group satisfies a performance obligation when customer obtained the control of the relevant products, and for provide of services, the Group satisfies a performance obligation based on performance progress over the contract period. The maturity on contract payment of the Group is 30 to 90 days, without existence of significant financing component. The contracts between the Group and its certain customers containing sales rebate arrangements (future price reductions based on cumulative sales volumes), which forms a variable consideration. The Group determines the variable consideration based on the expected or the most probable value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

Disaggregated revenue information please refer to Note XIII.2.

49. TAXES AND SURCHARGES

	2018	2017
City construction and maintenance tax	**203,563,854**	196,811,238
Land usage tax	**191,497,931**	194,462,892
Education surcharge	**151,920,591**	150,930,816
Property tax	**102,898,905**	105,271,504
Environment protection tax	**65,272,137**	–
Stamp duty	**47,577,151**	33,971,375
Other taxes	**47,350,191**	59,482,169
Vehicle and vessel usage tax	**241,546**	264,313
	810,322,306	741,194,307

50. SELLING EXPENSES

	2018	2017
Transportation fees	**791,481,756**	739,073,485
Employee benefits	**81,481,349**	63,116,713
Insurance premium	**20,301,692**	16,358,464
Others	**66,453,449**	46,847,789
	959,718,246	865,396,451

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

51. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Employee benefits	**633,463,920**	535,062,874
Employee termination benefits	**150,464,248**	216,124,494
Office expenses	**244,004,675**	218,694,498
Rental fees	**69,519,998**	52,910,978
Amortization of intangible assets	**49,974,395**	31,088,264
Depreciation of property, plant and equipment	**46,156,239**	38,545,487
Travel and entertainment expenses	**31,912,335**	25,913,018
Maintenance expenses	**56,419,239**	37,688,292
Auditors' remuneration	**7,534,749**	6,585,018
Others	**90,542,109**	1,499,178
	1,379,991,907	1,164,112,101

52. R&D EXPENSES

	2018	2017
Employee benefits	**282,920,111**	120,550,882
Equipment expenditure	**205,200,232**	32,223,004
Material costs	**170,182,135**	41,782,810
Testing and processing expenses	**39,987,815**	9,982,944
Outsourced research expenses	**28,986,569**	14,237,335
Fuel and power expenses	**21,343,795**	21,050,422
Others	**52,620,127**	15,195,909
	801,240,784	255,023,306

53. FINANCIAL EXPENSES

	2018	2017
Interest expense (note)	**879,897,330**	920,767,866
Less: interest income	**54,228,185**	34,412,987
Less: capitalized interest	**–**	1,775,312
Exchange loss	**99,590,860**	78,865,050
Others	**35,197,407**	35,335,642
	960,457,412	998,780,259

Note: The Group's interest expense included interest on bank loans, other loans, MTN (Medium-term Note) and short-term commercial paper. The capitalized amount of borrowing costs had been recorded in construction in progress.

Interest income is as follows:

	2018	2017
Bank deposit	**54,228,185**	34,412,987

In 2018, the above interest income did not include interests generated from financial assets impairment (2017: Nil).

54. IMPAIRMENT LOSSES

	2018	2017
Bad debts loss *(Applicable for 2017)*	**–**	14,627,444
Including: Trade receivables	**–**	26,836,561
Other receivables	**–**	1,167,321
Loans and advances to customers	**–**	(13,376,438)
Provision for inventories	**754,443,431**	141,648,637
Impairment of fixed assets	**–**	590,098,913
	754,443,431	746,374,994

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

55. CREDIT IMPAIRMENT LOSSES *(APPLICABLE FOR 2018)*

	2018
Bad debts impairment	**40,345,759**
Debt instruments investment impairment	**253,903**
Provision – loan commitment	**460,734**
Impairment losses for financial assets purchased under agreements to resell	**816,549**
	41,876,945

56. OTHER INCOME

	2018	2017
Government subsidies related to daily operating activities	**182,883,541**	238,868,248
Refund of withholding personal income tax commission	**2,467,295**	–
	185,350,836	238,868,248

56. OTHER INCOME *(CONTINUED)*

	2018	2017	**Related to assets/ income**
Refund of land usage tax	**82,169,607**	3,054,683	income
Special subsidies for science and technology	**7,922,624**	4,986,631	income
Foreign economic and trade policy support funds of Anhui Province	**7,106,000**	686,000	income
Tax refund of financial settlement account	**5,000,000**	–	income
Refund of land value added tax	**2,458,026**	–	income
Settlement support incentive fund	**1,770,000**	–	income
Finance division industrial transformation and upgrading fund	**1,713,700**	2,210,000	income
Advanced enterprises rising and energy-saving technology reform fund	**1,500,000**	–	income
Stable subsidy	**1,359,031**	–	income
Industrial policy award	**1,000,000**	5,389,500	income
Financial subsidy fund for transitional development-property Tax	**–**	84,620,000	income
Government industrial support funds	**–**	52,335,171	income
Port fee refund	**–**	5,869,190	income
Environmental protection subsidy fund	**–**	4,570,500	income
Government incentive fund	**–**	4,500,000	income
Tax incentive funds	**–**	3,328,911	income
Export credit subsidy	**–**	1,934,400	income
Subsidy fund for 4# blast furnace project	**8,624,004**	11,513,333	assets
Fixed assets subsidy for thin plate project	**4,716,743**	2,273,907	assets
Technological transformation fund for phase II silicon steel	**4,400,000**	4,400,000	assets
New-zone thermal power plant CCPP system engineering	**4,312,000**	4,312,000	assets
EMU steel wheel production line project	**2,200,000**	2,200,000	assets
Subsidy for hot-rolled 1580 project	**1,980,000**	1,980,000	assets
Engineering of alloy bar finishing production line in electric furnace plant	**1,483,680**	370,920	assets
Comprehensive utilization of gas for power generation of a thermal power plant	**1,090,760**	1,090,760	assets
Subsidy for Maanshan railway industry (Maanshan)	**1,008,000**	1,008,000	assets
Subsidies for galvanizing projects	**677,966**	–	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	**590,484**	541,273	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	**567,600**	520,300	assets
Other subsidies related to income	**10,480,471**	6,471,656	income
Other subsidies related to assets	**28,752,845**	28,701,113	assets
	182,883,541	238,868,248	

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

57. INVESTMENT INCOME

	2018	2017
Investment income from long-term equity investments under the equity method	**657,410,287**	490,410,552
Gain from disposal of subsidiaries	**188,829,498**	736,943
Revaluation gain of the original equity share in the subsidiary acquired	**–**	390,855
Loss from equity dilution in an associate	**–**	(22,335,060)
Gain from disposal of an associate	**7,689,556**	–
Investment income from available-for-sale financial assets in duration	**–**	1,570,000
Investment income from equity instruments investments in duration	**3,380,000**	–
Gain from disposal of available-for-sale financial assets	**–**	41,277,167
Gain from disposal of financial assets held-for-trading measured at fair value through profit or loss	**174,913,116**	158,331,954
Gain from disposal of financial assets measured at amortized cost	**57,877,322**	–
Investment income from held-to-maturity investments in duration	**–**	6,133,938
	1,090,099,779	676,516,349

58. LOSS/(GAIN) ON THE CHANGES IN FAIR VALUE

	2018	2017
Financial assets held-for-trading measured at fair value through profit or loss	**(12,699,509)**	20,644,566
Including: Derivative financial instruments	**(13,462,810)**	19,413,654
Financial liabilities held-for-trading measured at fair value through profit or loss	**2,486,140**	(10,498,810)
	(10,213,369)	10,145,756

59. GAIN/(LOSS) FROM DISPOSAL OF ASSETS

	2018	2017
Gain on disposal of non-current assets		
Including: Gain on disposal of fixed assets	**250,243,924**	2,232,866
Gain on disposal of intangible assets	**123,559,151**	–
Loss on disposal of non-current assets		
Including: Loss on disposal of fixed assets	**(2,522,811)**	(179,185,234)
	371,280,264	(176,952,368)

60. NON-OPERATING INCOME

	2018	2017	**Included in non-recurring gains and losses in 2018**
Government grants (note)	**154,659,733**	170,645,383	154,659,733
Others	**5,438,834**	5,478,595	5,438,834
	160,098,567	176,123,978	160,098,567

Note: The government grants were the subsidy received by the Company for the resettlement of employees dismissed due to overcapacity.

61. NON-OPERATING EXPENSES

	2018	2017	**Included in non-recurring gains and losses in 2018**
Public welfare donation	**1,130,050**	596,400	1,130,050
Penalty expenditure	**1,567,787**	631,235	1,567,787
Sales compensation	**1,561,587**	9,131,792	1,561,587
Others	**2,213,063**	6,265,730	2,213,063
	6,472,487	16,625,157	6,472,487

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

62. EXPENSES CLASSIFIED BY NATURE

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

	2018	2017
Raw materials and consumables used	**57,833,744,182**	53,320,512,696
Changes in inventories of finished goods and work in progress	**(146,416,074)**	(1,051,764,777)
Employee benefits	**4,732,035,377**	4,357,555,024
Depreciation and amortization	**3,914,248,514**	3,609,289,117
Transport and inspection fees	**1,786,240,544**	1,677,841,265
Repair and maintenance expenses	**3,161,523,273**	2,701,881,855
Testing and processing expenses	**39,987,815**	9,982,944
Outsourced research expenses	**28,986,569**	14,237,335
Office expenses	**268,324,360**	218,694,498
Rental	**76,576,930**	52,910,978
Others	**1,240,681,566**	929,649,372
	72,935,933,056	65,840,790,307

63. INCOME TAX EXPENSE

	2018	2017
Mainland China current income tax expense	**949,175,391**	860,352,278
Hong Kong current income tax expense	**9,399,676**	2,265,713
Overseas current income tax expense	**29,528,238**	13,963,275
Deferred tax expense/(gain)	**192,831,929**	(139,852,832)
	1,180,935,234	736,728,434

63. INCOME TAX EXPENSE *(CONTINUED)*

Reconciliation between income tax and profit before tax is as follows:

	2018	2017
Profit before tax	**8,238,923,928**	5,808,966,563
Tax at the applicable tax rate of 25% (Note)	**2,059,730,982**	1,452,241,641
Effect of different tax rates of subsidiaries	**(12,950,204)**	(10,931,869)
Non-deductible expenses	**122,878,020**	42,408,877
Other tax preference	**(112,104,563)**	(26,710,447)
Income not subject to tax	**(73,555,483)**	(5,358,145)
Unrecognized deductible temporary difference and tax losses	**365,585,000**	95,388,262
Utilized previous years' tax losses	**(1,004,295,946)**	(648,260,532)
Recognized tax loss derecognised in prior year	**–**	(39,446,715)
Share of profit or loss of joint ventures and associates	**(164,352,572)**	(122,602,638)
Tax charge at the Group's effective rate	**1,180,935,234**	736,728,434
The Group's effective rate	**14%**	13%

Note: The Group's 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)*

64. EARNINGS PER SHARE

	2018	2017
	cent/share	cent/share
Basic earnings per share		
Continuing operations	**77.18**	53.62
Diluted earnings per share		
Continuing operations	**77.18**	53.62

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year. In 2017 and 2018, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	2018	2017
Earnings		
Profit attributable to owners of the parent		
Continuing operations	**5,943,286,585**	4,128,939,861
Number of shares		
Weighted average number of ordinary shares in issue during the year	**7,700,681,186**	7,700,681,186

65. NOTES TO THE STATEMENT OF CASH FLOWS

	2018	2017
(1) Cash received relating to other operating activities:		
Government grants	**119,416,334**	198,858,649
Interest income	**46,675,588**	34,412,987
Employee relocation compensation received from government	**154,659,733**	170,645,383
Others	**31,743,440**	16,893,247
	352,495,095	420,810,266

	2018	2017
(2) Cash paid relating to other operating activities		
Increase in deposit for notes, credit and guarantee	**71,445,760**	457,045,035
Logistics expense	**168,046,705**	215,008,822
Insurance expenses	**37,474,741**	30,940,154
Packing fees	**36,661,547**	26,751,078
Water conservancy fund	**13,090,445**	31,657,207
Environmental improvement fee	**33,284,845**	46,165,788
Bank charges	**29,452,252**	29,773,508
Others	**53,301,171**	116,591,797
	442,757,466	953,933,389

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

65. NOTES TO THE STATEMENT OF CASH FLOWS *(CONTINUED)*

			2018	2017
(3)	Cash received relating to other investing activities			
	Receive of steel futures deposits		**131,408,596**	–
(4)	Cash paid relating to other investing activities:			
	Steel futures deposits		**–**	103,420,899
	Cash paid in disposal of subsidiaries and other business units	66(3)	**194,468,349**	–
			194,468,349	103,420,899
(5)	Cash received relating to other financing activities			
	Borrowings from non-controlling shareholders of a subsidiary		**–**	210,000,000

66. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

(1) Reconciliation of net profit to cash flows from operating activities

	2018	2017
Net profit	**7,057,988,694**	5,072,238,129
Add: Credit impairment losses	**41,876,945**	–
Provision for asset impairment losses	**754,443,431**	746,374,994
Depreciation of property, plant and equipment	**3,772,240,253**	3,559,891,499
Amortization of investment properties	**1,703,929**	1,325,314
Amortization of intangible assets	**140,304,332**	48,072,304
Amortization of deferred revenue	**(60,404,082)**	(58,911,606)
Disposal (gain)/loss of fixed assets, intangible assets and other long-term assets	**(371,280,264)**	176,952,368
Increase in special reserve	**4,401,471**	5,276,831
Financial expenses	**910,542,165**	942,073,572
Investment income	**(1,090,099,779)**	(676,516,349)
Loss/(gain) on fair value changes	**10,213,369**	(10,145,756)
Decrease/(increase) in deferred tax assets	**199,325,998**	(128,355,546)
Decrease in deferred tax liabilities	**(2,775,354)**	(8,223,746)
Decrease/(increase) in inventories	**391,829,060**	(897,685,976)
Increase in receivables from operating activities	**(1,326,214,251)**	(6,473,510,574)
Increase in payables from operating activities	**3,436,334,189**	2,300,966,546
Net cash flows from operating activities	**13,870,430,106**	4,599,822,004
Endorsement of bank acceptance bills received for the sale of goods and the provision of services	**17,657,509,730**	7,622,409,222

Note: The Group had no significant non-cash investing and financing activities (2017: Nil).

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

66. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS *(CONTINUED)*

(2) Acquisition of subsidiaries and other business units

	2018	2017
Consolidation for acquiring of a subsidiary and other business units		
Cash and cash equivalents held by a subsidiary and other operation units acquired	**–**	115,777,566
Less: Cash and cash equivalents paid for acquisition of a subsidiary and other operation units	**–**	–
Net cash paid on acquisition of a subsidiary and other operating units	**–**	115,777,566

(3) Disposal of subsidiaries and other business units

	2018	2017
Consolidation for disposal of a subsidiary and other business units		
Cash and cash equivalents received from disposal of subsidiaries and other operation units	**178,381,854**	8,696,084
Less: Cash and cash equivalents held by subsidiaries and other operation units disposed	**372,850,203**	3,841,634
Net cash impact of disposal of a subsidiary and other operating units	**(194,468,349)**	4,854,450

66. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS *(CONTINUED)*

(4) Cash and cash equivalents

Net changes of cash and cash equivalents:

	2018	2017
Ending balance of cash	**6,934,175,776**	2,940,502,015
Less: Opening balance of cash	**2,940,502,015**	4,324,131,687
Add: Ending balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net increase/(decrease) in cash and cash equivalents	**3,993,673,761**	(1,383,629,672)

	31 December 2018	31 December 2017
Cash	**6,934,175,776**	2,940,502,015
Including: Cash on hand	**90,260**	69,222
Balances in banks without restriction	**6,934,085,516**	2,940,432,793
Ending balance of cash and cash equivalents	**6,934,175,776**	2,940,502,015

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

67. RESTRICTED ASSETS

	31 December 2018	31 December 2017	
Cash and bank balances (Note V.1)	**2,005,084,942**	1,660,989,926	(i)

(i) As of 31 December 2018, the Group's restricted cash and bank balances including cash deposits as collateral amounting to RMB1,021,612,231 (31 December 2017: RMB950,166,471) pledged as security for trade facilities and performance for bank acceptance notes, letter of credit and guarantees, and mandatory reserves with the central bank of RMB983,472,711 (31 December 2017: RMB710,823,455).

68. DIVIDENDS*

According to the "2017 Annual Profit Distribution Plan" approved by the Company's 2017 Annual General Meeting on 28 June 2018, the Company would distribute dividends to all shareholders at RMB0.165 (tax included) (2017: nil) per share, for 7,780,681,186 shares amounting to RMB1,270,612,396 (2017: nil). The dividends were distributed in 2018 and included in the financial statements of this year.

According to the "2018 Interim Profit Distribution Plan" approved by the Company's 2018 Second Interim Shareholders' Meeting on 21 November 2018, the Company would distribute cash dividends to all shareholders at RMB0.05 (tax included) (2017: nil) per share, for 7,700, 681,186 shares amounting to RMB385,034,059 (2017: nil). The dividends were distributed in 2018 and included in the financial statements of this year.

According to the board resolutions on 21 March 2019, the Board of Directors proposed that the Company would distribute 2018 final cash dividend to all shareholders at RMB0.31 (tax included) per share, for 7,700,681,186 shares issued amounting as RMB2,387,211,168. Above proposal shall be implemented after the approval in the Annual General Meeting. Before the approval by the Annual General Meeting, the liabilities of the Company will not be recognized, and thus has not been reflected in the financial statements of the year.

69. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	31 December 2018			31 December 2017		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash and bank balances						
HKD	1,517,268	0.8762	1,329,430	2,603,128	0.8359	2,175,955
USD	631,932,431	6.8632	4,337,078,660	198,986,821	6.5342	1,300,219,686
EUR	22,951,320	7.8473	180,105,893	9,252,617	7.8023	72,191,694
JPY	7,928	0.0619	491	12,735	0.0579	737
AUD	33,968,172	4.8250	163,896,430	22,040,249	5.0928	112,246,580
CAD	835,221	5.0381	4,207,927	24,470	5.2009	127,266
GBP	573	8.6762	4,971	573	8.7792	5,030
ZAR	15,683	0.4735	7,426	34,445	0.5277	18,177
AED	973,493	1.8679	1,818,388	–	–	–
			4,688,449,616			1,486,985,125
Financial assets held-for-trading						
EUR	275,027	7.8473	2,158,219	–	–	–
Trade receivables						
USD	14,235,363	6.8632	97,700,143	27,250,591	6.5342	178,060,812
EUR	10,490,857	7.8473	82,324,902	12,705,085	7.8023	99,128,885
CAD	534,340	5.0381	2,692,058	375,360	5.2009	1,952,210
AUD	1,284,500	4.8250	6,197,713	4,670,512	5.0928	23,785,984
HKD	50,520,844	0.8762	44,266,364	2,736,720	0.8359	2,287,624
ZAR	8,286,750	0.4735	3,923,776	62,466,250	0.5277	32,963,440
			237,104,956			338,178,955
Other receivables						
HKD	3,362,587	0.8762	2,946,299	8,449,639	0.8359	7,063,053
EUR	2,538,412	7.8473	19,919,680	1,610,104	7.8023	12,562,514
AUD	40	4.8250	193	38	5.0928	194
USD	4,151	6.8632	28,489	6,761	6.5342	44,178
			22,894,661			19,669,939
Trade payables						
AUD	–	4.8250	–	49,103	5.0928	250,072
USD	8,919,581	6.8632	61,216,868	393,840	6.5342	2,573,429
EUR	3,381,062	7.8473	26,532,208	14,518,502	7.8023	113,277,708
HKD	969,501	0.8762	849,477	1,273,231	0.8359	1,064,294
CAD	1,500	5.0381	7,557	–	–	–
			88,606,110			117,165,503

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

69. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES *(CONTINUED)*

	31 December 2018			31 December 2017		
	Original currency	**Exchange rate**	**RMB**	Original currency	Exchange rate	RMB
Other payables						
AUD	**97,454**	**4.8250**	**470,216**	969,070	5.0928	4,935,280
HKD	**4,618,349**	**0.8762**	**4,046,597**	8,564,108	0.8359	7,158,738
EUR	**2,061,315**	**7.8473**	**16,175,757**	1,693,432	7.8023	13,212,664
USD	**207,477,470**	**6.8632**	**1,423,959,372**	77,040,012	6.5342	503,394,846
AED	**211,160**	**1.8679**	**394,426**	–	–	–
			1,445,046,368			528,701,528
Short-term loan						
USD	**526,501,762**	**6.8632**	**3,613,486,893**	285,496,405	6.5342	1,865,490,610
EUR	**–**	**7.8473**	**–**	10,000,000	7.8023	78,023,000
			3,613,486,893			1,943,513,610
Long-term loan due within 1 year						
USD	**7,360,000**	**6.8632**	**50,513,152**	7,360,000	6.5342	48,091,712
EUR	**14,700,000**	**7.8473**	**115,355,310**	–	7.6515	–
			165,868,462			48,091,712
Long-term loan						
USD	**24,360,000**	**6.8632**	**167,187,552**	31,720,000	6.5342	207,264,824
EUR	**–**	**7.8473**	**–**	14,700,000	7.8023	114,693,810
			167,187,552			321,958,634

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARIES

For the year ended 31 December 2018, the Company established the following subsidiaries, and has included them in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the period end
Maanshan Meite Metallurgical Power Technology Co.,Ltd. ("Meite Metallurgical Power") (Note 1)	March 2018	RMB500,000	100%	Cash	RMB500,000
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy") (Note 2)	March 2018	RMB600,000,000	100%	Cash & non-cash assets	RMB600,000,000
Masteel Middle East General Industrial ("Masteel Middle East") (Note 3)	January 2018	AED4,000,000	100%	Cash	RMB2,041,200
Maanshan (Changchun) Iron and Steel Sales Co., Ltd. ("Changchun Sales") (Note 4)	August 2018	RMB10,000,000	100%	Cash	RMB10,000,000
Masteel (Wuhan) Material Technology Co., Ltd. ("Wuhan Material") (Note 5)	October 2018	RMB250,000,000	85%	Cash	RMB31,875,000

Note 1: The Company invested RMB500,000 in cash to establish a wholly-owned subsidiary, Maanshan Meite Metallurgical Power.

Note 2: The Company invested RMB260,514,040 in cash, and plant and buildings with net carrying amount of RMB122,478,300 and land use rights with net carrying amount of RMB36,568,401 to Magang Chemicals & Energy. According to evaluation result provided by the third party evaluation agency, the plant and buildings was valued at RMB175,608,500 with an evaluation appreciation amounting to RMB53,130,200 at the evaluation date of 15 May 2018 and VAT amounting to RMB17,560,850; the land use rights were valued at RMB133,015,000 with an evaluation appreciation amounting to RMB96,446,699 and VAT amounting to RMB13,301,510 at the evaluation date of 26 June 2018. The total investment in cash and non-cash assets amounted to RMB600 million.

As which presented in Notes VI. 2(3), the Company has lost control of Magang Chemicals & Energy since 31 December 2018 and did not include Magang Chemicals & Energy in the scope of consolidation.

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

1. NEWLY ESTABLISHED SUBSIDIARIES *(CONTINUED)*

Note 3: The Company established a wholly-owned subsidiary, Masteel Middle East, with a registered capital of AED4,000,000, and complete the first phase of capital contribution of USD300,000 (equivalent to approximately RMB2,041,200) on 25 July 2018.

Note 4: The Company invested RMB10,000,000 to establish a wholly-owned subsidy, Changchun Sales.

Note 5: The Company invested to establish Wuhan Material with a registered capital of RMB250,000,000 with Wuhan Huanchuang Yian economic development Co., Ltd. and Hubei Donganyuan trading industry Co., Ltd. and invested RMB212,500,000, RMB25,000,000 and RMB12,500,000, held 85%, 10% and 5% of equity interest, respectively. The Company completed the first phase of capital contribution of RMB31,875,000 on 12 November 2018.

2. DISPOSAL OF SUBSIDIARIES

(1) The bankruptcy of Masteel Shanghai Trading

	Place of registration	Business nature	Total equity interests ratio that the Group holds	Total voting right ratio that the Group holds	Reason for not being a subsidiary any longer
Masteel shanghai Trading	Shanghai, PRC	Trading	100%	100%	Note

Note: On 7 September 2017, Shanghai Baoan District People's Court issued civil ruling ([2017] No. Hu 0113 Po 2-1) accepted the bankruptcy application of Masteel Shanghai Trading, a subsidiary of the Group, and designated Beijing Yingke (Shanghai) Law Firm as the bankruptcy liquidation manager. On 27 February 2018, the Group received the takeover notice of Masteel Shanghai Trading issued by the bankruptcy liquidation manager ([2017] Masteel Bankruptcy Takeover No.1), indicating that Masteel Shanghai Trading was properly handed over in all relevant materials such as property books, documents and files, seals and certificates of the enterprise in accordance with the requirements of the liquidation manager. Therefore, the Group lost control of Masteel Shanghai Trading since 27 February 2018 and no longer included it into the consolidation scope thereafter.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(1) The bankruptcy of Masteel Shanghai Trading *(continued)*

The financial information of Masteel Shanghai Trading at the disposal date is as follows:

	Carrying amount as at 27 February 2018	**Carrying amount as at 31 December 2017**
Current assets	521,926	521,926
Non-current assets	–	–
Current liabilities	(174,145,988)	(174,145,988)
Non-current liabilities	–	–
	(173,624,062)	(173,624,062)
Non-controlling interests	–	–
Disposal gain	173,624,062	
Consideration	–	

	From 1 January 2018 to 27 February 2018
Revenue	–
Cost of sales	–
Net profit	–

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(2) Disposal of Masteel Scrap

	Place of registration	Business nature	Total equity interests ratio that the Group holds	Total voting right ratio that the Group holds	Reason for not being a subsidiary any longer
Masteel Scrap	Anhui, PRC	Manufacturing	100%	100%	Note

Note: On 15 August 2018, the Company signed Equity Transfer Agreement with the Holding. According to the agreement, the Company sold its 55% of equity interest of Masteel Scrap to the Holding at a consideration of RMB178,381,854, which was based on the valuation result of Beijing Tianjian Xingye Assets Valuation Co., Ltd. (valuation date: 28 February 2018).

As at 31 December 2018, the Holding paid the consideration in full amount to the Company, completed the equity transfer formalities and modified the Articles of Association of Masteel Scrap. Therefore, in the opinions of the Company's directors, the Company has lost control of Masteel Scrap since 31 December 2018 and didn't include Masteel Scrap in the scope of consolidation thereafter.

According to the agreement, the profit and loss during the transitional period from the base date of assets evaluation to the equity transfer date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of Masteel Scrap from 1 March 2018 to 31 December 2018 was RMB58,016,792, which has been approved by the former shareholder of Masteel Scrap to be distributed to the Company in the form of profit distribution. The Company has recognized that the investment income generated from the profit and loss in the transitional period is RMB58,016,792.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(2) Disposal of Masteel Scrap *(continued)*

The financial information of Masteel Scrap at the disposal date is as follows:

	Carrying amount as at 27 February 2018	Carrying amount as at 31 December 2017
Current assets	839,017,248	648,440,177
Non-current assets	24,356,317	26,331,508
Current liabilities	(552,989,071)	(447,305,086)
Non-current liabilities	–	–
	310,384,494	227,466,599
Non-controlling interests	–	–
Fair value of the remained equity interest (note)	145,948,789	
Disposal gain (note)	13,946,149	
Consideration (note)	178,381,854	

	From 1 January 2018 to 31 December 2018
Revenue	6,830,296,951
Cost of sales	6,591,981,007
Net profit	140,934,688

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(2) Disposal of Masteel Scrap *(continued)*

Note: At the date of loss control, the Carrying amount of net assets of Masteel Scrap was RMB310,384,494 and the gain generated from above equity transfer transaction was RMB7,670,382. The fair value for the remained 45% equity interest held by the Company on the date of loss of control was RMB145,948,789. The investment gain from the re-measurement of fair value of the remained equity interest was RMB6,275,767.

After loss of control of Masteel Scrap, the Company held the remained 45% equity interest of Masteel Scrap and had significant influence on it. Therefore, on the day of control loss, the Company accounted the remained 45% equity interest of Masteel Scrap at RMB145,948,789 as the long-term equity investment of associates, please refer to Note V.15 for details.

(3) Disposal of Magang Chemicals & Energy

	Place of registration	Business nature	Total equity interests the Group holds	Total voting right the Group holds	Reason for not being a subsidiary any longer
Magang Chemicals & Energy	Anhui, PRC	Manufacturing	100%	100%	Note

Note: On 15 August 2018, the Company signed the Capital Increase Agreement with the wholly-owned subsidiary, Magang Chemicals & Energy and the Holding. According to the agreement, Magang Chemicals & Energy would increase its registered capital from RMB600,000,000 to RMB1,333,333,333. The Holding subscribed all new registered capital of Magang Chemicals & Energy, namely RMB733,333,333 in total, and the Company relinquished the pre-emption right for this capital injection. After the capital injection, the Holding and the Company respectively has held 55% and 45% of the equity interests of Magang Chemicals & Energy.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(3) Disposal of Magang Chemicals & Energy *(continued)*

Note: *(continued)*

The evaluated value of Magang Chemicals & Energy before capital increase by Beijing Tianjian Assets Appraisal Co., Ltd. was RMB598,593,860 (the base date of assets evaluation was 30 June 2018). The Company supplemented RMB1,406,140 to Magang Chemicals & Energy and then the fair value of the equity of Masteel Chemical & Energy Company was changed to RMB600,000,000, which is used as the pricing benchmark for capital increase.

On 31 December 2018, the Holding paid the capital of RMB733,333,333 in full amount to Magang Chemicals & Energy, completed the equity transfer formalities and modified the Articles of Association of Masteel Chemical & Energy. Therefore, in the opinions of the Company's directors, the Company has lost control of Magang Chemicals & Energy since 31 December 2018 and did not include Magang Chemicals & Energy in the scope of consolidation thereafter.

According to the agreement, the profit and loss of Magang Chemicals & Energy in the transitional period from the base date of assets evaluation to the transaction completion date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of Magang Chemicals & Energy from 1 July 2018 to 31 December 2018 was RMB79,686,077, which has been approved by the former shareholder of Masteel Chemical Energy Company to be distributed to the Company in the form of profit distribution. The Company has recognized that the investment gain generated from the profit or loss in the transitional period is RMB79,686,077.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(3) Disposal of Magang Chemicals & Energy *(continued)*

The financial information of Magang Chemicals & Energy at the disposal date is as follows:

	Carrying amount as at 31 December 2018	Carrying amount as at 30 March 2018 (the date of establishment)
Current assets	80,596,517	–
Non-current assets	574,829,336	–
Current liabilities	(54,019,713)	–
Non-current liabilities	–	–
	601,406,140	–
Non-controlling interests	–	–
Fair value of the remained equity interest (note)	600,000,000	
Disposal loss (note)	(1,406,140)	
Consideration (note)	–	

	30 March 2018 (the date of establishment) to 31 December 2018
Revenue	1,191,257,853
Cost of sales	1,049,742,568
Net profit	79,686,077

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(3) Disposal of Magang Chemicals & Energy *(continued)*

Note: At the date of loss control, the Carrying amount of net assets of Magang Chemicals & Energy was RMB601,406,140, and the investment loss generated from above transaction was RMB773,377. The fair value for the remained 45% equity interest held by the Company on the date of loss control was RMB600,000,000. The investment loss from the re-measurement of fair value for the remained equity interest was RMB632,763.

After the loss of control of Magang Chemicals & Energy, the Company held remained 45% equity interest of Magang Chemicals & Energy and had significant influence on it. Therefore, at the date of loss control, the Company accounted the remained 45% equity interest of Magang Chemicals & Energy at RMB600,000,000 as the long-term equity investment of associates, please refer to Note V.15 for details.

(4) Disposal of Masteel K. Wah

	Place of registration	Business nature	Total equity interests the Group holds	Total voting right the Group holds	Reason for not being a subsidiary any longer
Masteel K. Wah	Anhui, PRC	Manufacturing	70%	70%	Note

Note: On 15 August, 2018, the Company signed the Capital Increase Agreement with the subsidiary, Masteel K. Wah, the Holding and the minority shareholder of Masteel K. Wah, "Leader Investment". According to the agreement, MaSteel K. Wah increased its registered capital from USD 8,389,000 to USD 19,574,333. The Group subscribed the new registered capital of Masteel K. Wah amounting to USD7,829,733. Leader Investment subscribed the new registered capital of MaSteel K. Wah amounting to USD 3,355,600. The Company relinquished the pre-emption right for this capital increase. After the capital increase, the Holding, Leader Investment and the Company held 40%, 30% and 30% of the equity interests of Masteel K. Wah, respectively.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(4) Disposal of Masteel K. Wah *(continued)*

Note: *(continued)*

The evaluated value of Masteel K. Wah by Beijing Tianjian Assets Appraisal Co., Ltd. was RMB213,883,634 (the base date of assets evaluation is 31 December 2017) before capital increase, which was the pricing benchmark for capital increase.

On 15 December 2018, the Holding and Leader Investment paid the increased capital to Masteel K. Wah, completed the equity transfer formalities and modified the Articles of Association of New Building Masteel K. Wah. Therefore, in the opinions of the Company's directors, the Company has lost control of Masteel K. Wah since 15 December 2018 and will not include Masteel K. Wah in the scope of consolidation thereafter.

According to the agreement, the profit and loss of Masteel K. Wah in the transitional period from the base date of assets evaluation to the capital increase date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of Masteel K. Wah from 1 January 2018 to 15 December 2018 was RMB98,540,868, which have been approved by the former shareholder of Masteel K. Wah to be distributed to the Company and Leader Investment in the form of profit distribution. The Company has confirmed that the investment gain generated from the profit and loss in the transitional period according to the shareholding ratio before capital increase is RMB68,978,608.

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(4) Disposal of Masteel K. Wah *(continued)*

The financial information of Masteel K. Wah at the disposal date is as follows:

	Carrying amount as at 15 December 2018	Carrying amount as at 31 December 2017
Current assets	361,731,715	238,731,296
Non-current assets	88,032,048	74,175,318
Current liabilities	(337,687,883)	(102,830,732)
Non-current liabilities	–	–
	112,075,880	210,075,882
Non-controlling interests	33,622,763	63,022,765
Fair value of the remained equity interest (note)	81,118,544	
Disposal gains (note)	2,665,427	
Consideration (note)	–	

	From 1 January 2018 to 31 December 2018
Revenue	1,049,124,781
Cost of sales	887,463,419
Net profit	98,540,868

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

2. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

(4) Disposal of Masteel K. Wah *(continued)*

Note: At the date of loss control, the Carrying amount of net assets of Masteel K. Wah was RMB112,075,880, and the investment income generated from above capital increase and equity dilution was RMB1,523,101. The fair value for the remained 30% equity interests held by the Company on the date of loss control was RMB81,118,544. The gains from the re-measurement of fair value for the remaining equity interests was RMB1,142,326.

After loss of control of Masteel K. Wah, the Company held the remained 30% equity interest of Masteel K. Wah and had significant influence on it. Therefore, at the date of loss control, the Company accounted the 30% equity interests of Masteel K. Wah at RMB81,118,544 in the long-term equity investment of associates, please refer to Note V.15 for details.

3. CHANGES OF CONSOLIDATION SCOPE CAUSED BY OTHER REASONS

In 2018, changes of consolidation scope caused by other reasons are as follows:

Names of subsidiaries	**Changes of consideration scope**
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd.	Deregistration
Maanshan (Guangzhou) Iron and Steel Sales Co., Ltd.	Deregistration

VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Subsidiaries acquired by establishment or investment						
Ma Steel (Wuhu) Processing and distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	30
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	66.67	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	100	–
Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	29
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	Mining	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	67	28
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	–
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 (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 (Nanjing) Iron and Steel Sales Co., Ltd. ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("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
Ma'anshan Chang Jiang Iron and Steel Trading Co., Ltd. ("Chang Jiang Iron and Steel Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES (Note 1)	France	France	Manufacturing	EUR110,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Ma Steel Oubang Color-coated") ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Details of the subsidiaries are as follows: *(continued)*

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Subsidiaries acquired by establishment or investment *(continued)*						
Masteel America	USA	USA	Service industry	USD500,000	100	–
Anhui Ma Steel Antirust Material Technology Co., Ltd ("Ma Steel Antirust")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	–
Meite Metallurgical Power (Note 2)	Anhui, PRC	Anhui, PRC	Service industry	RMB500,000	100	–
Ma Steel MiddleEast (Note 2)	Dubai	Dubai	Trading	AED4,000,000	100	–
Changchun Sales (Note 2)	Changchun, PRC	Changchun, PRC	Trading	RMB10,000,000	100	–
Wuhan Material (Note 2)	Wuhan, PRC	Wuhan, PRC	Manufacturing	RMB250,000,000	85	–
Subsidiaries acquired through business combination						
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Ma steel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Co., Ltd ("Ma-Steel Rail Transportation")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB360,000,000	100	–
Mascometal	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	–
Subsidiary acquired under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	–

Note 1: In 2018, the Company injected capital amounting to EUR30,000,000, equivalent to RMB237,081,000, to MG-VALDUNES.

Note 2: For the information of the newly established subsidiaries, please refer to Note VI.1.

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Subsidiaries which had material non-controlling interests are as follows:

	31 December 2018	31 December 2017
The proportion of equity held by non-controlling interests:		
Ma Steel (Hefei)	**29%**	29%
Anhui Chang Jiang Iron and Steel	**45%**	45%
Masteel Finance	**9%**	9%

Profit or loss attributable to non-controlling interests:

	2018	2017
Ma Steel (Hefei)	**56,222,329**	(34,228,291)
Anhui Chang Jiang Iron and Steel	**954,100,897**	899,060,582
Masteel Finance	**24,213,668**	17,992,902

Dividends paid to non-controlling interests:

	2018	2017
Ma Steel (Hefei)	**–**	–
Anhui Chang Jiang Iron and Steel	**524,909,491**	20,670,280
Masteel Finance	**6,266,572**	1,127,828

Cumulative balances of non-controlling interests at the balance sheet date:

	31 December 2018	31 December 2017
Ma Steel (Hefei)	**639,682,701**	584,355,788
Anhui Chang Jiang Iron and Steel	**2,488,805,895**	2,009,269,170
Masteel Finance	**267,338,897**	249,192,105

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 intra-elimination:

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
2018			
Current assets	1,567,807,947	6,812,129,772	13,694,181,891
Non-current assets	3,178,015,241	4,224,413,085	2,517,527,194
Total assets	4,745,823,188	11,036,542,857	16,211,709,085
Current liabilities	(1,679,655,280)	(5,362,859,556)	(13,241,102,137)
Non-current liabilities	(860,365,492)	(143,003,535)	(174,764)
Total liabilities	(2,540,020,772)	(5,505,863,091)	(13,241,276,901)
Revenue	5,490,398,323	16,231,495,618	297,618,851
Net profit	193,870,100	2,120,224,216	269,040,756
Total comprehensive income	193,870,100	2,120,224,216	269,040,756
Net cash flows from operating activities	234,564,331	3,365,102,259	1,455,180,857

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
2017			
Current assets	1,116,606,101	4,556,775,162	5,265,573,414
Non-current assets	3,567,650,505	4,340,023,298	7,032,740,451
Total assets	4,684,256,606	8,896,798,460	12,298,313,865
Current liabilities	(1,775,526,986)	(4,286,186,339)	(9,528,658,823)
Non-current liabilities	(893,709,661)	(145,569,521)	(853,875)
Total liabilities	(2,669,236,647)	(4,431,755,860)	(9,529,512,698)
Revenue	3,825,818,450	14,857,543,510	238,857,965
Net profit/(loss)	(118,028,591)	1,997,912,405	199,921,130
Total comprehensive income	(118,028,591)	1,997,912,405	199,921,130
Net cash flows from operating activities	17,275,937	2,866,062,421	399,926,884

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%) Direct	Indirect	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							
JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	31.99	–	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	–	Equity method
Xinchuang Environmental Protection (Note 1)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	–	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method
Masteel Scrap (Note 2)	Anhui, PRC	Anhui, PRC	Trading	RMB100,000,000	45	–	Equity method
Masteel K. Wah (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	30	–	Equity method
Magang Chemicals & Energy (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	45	–	Equity method

Note 1: As of 31 December 2018, the Group held 16.34% equity interests of Xinchuang Environmental Protection. The directors believed that the Company was able to exercise significant influence over Xinchuang Environmental Protection through one director and one supervisor designated by the Company in Xinchuang Environmental Protection, although the equity interests in it was less than 20%. Thus, the equity investment in Xinchuang Environmental Protection was accounted as an associate.

Note 2: For the information of the newly established associates, please refer to Note VI.2.

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 by 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.

	2018	2017
Current assets	**412,434,918**	497,193,002
Non-current assets	**208,914,826**	254,130,647
Total assets	**621,349,744**	751,323,649
Current liabilities	**85,171,831**	82,408,257
Non-current liabilities	**–**	–
Total liabilities	**85,171,831**	82,408,257
Non-controlling interests	**–**	–
Equity attributable to owners of the parent	**536,177,913**	668,915,392
The Group's share of net assets	**268,088,957**	334,457,696
Adjustment	**–**	–
The carrying value of the investment	**268,088,957**	334,457,696
Revenue	**549,598,109**	571,397,606
Income tax expense	**57,267,768**	59,871,539
Net profit	**167,262,522**	180,879,255
Other comprehensive income	**–**	–
Total comprehensive income	**167,262,522**	180,879,255
Dividends received	**150,000,000**	75,000,000

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

JinMa Energy and Shenglong Chemical are the Group's material associates and are accounted by using the equity method.

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements:

JinMa Energy	**2018**	2017
Current assets	**2,391,446,000**	1,557,276,000
Non-current assets	**1,683,056,000**	1,405,050,000
Total assets	**4,074,502,000**	2,962,326,000
Current liabilities	**1,420,505,000**	894,491,000
Non-current liabilities	**276,286,000**	339,509,000
Total liabilities	**1,696,791,000**	1,234,000,000
Non-controlling interests	**97,983,000**	94,210,000
Equity attributable to owners of the parent	**2,279,728,000**	1,634,116,000
The Group's share of net assets	**613,018,859**	441,184,749
Adjustment	**–**	–
The carrying value of the investment	**613,018,859**	441,184,749
Revenue	**7,451,793,000**	5,137,652,000
Income tax expense	**284,181,000**	191,011,000
Net profit	**852,484,000**	547,836,000
Total comprehensive income	**850,600,000**	547,836,000
Dividends received	**47,520,000**	36,000,000

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

Shenglong Chemical	**2018**	2017
Current assets	**1,545,284,586**	1,565,609,058
Non-current assets	**1,532,216,940**	1,500,566,720
Total assets	**3,077,501,526**	3,066,175,778
Current liabilities	**779,078,109**	1,598,531,277
Non-current liabilities	**8,064,165**	–
Total liabilities	**787,142,274**	1,598,531,277
Non-controlling interests	**–**	–
Equity attributable to owners of the parent	**2,290,359,252**	1,467,644,501
The Group's share of net assets	**732,685,925**	469,646,241
Adjustment	**–**	–
The carrying value of the investment	**732,685,925**	469,646,241
Revenue	**5,157,647,058**	5,255,672,121
Income tax expense	**280,475,399**	184,665,595
Net profit	**921,202,979**	560,761,930
Total comprehensive income	**921,202,979**	560,761,930
Dividends received	**31,992,968**	19,194,000

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

	2018	2017
Joint ventures		
The carrying value of the Group's investments	**501,735**	546,153
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	**(44,418)**	(4,347,403)
Other comprehensive income	**–**	–
Total comprehensive income	**(44,418)**	(4,347,403)

	2018	2017
Associates		
The carrying value of the Group's investments	**1,194,767,905**	279,390,363
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	**56,725,650**	22,477,055
Other comprehensive income	**–**	–
Total comprehensive income	**56,725,650**	22,477,055

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 December 2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income		
	According to Standard	Designated		According to Standard	Designated	Total
Cash and balances	–	–	9,762,844,718	–	–	9,762,844,718
Financial assets held-for-trading	2,084,414,075	–	–	–	–	2,084,414,075
Notes and trade receivables	–	–	6,091,882,823	–	–	6,091,882,823
Other receivables	–	–	95,543,554	–	–	95,543,554
Financial assets purchased under agreements to resell	–	–	2,432,279,109	–	–	2,432,279,109
Loans and advances to customers	–	–	2,845,298,103	–	–	2,845,298,103
Debt instruments investment	–	–	2,478,240,824	–	–	2,478,240,824
Other equity instruments investments	–	–	–	–	263,122,364	263,122,364
	2,084,414,075	–	23,706,089,131	–	263,122,364	26,053,625,570

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows: *(continued)*

31 December 2018 *(continued)*

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	Total
	According to Standard	Designated		
Deposits and balances from banks and other financial institutions	-	-	900,366,111	900,366,111
Customer deposits	-	-	4,915,309,311	4,915,309,311
Repurchase agreements	-	-	1,133,772,377	1,133,772,377
Short-term loans	-	-	10,917,293,181	10,917,293,181
Financial liabilities at fair value through profit or loss	8,012,670	-	-	8,012,670
Notes and trade payables	-	-	10,342,007,979	10,342,007,979
Other payables	-	-	2,794,390,876	2,794,390,876
Non-current liabilities due within one year	-	-	1,470,868,462	1,470,868,462
Other current liabilities	-	-	1,026,897,260	1,026,897,260
Long-term loans	-	-	3,596,387,552	3,596,387,552
	8,012,670	-	37,097,293,109	37,105,305,779

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows: *(continued)*

31 December 2017

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Total
	Initial recognition	Held for trading				
Cash and bank balances	–	–	4,978,352,093	–	–	4,978,352,093
Financial assets at fair value through profit or loss	1,546,139,404	–	–	–	–	1,546,139,404
Notes and trade receivables	–	–	9,341,614,275	–	–	9,341,614,275
Other receivables	–	–	247,325,199	–	–	247,325,199
Financial assets purchased under agreements to resell	–	–	1,204,603,000	–	–	1,204,603,000
Loans and advances to customers	–	–	1,251,315,253	–	–	1,251,315,253
Held-to-maturity investments	–	–	–	–	406,082,606	406,082,606
Available-for-sale financial assets	–	–	–	1,111,168,160	–	1,111,168,160
	1,546,139,404	–	17,023,209,820	1,111,168,160	406,082,606	20,086,599,990

Financial liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short-term loans	–	–	4,630,303,694	4,630,303,694
Deposits and balances from banks and other financial institutions	–	–	200,000,000	200,000,000
Financial liabilities measured at fair value through profit or loss	10,498,810	–	–	10,498,810
Customer deposits	–	–	2,947,639,610	2,947,639,610
Repurchase agreements	–	–	308,100,956	308,100,956
Notes and trade payables	–	–	11,778,382,830	11,778,382,830
Other payables	–	–	1,811,478,016	1,811,478,016
Other current liabilities	–	–	3,081,026,301	3,081,026,301
Non-current liabilities due within one year	–	–	4,928,758,378	4,928,758,378
Long-term loans	–	–	6,975,958,634	6,975,958,634
Long-term payables	–	–	210,000,000	210,000,000
	10,498,810	–	36,871,648,419	36,882,147,229

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

2. OFFSETTING OF FINANCIAL INSTRUMENTS

In 2018, there were no offsetting arrangements for account receivables (2017: Nil).

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognized

As of 31 December 2018, the Group endorsed (but not yet fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB159,713,509 for settlement of trade payables (31 December 2017: RMB53,676,353), and there was no bank acceptance notes discounted to banks which was not derecognized. As of 31 December 2018, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to recognize them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 31 December 2018, the carrying amount of trade payables settled by the Group through them amounted to RMB159,713,509 (31 December 2017: RMB53,676,353). As of 31 December 2018, there was no short term loans obtained from the pledge of (31 December 2017: Nil).

Transferred financial assets fully derecognized but with continuing involvement

As of 31 December 2018, the Group endorsed (and fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB7,398,304,418 (31 December 2017: RMB4,778,024,515) for settlement of trade payables, and there was no bank acceptance notes discounted to banks which was fully derecognized (31 December 2017: Nil). As of 31 December 2018, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognized them and then settled account payables associated therewith.

In 2018, no gain or loss was recognized in the date of transfer. No income or expense was recognized for the current year or on an accumulative basis as a result of the Group's Continuing Involvement in derecognized financial assets. Endorsements were incurred basically evenly during the year.

4. FINANCIAL INSTRUMENTS RISK

The Group faced several kinds of financial instruments risk in its daily operation, mainly including credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's principal financial instruments are comprised of cash and bank balances, financial assets held for trading, debt instruments investment, interest-bearing bank borrowings, notes and trade receivables, notes and trade payables, etc. The Group's risk management strategies to lower such risks are outlined below.

The Board of Directors is responsible for planning and establishing the Group's risk management framework, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyze the risks it faces. These risk management policies specify specific risks, covering market risks, credit risks and liquidity risk management. The Group regularly evaluates changes in the market environment and business activities of the Group to determine whether to update risk management policies and systems. The risk management of the Group shall be carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee identifies, evaluates and evades related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports the results to the Group's Audit Committee.

The Group disperses the risk of financial instruments through appropriate diversification of investment and business portfolio, and reduces the risk of focusing on any single industry, specific region or specific counterparty by formulating corresponding risk management policies.

Credit risk

The Group trades only with recognized and creditworthy 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, notes and trade receivables 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 Group does not offer credit terms without the specific approval of the Head of Credit Control.

Since the trading counterparties of cash and bank balances, bank acceptance notes receivable and financial assets held for trading are banks with good reputation and high credit rank, these financial instruments face lower credit risk.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(continued)*

The Group's other financial assets comprise debt instruments investments, other receivables, financial assets purchased under agreements to resell and loans and advances to customers, and the credit risk of these financial assets 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 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 13% (2017: 7%) and 29% (2017: 23%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

2018

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

Based on the credit risk changes since financial instruments' initial recognition, the Group calculates expected credit losses in three different phases:

Phase 1: Financial instruments whose credit risk have not increased significantly will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses.

Phase 2: Financial instruments whose credit risk have increased significantly but without objective evidence for impairment will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses.

Phase 3: Financial instruments that is evidently credit-impaired at the financial position date will be included in phase 3 and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses.

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(continued)*

2018 *(continued)*

Measurement of expected credit losses (continued)

For a financial instruments, whose loss allowance had been measured at an amount equal to lifetime expected credit losses in previous accounting period, if its credit risk does not increase significantly at the end of current period, the Group should measure the loss allowance of that financial instrument at an amount equal to 12-month expected credit losses.

Criteria for significant increase in credit risk

At each financial position date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, the Group shall consider reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis of the Group's historical statistics, external credit risk rate and forecasting information. On an individual basis or a collective basis for financial instruments with shared credit risk characteristics, the Group compares the default risks of financial instruments at financial position date and the default risks at initial recognition to determine the change of default risk of financial instruments in expected lifetime.

One or several of the following quantitative, qualitative or maxim criteria are triggered, the Group determines the credit risk of a financial instruments has increased significantly:

Quantitative criteria:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over specific percentage.

Qualitative criteria:

- Material adverse change occurs in the operation or financial position of main debtors or receiving warning customer lists.

Maximum criteria:

- The overdue of debtors' contract payment (including principle and interest) has reached specific period.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(continued)*

2018 *(continued)*

Definition of credit-impaired financial assets

When considering whether credit impairment has incurred under the new financial instruments standards, the Group will consider both quantitative and qualitative factors, which agrees with the goal of the Group's credit risk management.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- any principle, advances, interest or corporate bond investment of a debtor has been overdue for certain period of time;

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(continued)*

2018 *(continued)*

Parameters of expected credit losses measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures loss allowance for different instruments at an amount equal to 12-month expected credit losses or equal to lifetime expected credit losses. The key parameters for measuring expected credit losses include default probability, default loss rate and default risk exposure. Based on the external credit rate applied in credit risk management and according to the requirements of the new financial instrument standards under Accounting Standards for Business Enterprises, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counter party, the guarantee method, the nature of collateral and the repayment style), as well as forecast information to establish the model for default probability, default loss rate and default risk exposure.

Definition:

- Default probability is probability that a debtor fails to fulfil its repayment duty in 12 month or in the rest of expected lifetime. The Group's default probability is based on external credit rate and adjusted by carefully chosen forecasting information, to reflect debtors' probability of default under current Marco-economy condition;

- Default loss rate is the Group's expectation on the level of loss if default risk exposed and caused losses. Default loss rate varies with the types of trading counterparty, the ways of recourse and priority and the nature of collaterals. Default loss rate is the loss percentage of exposure when default incurs and is calculated basing on 12-month expected credit losses or lifetime expected credit losses;

- Default risk exposure is the amount to be recovered by the Group when default incurs during 12 months or the rest of expected.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(continued)*

2018 *(continued)*

Forecasting information

Forecasting information are used in both assessment of whether the credit risk has been increased significantly and calculation of expected credit losses. The Group identifies key economic indicators that will influence the credit risk of different business and expected credit losses by analyzing historical statistics.

These indicators will have different impact on default probability and default loss rate for different types of business. In the process, the Group will apply management judgment. Based on the result of judgment, the Group will forecast those indicators every half a year and apply regression analysis to determine the impact of the indicators on default probability and loss rate.

The credit risk level of the Group has not changed compared with last year. The quantitative information of credit risk exposure generated by trade receivables and other receivables are disclosed in Note V.4 and 6.

The carrying amount of financial assets by the credit risk level is disclosed as follows:

	Carrying amount (unsecured)		Carrying amount (secured)	
	In 12 months Expected credit losses	In the rest of expected lifetime Expected credit losses	In 12 months Expected credit losses	In the rest of expected lifetime Expected credit losses
Loans	426,564,153	–	76,057,227	–
Discounted notes	2,298,456,948	–	44,219,775	–
Financial assets purchased under agreements to resell	2,432,279,109	–	–	–
Debt instruments investment	2,478,240,824	–	–	–
	7,635,541,034	–	120,277,002	–

Credit risk *(continued)*

2017

As of 31 December 2017, the ageing analysis of the Group's financial assets not impaired is as follows:

	Total	Neither overdue nor impaired	Overdue: Less than six months	Overdue: Over six months
Cash and bank balances	4,978,352,093	4,978,352,093	–	–
Notes and trade receivables	9,287,106,231	9,165,453,090	91,185,153	30,467,988
Other receivables	213,071,211	203,015,186	3,679,964	6,376,061
Available-for-sale financial assets	1,111,168,160	1,111,168,160	–	–
Loans and advances to customers	1,251,315,253	1,251,315,253	–	–
Financial assets purchased under agreements to resell	1,204,603,000	1,204,603,000	–	–
Held-to-maturity investments	406,082,606	406,082,606	–	–

As of 31 December 2017, the Group's trade receivables that were not considered to be impaired mainly relate to a number of independent customers that had a good track record with the Group.

Based on past experience, the directors of the Group were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable as of 31 December 2017.

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. As of 31 December 2018, 89% of the Group's debts were due within 1 year (31 December 2017: 80%).

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(continued)*

A liquidity analysis of the undiscounted contractual cash flows of the financial liabilities is as shown in below table.

31 December 2018

	Within 1 year	**1-2 years**	**2-3 years**	**3-5 years**	**Over 5 years**	**Total**
Deposits and balances from banks and other financial institutions	**900,366,111**	**–**	**–**	**–**	**–**	**900,366,111**
Financial liabilities held-for-trading	**8,012,670**	**–**	**–**	**–**	**–**	**8,012,670**
Short-term loans	**10,917,293,181**	**–**	**–**	**–**	**–**	**10,917,293,181**
Customer deposits	**4,915,309,311**	**–**	**–**	**–**	**–**	**4,915,309,311**
Repurchase agreements	**1,133,772,377**	**–**	**–**	**–**	**–**	**1,133,772,377**
Notes and trade payables	**10,342,007,979**	**–**	**–**	**–**	**–**	**10,342,007,979**
Other payables	**2,794,390,876**	**–**	**–**	**–**	**–**	**2,794,390,876**
Non-current liabilities due within one year	**1,470,868,462**	**–**	**–**	**–**	**–**	**1,470,868,462**
Long-term loans	**511,652,841**	**2,275,338,963**	**1,385,281,785**	**52,178,521**	**81,428,600**	**4,305,880,710**
Other current liabilities	**1,026,897,260**	**–**	**–**	**–**	**–**	**1,026,897,260**
Total	**34,020,571,068**	**2,275,338,963**	**1,385,281,785**	**52,178,521**	**81,428,600**	**37,814,798,937**

31 December 2017

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Short-term loans	4,630,303,694	–	–	–	–	4,630,303,694
Deposits and balances from banks and other financial institutions	200,000,000	–	–	–	–	200,000,000
Financial liabilities measured at fair value through profit or loss	10,498,810	–	–	–	–	10,498,810
Customer deposits	2,947,639,610	–	–	–	–	2,947,639,610
Repurchase agreements	308,100,956	–	–	–	–	308,100,956
Notes and trade payables	11,491,341,467	167,589,414	32,970,687	86,481,262	–	11,778,382,830
Other payables	1,690,369,964	–	–	–	–	1,690,369,964
Non-current liabilities due within one year	4,928,758,378	–	–	–	–	4,928,758,378
Long-term loans	384,083,855	5,737,564,935	1,132,822,485	104,790,907	101,169,444	7,460,431,626
Long-term payables	–	210,000,000	–	–	–	210,000,000
Other current liabilities	3,081,026,301	–	–	–	–	3,081,026,301
Total	29,672,123,035	6,115,154,349	1,165,793,172	191,272,169	101,169,444	37,245,512,169

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates for assets and liabilities denominated in foreign currency as at 31 December 2018, with all other variables held constant, of the Group's net profit/(loss) (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
2018		
RMB	**50**	**(17,563,885)**
USD	**50**	**(365,697)**
EUR	**50**	**–**
RMB	**(50)**	**17,563,885**
USD	**(50)**	**365,697**
EUR	**(50)**	**–**
2017		
RMB	50	(16,349,323)
USD	50	(582,361)
EUR	50	(216,626)
RMB	(50)	16,349,323
USD	(50)	582,361
EUR	(50)	216,626

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(continued)*

Exchange rate risk

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

The business 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 are denominated in United States dollars, Euros and Australian dollars. 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, notes and trade receivables, other receivables, short term loans, notes and trade payables, other payables and long-term loans are stated in Notes V.1, 4, 6, 26, 29, 33, 37 and 69 to the financial statements, respectively.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(continued)*

Exchange rate risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (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 other comprehensive income (net of tax)	Increase/ (decrease) in equity
2018				
Depreciation of RMB to USD	1%	(22,158,308)	49,043	(22,109,265)
Depreciation of RMB to EUR	1%	(910,535)	4,213,324	3,302,789
Depreciation of RMB to AUD	1%	(3,525)	1,738,523	1,734,998
Depreciation of RMB to HKD	1%	(14,395)	4,108,607	4,094,212
Appreciation of RMB to USD	(1%)	22,158,308	(49,043)	22,109,265
Appreciation of RMB to EUR	(1%)	910,535	(4,213,324)	(3,302,789)
Appreciation of RMB to AUD	(1%)	3,525	(1,738,523)	(1,734,998)
Appreciation of RMB to HKD	(1%)	14,395	(4,108,607)	(4,094,212)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(continued)*

Exchange rate risk (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income (net of tax)	Increase/ (decrease) in equity
2017				
Depreciation of RMB to USD	1%	(4,888,660)	26,383	(4,862,277)
Depreciation of RMB to EUR	1%	132,297	3,784,268	3,916,565
Depreciation of RMB to AUD	1%	(76,466)	2,108,277	2,031,811
Depreciation of RMB to HKD	1%	402	1,802,170	1,802,572
Appreciation of RMB to USD	(1%)	4,888,660	(26,383)	4,862,277
Appreciation of RMB to EUR	(1%)	(132,297)	(3,784,268)	(3,916,565)
Appreciation of RMB to AUD	(1%)	76,466	(2,108,277)	(2,031,811)
Appreciation of RMB to HKD	(1%)	(402)	(1,802,170)	(1,802,572)

Note: Not include retained earnings.

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 year of 2018 and 2017, 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, notes and trade payables, payroll and employee benefits payable, and other payables, minus cash. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	31 December 2018	31 December 2017
Deposits and balances from banks and other institutions	**900,366,111**	200,000,000
Customer deposits	**4,915,309,311**	2,947,639,610
Repurchase agreements of financial assets	**1,133,772,377**	308,100,956
Short-term loans	**10,917,293,181**	4,630,303,694
Financial liabilities at fair value through profit or loss	**–**	10,498,810
Financial liabilities held-for-trading	**8,012,670**	–
Notes and trade payables	**10,342,007,979**	11,778,382,830
Payroll and employee benefits payable	**563,642,908**	654,822,505
Other payables	**3,530,746,914**	2,354,327,866
Other current liabilities	**1,026,897,260**	3,081,026,301
Non-current liabilities due within one year	**1,470,868,462**	4,928,758,378
Long-term loans	**3,596,387,552**	6,975,958,634
Long-term payable	**–**	210,000,000
Long-term employee benefits payable	**157,371,474**	160,896,586
Less: Cash and bank balances	**9,762,844,718**	4,978,352,093
Net liabilities	**28,799,831,481**	33,262,364,077
Capital attributable to owners of the parent	**28,173,623,272**	23,895,739,812
Adjusted capital	**28,173,623,272**	23,895,739,812
Capital and net liabilities	**56,973,454,753**	57,158,103,889
Gearing ratio	**51%**	58%

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

31 December 2018

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets				
Recurring fair value measurement for:				
Financial assets held for trading	1,984,154,986	–	100,259,089	2,084,414,075
Other equity instruments investments	–	132,910,883	130,211,481	263,122,364
	1,984,154,986	132,910,883	230,470,570	2,347,536,439
Financial liabilities				
Recurring fair value measurement for:				
Financial liabilities measured at fair value through profit and loss	–	8,012,670	–	8,012,670

The Group's level 1 fair value measurement items mainly include funds. The fair value of the funds was determined by the net value reported by the fund manager plus the fund shares that the Group held on the last trading day of the year 2018.

The Group's level 2 fair value measurement items mainly include unlisted equity investment. The fair value of the unlisted equity investment was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as at 31 December 2018 and the information of the comparable listed companies in the same industry.

The Group's level 3 fair value measurement items mainly include financial products and unlisted equity investment not available for the comparable company multiplier method. The fair value of financial products is determined by the discounted cash flow model, with consideration of the initial transaction prices, near-term transactions of the same or similar financial instruments, or transactions of comparable financial instruments between the third parties. If necessary, the assessment model will be adjusted according to delays, early redemption, liquidity, default risk, and changes in the market, economy or specific circumstances. The fair value of the unlisted equity instruments investments not available for the comparable company multiplier method were determined by net asset basis method as at 31 December 2018.

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *(CONTINUED)*

31 December 2017

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets				
Recurring fair value measurement for:				
Financial assets measured at fair value through profit or loss	1,546,139,404	–	–	1,546,139,404
Available-for-sale financial assets investments in debt instruments	984,446,000	–	–	984,446,000
	2,530,585,404	–	–	2,530,585,404
Non-recurring fair value measurement for:				
Assets classified as held-for-sale	–	–	73,454,334	73,454,334
	2,530,585,404	–	73,454,334	2,604,039,738
Financial liabilities				
Recurring fair value measurement for:				
Financial assets measured at fair value through profit or loss	–	10,498,810	–	10,498,810

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

31 December 2018

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Financial liabilities				
Long-term loans	**–**	**4,070,494,820**	**–**	**4,070,494,820**

31 December 2017

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets				
Held-to-maturity investments	98,896,400	–	–	98,896,400
Financial liabilities				
Long-term loans	–	7,206,511,864	–	7,206,511,864
Long-term payable	–	195,879,166	–	195,879,166
	–	7,402,391,030	–	7,402,391,030

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 of which the difference between the fair values and carrying amounts is very little:

	Carrying amounts		Fair values	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Financial assets				
Held-to-maturity investments	**–**	100,854,230	**–**	98,896,400
Financial liabilities				
Long-term loans	**3,596,387,552**	6,975,958,634	**4,070,494,820**	7,206,511,864
Long-term payable	**–**	210,000,000	**–**	195,879,166

Management had assessed the fair value of cash and bank balances, notes and trade receivables, other receivables, debt instruments investments, financial assets purchased under agreements to resell, notes and trade payables, other payables, loans and advances to customers, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities, etc. Since the residual terms of the above-mentioned items were relatively short, the fair values were similar to the Carrying amount.

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 analyses 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.

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE *(CONTINUED)*

Fair value of financial instruments *(continued)*

The fair value of the financial assets and liabilities 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 the non-current part of held-to-maturity investments, long-term loans and long-term payables, 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 2018, the default risk for the long-term loans was evaluated as not significant.

X. RELATED PARTIES RELATIONSHIP 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 (%)
The Holding	Anhui, PRC	Manufacturing	6,298,290,000	45.535	45.535

The Company is ultimately controlled by the Holding.

2. SUBSIDIARIES

Details of the subsidiaries are stated in Note VII.1 to the financial statements.

3. ASSOCIATES AND JOINT VENTURES

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) Logistics Co., Ltd.	Controlled by the Holding
Anhui Masteel Logistics Container Intermodal Transport Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Assets Management Company	Controlled by the Holding
Magang (Group) Holding Company Limited Cable TV Center	Controlled by the Holding
Magang (Group) Holding Company Limited Magang Press	Controlled by the Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Nanshan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Gushan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Taochong Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Qiangyang Cloud Mine	Controlled by the Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Magang Group Biding and Consulting Co., Ltd	Controlled by the Holding
Masteel Engineering Technology (Group) Co., Ltd.	Controlled by the Holding
Feimazhike Automation and Information Technology Co., Ltd.	Controlled by the Holding
Anhui Xiangdun Information Technology Co., Ltd.	Controlled by the Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by the Holding
Shenzhen Yuexinma Information and technology Co., Ltd.	Controlled by the Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by the Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by the Holding
Masteel Group Mapping Co., Ltd.	Controlled by the Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by the Holding
Anhui Masteel Dongli Transmission Equipment Co., Ltd.	Controlled by the Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by the Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by the Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Anhui Masteel Equipment Maintenance Co, Ltd.	Controlled by the Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by the Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by the Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by the Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by the Holding
Masteel Refractory Materials Co., Ltd.	Controlled by the Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by the Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	Controlled by the Holding
Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd.	Controlled by the Holding
Guizhou Xinchuan Environmental Protections Co., Ltd.	Controlled by the Holding
Anhui Vocational College of Metallurgy and Technology	Controlled by the Holding
Anhui Masteel Advanced Technician School	Controlled by the Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by the Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by the Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by the Holding
Ma Steel (Hefei) Logistics Co., Ltd.	Controlled by the Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by the Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by the Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by the Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by the Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding
Maanshan Yangzi River Logistics Co., Ltd.	Controlled by the Holding
Maanshan Changjiang Ship Agent Co., Ltd.	Controlled by the Holding
Maanshan Zhongli Ocean Ship Tally Co., Ltd.	Controlled by the Holding
Maanshan Port (Group) Co., Ltd.	Joint venture of the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Joint venture of the Holding
Ruitai Masteel New Material Technology Co., Ltd.	Associate of the Holding
Ma Steel Gongchang United Roller Co., Ltd.	Associate of the Holding

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Anhui Wanbao Mining Limited Co., Ltd.	Associate of the Holding
Maanshan Jiangnan Chemical Industry Co., Ltd.	Associate of the Holding
Tongling Yuanda Co., Ltd.	Associate of the Holding
Maanshan Mine Research Institute Blasting Engineering Co., Ltd.	Associate of the Holding
Anhui Zhengpu Port Administrative Affair Co., Ltd.	Associate of the Holding
China Logistics Hefei Co., Ltd.	Associate of the Holding
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Masteel Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Electricity Selling Co., Ltd.	Associate of the Holding
Anhui Huasu Co., Ltd.	Associate of the Holding

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES

(1) Purchases of ore from related parties

	Note	**2018**	2017
The Holding	(i)	**3,847,581,159**	3,669,058,939
Tongling Yuanda Co., Ltd.	(i)	**–**	14,571,347
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	**–**	51,621,848
Anhui Wanbao Mining Limited Co., Ltd.	(i)	**12,491,399**	–
		3,860,072,558	3,735,252,134

(i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 10 September 2015 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Plats Index. The terms for the purchases of iron ore from the Holding's associate, Anhui Wanbao Mining Limited Co., Ltd., were according to market prices under negotiation.

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

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

	Note	2018	2017
The Holding	(ii)	**5,565,352**	9,156,013
Masteel Refractory Materials Co., Ltd.	(ii)	**39,801,426**	747,873,976
Xinchuang Environmental Protection	(ii)	**590,081,313**	484,691,572
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**320,327,754**	213,090,574
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**375,397,056**	320,682,126
Feimazhike Automation and Information Technology Co., Ltd.	(ii)	**284,928,445**	253,474,791
Ma Steel International Trade and Economic Co., Ltd.	(ii)	**15,288,068**	51,661,229
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**128,337,231**	102,325,393
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	**321,571,163**	588,849,676
Anhui Masteel Equipment Maintenance Co., Ltd	(ii)	**644,020,662**	187,583,416
Magang (Group) logistics Co., Ltd.	(ii)	**194,898,420**	167,533,869
Anhui Zhonglian Shipping Co., Ltd.	(ii)	**178,570,855**	85,994,679
Maanshan Port (Group) Co., Ltd.	(ii)	**171,169,591**	154,957,991
Ruitai Masteel New Material Technology Co., Ltd.	(ii)	**950,049,413**	89,589,103
Maanshan Xinchuangbaineng Energy Technology Co., Ltd	(ii)	**56,952,199**	36,498,926
Others	(ii)	**460,808,519**	386,955,184
		4,737,767,467	3,880,918,518

(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, telecommunications service, contract of transportation service, equipment repair and maintenance services, and engineering design services, were determined in accordance with a service agreement between the Group and the Holding and its subsidies.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(3) Agency fees paid to related parties

	Note	**2018**	2017
Ma Steel International Trade and Economic Co., Ltd.	(iii)	**8,210,482**	8,258,092

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(4) Rental expenses

	Note	**2018**	2017
The Holding	(iv)	**58,372,750**	40,833,603

(iv) The Holding leased a building to the Group and the rental was determined by terms of mutually agreed between the Group and the Holding.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(5) Purchases of fixed assets and construction services

	Note	**2018**	2017
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**650,176,388**	658,179,029
Xinchuang Environmental Protection	(iii)	**95,999,958**	46,169,680
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**–**	8,000,000
Feimazhike Automation and Information Technology Co., Ltd.	(iii)	**403,682**	2,971,128
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**504,505**	–
Maanshan Masteel Electric Repair Co., Ltd.	(iii)	**–**	255,045
Maanshan Iron Construction Group Co., Ltd.	(iii)	**76,741,103**	79,387,696
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	**4,209,070**	–
Others	(iii)	**26,200,264**	1,002,549
		854,234,970	795,965,127

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

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

	Note	2018	2017
The Holding	(iii)	**530,400**	294,193
Xinchuang Environmental Protection	(iii)	**35,467,931**	21,593,561
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	**8,325,197**	1,115,866
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**23,171,710**	21,647,430
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	**89,026,772**	66,401,584
Masteel Refractory Materials Co., Ltd.	(iii)	**30,351**	8,649,987
Feimazhike Automation and Information Technology Co., Ltd.	(iii)	**8,435,175**	4,995,766
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**1,954,781**	1,828,417
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	**6,275**	145,393
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**118,751,651**	25,570,973
Ma Steel Gongchang United Roller Co., Ltd.	(iii)	**3,263,281**	1,931,482
Ma Steel International Trade and Economic Co., Ltd.	(iii)	**636,209**	10,625,390
Others	(iii)	**87,923,181**	64,299,881
		377,522,914	229,099,923

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(7) Sales of steel products to related parties

	Note	**2018**	2017
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**194,027,532**	220,416,363
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**34,030,541**	49,811,149
Ma Steel International Trade and Economic Co., Ltd.	(iii)	**34,322,532**	13,906,618
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	**80,260,006**	12,132,264
Others	(iii)	**–**	5,487,209
		342,640,611	301,753,603

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(8) Financial service fee and interest paid to related parties

	Note	**2018**	2017
The Holding	(v)	**16,078,146**	18,851,865
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	**5,048,308**	2,954,683
Masteel Engineering Technology (Group) Co., Ltd.	(v)	**1,890,401**	2,583,362
Ma Steel International Trade and Economic Co., Ltd.	(v)	**1,167,170**	–
Xinchuang Environmental Protection	(v)	**597,907**	911,970
Others	(v)	**12,135,090**	9,648,123
		36,917,022	34,950,003

(v) Masteel Finance absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranging from 0.42%-2.18% in 2018 (2017: 0.42%-2.18%).

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(9) Financial service income received from related parties

	Note	**2018**	2017
The Holding	(vi)	**37,875,637**	32,023,619
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	**17,893,582**	17,375,814
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	**2,607,884**	5,752,783
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	**2,258,339**	2,020,301
Xinchuang Environmental Protection	(vi)	**99,776**	601,802
Others	(vi)	**2,971,537**	430,531
		63,706,755	58,204,850

(vi) Masteel Finance, a subsidiary of the Group, received financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance notes 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.

(10) Sales of land to related party

	Note	**2018**	2017
Masteel Automobile Transportation Service Co., Ltd.	(vii)	**2,281,300**	–

(vii) The transactions with Masteel Automobile Transportation Service Co., Ltd. were conducted based on the valuation result of the fair value of the land.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(11) Sales of plant, property and equipment to related party

	Note	2018	2017
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	(viii)	**3,898,400**	–

(viii) The transactions with Anhui Masteel Dangerous Goods Transportation Co., Ltd were conducted based on the valuation result of the dangerous transport vehicles, the surface assets of oil storage station and land-use right of oil storage station

(12) Sales of products and render of services to joint ventures and associates

	Note	2018	2017
Ma-Steel OCI Chemical	(ix)	**544,956,445**	479,192,593
BOC-Ma Steel	(ix)	**258,659,279**	252,659,187
		803,615,724	731,851,780

(13) Purchase of products from joint ventures and associates

	Note	2018	2017
JinMa Energy	(ix)	**1,030,544,023**	1,225,802,669
BOC-Ma Steel	(ix)	**540,298,516**	565,828,668
Ma-Steel OCI Chemical	(ix)	**5,335,621**	4,947,125
		1,576,178,160	1,796,578,462

(xi) The terms for trading, including sales of coke by-products, sales of gas, wastewater treatment services, power services, providing facilities and utilities, equipment maintenance services, purchase of coke and purchase of gas, were determined in accordance with a service agreement between the Group and the Holding.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(14) Provide rental service to a joint venture

	Note	2018	2017
BOC-Ma Steel	(x)	**1,250,000**	1,250,000

(15) Financial service fee and interest paid to joint ventures and associates

	Note	2018	2017
BOC-Ma Steel	(x)	**3,494,198**	1,710,724
Shanghai Commercial Factoring	(x)	**8,297**	–
Shanghai Leasing	(x)	**13,073**	–
		3,515,568	1,710,724

(x) The transactions above with joint ventures and associates were conducted on terms of mutually agreed according to market prices between the Group and joint ventures and associates

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(16) Guarantee provided by a related party

2018

	Note	**Guarantee's name**	**Guarantee amount (RMB)**	**Start date**	**End date**	**Has guarantee expired or not**
The Holding	(xi)	**The Company**	**RMB2.717 billion**	**2014.7**	**2025.10**	**Not yet as of the approval date of the report**

2017

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End date	Has guarantee expired or not
The Holding	(xi)	The Company	RMB1.927 billion	2014.7	2025.10	Not yet as of the approval date of the report

(xi) In 2018, the Holding had guaranteed additional certain bank loans of the Group amounting to approximately RMB2.15 billion (2017: approximately RMB1.7 billion) without attached conditions. The Holding had guaranteed part of bank loans without attached conditions amounting to approximately RMB2.717 billion as of 31 December 2018 (31 December 2017: approximately RMB1.927 billion).

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(17) Borrowings from related parties

2018

	Note	**Amount**	**Start date**	**End date**
The Holding	(xii)	**40,000,000**	**2017/8/30**	**2018/8/29**
Anhui Zhonglian Shipping Co., Ltd.	(xii)	**70,000,000**	**2017/9/26**	**2018/9/25**

2017

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xii)	30,000,000	2017/5/4	2017/7/25
The Holding	(xii)	40,000,000	2017/8/30	2018/8/29
Anhui Zhonglian Shipping Co., Ltd.	(xii)	70,000,000	2017/9/26	2018/9/25

(xii) On 30 August 2017, the Holding entrusted Masteel Finance to provide the Company with a short-term loan of RMB40,000,000 with the annual interest of 4.35%, and repay the principal and the interest on the expiration date. The Company accrued interest of RMB1,164,833 in 2018.

On 26 September 2017, Anhui Zhonglian Shipping entrusted Masteel Finance to provide the Company with a short-term loan of RMB70,000,000 with the annual interest rate of 3.915% and repay the principal and the interest on the expiration date. The Company accrued interest of RMB2,040,150 in 2018.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(18) Remuneration of key management

The total amount of key management remuneration (including forms of cash, benefits in kind and others) totally amounted to RMB5,262,438 during the current year (2017: RMB3,780,143), which excluded the remuneration paid to independent directors and independent supervisors.

(19) Directors' and supervisors' emoluments*

	2018	2017
Fee	**447,368**	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	**740,000**	735,333
Performance-related bonuses	**1,798,372**	1,231,495
Pension scheme contributions	**147,296**	34,767
	2,685,668	2,001,595
	3,133,036	2,448,963

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(19) Directors' and supervisors' emoluments* *(continued)*

(1) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2018	2017
Independent directors		
Ms. Zhang Chunxia (Note 1)	**100,000**	8,333
Ms. Zhu Shaofang (Note 1)	**100,000**	8,333
Mr. Wang Xianzhu (Note 1)	**100,000**	8,333
Mr. Qin Tongzhou (Note 2)	**–**	91,667
Ms. Yang Yada (Note 2)	**–**	91,667
Mr. Liu Fangduan (Note 3)	**–**	91,667
	300,000	300,000
Independent supervisors		
Ms. Yang Yada (Note 2)	**73,684**	6,140
Mr. Qin Tongzhou (Note 2)	**73,684**	6,140
Mr. Wong Chunwa (Note 4)	**–**	67,544
Mr. Su Yong (Note 4)	**–**	67,544
	147,368	147,368
	447,368	447,368

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(19) Directors' and supervisors' emoluments* *(continued)*

(i) Independent directors and independent supervisors (continued)

Note 1: Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu were elected as independent directors of the Company in the first interim general meeting of shareholders in 2017.

Note 2: Mr. Qin Tongzhou and Ms. Yang Yada no longer served as independent directors of the Company since 30 November 2017 and were elected as independent supervisors of the 9th board of supervisors in the first interim general meeting of shareholders in 2017.

Note 3: Mr. Liu Fangduan no longer served as an independent director of the Company since 30 November 2017.

Note 4: Mr. Wong Chunwa and Mr. Su Yong no longer served as independent supervisors of the Company since 30 November 2017.

There was no other emoluments except above fee paid to the independent directors and independent supervisors during the year (2017: Nil).

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(19) Directors' and supervisors' emoluments* *(continued)*

(ii) Non-independent directors and non-independent supervisors

	Fee	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2018					
Executive directors					
Mr. Ding Yi (Note 1)	–	–	–	–	–
Mr. Qian Haifan	–	240,000	543,776	36,824	820,600
Mr. Zhang Wenyang	–	192,000	437,417	36,824	666,241
	–	432,000	981,193	73,648	1,486,841
Non-executive directors					
Mr. Ren Tianbao (Note 1)	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	216,000	489,399	36,824	742,223
Mr. Yan Kailong	–	92,000	327,780	36,824	456,604
Mr. Zhang Qianchun (Note 1)	–	–	–	–	–
	–	308,000	817,179	73,648	1,198,827
	–	740,000	1,798,372	147,296	2,685,668

Note 1: In 2018, the remuneration of Mr. Ding Yi, Mr. Ren Tianbao, and Mr. Zhang Qianchun were paid by the Holding rather than the Company.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(19) Directors' and supervisors' emoluments* *(continued)*

(ii) Non-independent directors and non-independent supervisors (continued)

	Fee	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2017					
Executive directors					
Mr. Ding Yi (Note 1)	–	–	–	–	–
Mr. Qian Haifan	–	240,000	386,112	8,870	634,982
Mr. Zhang Wenyang (Note 2)	–	183,333	276,367	8,157	467,857
	–	423,333	662,479	17,027	1,102,839
Non-executive directors					
Mr. Ren Tianbao (Note 1)	–	–	–	–	–
Mr. Su Shihuai (Note 1 & Note 2)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	220,000	341,798	8,870	570,668
Mr. Yan Kailong	–	92,000	227,218	8,870	328,088
Mr. Fang Jinrong (Note 1 & Note 3)	–	–	–	–	–
Mr. Zhang Qianchun (Note 1 & Note 3)	–	–	–	–	–
	–	312,000	569,016	17,740	898,756
	–	735,333	1,231,495	34,767	2,001,595

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(19) Directors' and supervisors' emoluments* *(continued)*

(ii) Non-independent directors and non-independent supervisors (continued)

Note 1: In 2017, the remuneration of Mr. Ding Yi, Mr. Ren Tianbao, Mr. Su Shihuai, Mr. Fang Jinrong and Mr. Zhang Qianchun were paid by the Holding rather than the Company.

Note 2: Mr. Zhang Wenyang was elected as a director in the 9th board of the Company in the first interim general meeting of the shareholders in 2017 and Mr. Su Shihuai no longer served as a director since 30 November 2017.

Note 3: Mr. Zhang Qianchun was elected as a supervisor in the 9th board of directors of the Company in the first interim general meeting of the shareholders in 2017 and Mr. Fang Jinrong no longer served as supervisor since 30 November 2017.

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2017: Nil).

(20) Five highest paid individuals*

Two of the highest paid employees during the year were directors or supervisors (2017: three), details of whose remuneration are stated in Note X.5 (19) above. Details of the remuneration of the other three highest paid employees (non-director, non-supervisor) in 2018 are as follows (2017: two):

	2018	2017
The Group		
Salaries, allowances and benefits in kind	**600,000**	440,000
Performance-related bonuses	**1,369,749**	685,699
Pension scheme contributions	**110,472**	17,739
	2,080,221	1,143,438

In 2018, the remuneration of the remaining three non-director and non-supervisor, as the highest paid employees, fell within the band of nil to HKD1,000,000.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(21) According to the financial service agreement signed by Masteel Finance and the Holding in December 2017, Masteel Finance provided financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2018 to 31 December 2018, the highest daily outstanding loan should be no more than RMB500 million, other financial service charge should be no more than RMB80 million. In 2018, the highest daily deposit balance was RMB5.59 billion (2017: RMB4.69 billion); the highest average daily deposit balance on a monthly basis was RMB4.82 billion (2017: RMB4.17 billion); the highest daily loan balance was RMB0.498 billion (2017: RMB0.498 billion); and the highest average daily loan balance on a monthly basis was RMB0.498 billion (2017: RMB0.497 billion).

(22) Equity transaction with related parties

(i) In 2017, according to the result of evaluation agency on the fair value of Ma Steel (HK)'s net assets, the Company purchased 9% equity of Ma Steel (HK) from Ma Steel International Trade and Economic Co., Ltd. at a consideration of RMB31,440,129.

(ii) In 2018, the Company disposed its subsidiaries, Masteel Scrap, Magang Chemicals & Energy and Masteel K. Wah to the Holding through sales of equity or control loss by passive dilution. Please refer to Note VI. 2 for details.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES

	31 December 2018		31 December 2017	
	Carrying amount	**Provision**	Carrying amount	Provision
Notes and trade receivables				
The Holding and its subsidiaries				
The Holding	**21,837**	**218**	–	–
Anhui BRC & Masteel Weldmesh Co., Ltd.	**842,023**	**–**	526,093	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	**13,983,741**	**138,837**	16,008,365	–
Ma Steel Powder Metallurgy Co., Ltd.	**12,517,181**	**125,172**	33,333,133	–
Anhui Masteel Luo He Mining Co., Ltd.	**–**	**–**	4,000,000	–
Anhui Masteel Equipment Maintenance Co., Ltd.	**3,488,435**	**34,884**	1,374,641	–
Masteel Engineering Technology (Group) Co., Ltd.	**6,522,839**	**65,228**	5,608,594	–
Masteel Automobile Transportation Service Co., Ltd.	**644,120**	**6,441**	243,971	–
Xinchuang Environmental Protection	**586,806**	**5,868**	15,933,746	–
Others entities controlled by the Holding	**3,381,706**	**33,817**	1,980,926	–
	41,988,688	**410,465**	79,009,469	–
Associates and joint ventures of the Group				
BOC-Ma Steel	**24,348,505**	**243,485**	–	–
Ma-Steel OCI Chemical	**–**	**–**	13,620,000	–
Magang Chemicals & Energy	**163,393,736**	**1,604,937**	–	–
Masteel Scrap	**693,280**	**97,059**	–	–
Masteel K. Wah	**54,004,045**	**–**	–	–
	242,439,566	**1,945,481**	13,620,000	–
Other receivables				
The Holding	**120,000**	**2,400**	350,000	–
Masteel Automobile Transportation Service Co., Ltd.	**2,646**	**53**	3,672	–
	122,646	**2,453**	353,672	–

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	31 December 2018	31 December 2017
Prepayments		
The Holding and its subsidiaries		
The Holding	–	2,328,164
Masteel Engineering Technology (Group) Co., Ltd.	**36,371,547**	23,887,100
Ma Steel International Trade and Economic Co., Ltd.	**26,362,695**	14,894,591
Others entities controlled by the Holding	**206,000**	763,431
	62,940,242	41,873,286
Associate of the Group		
JinMa Energy	–	103,217,438

	31 December 2018		31 December 2017	
	Carrying amount	**Provision**	Carrying amount	Provision
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	**100,000,000**	**2,529,316**	–	–
Anhui Masteel Luo He Mining Co., Ltd.	**60,000,000**	**1,575,194**	50,000,000	1,482,636
Anhui BRC & Masteel Weldmesh Co., Ltd.	**51,320,245**	**1,356,455**	61,528,156	1,470,528
Maanshan Iron & Steel Group Mining Co., Ltd.	**1,748,000,000**	**47,443,230**	759,000,000	21,009,782
Anhui Zhonglian Shipping Co., Ltd.	**96,347,991**	**2,426,565**	–	–
Other entities controlled by the Holding	**17,622,774**	**458,763**	987,981	26,661
	2,073,291,010	**55,789,523**	871,516,137	23,989,608
Associate of the Group				
Masteel Scrap	**750,000,000**	**19,300,651**	–	–

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	31 December 2018	31 December 2017
Trade payables		
The Holding and its subsidiaries		
The Holding	**447,268,951**	35,001,304
Masteel Heavy Machinery Manufacturing Co., Ltd.	**150,397,700**	65,521,140
Xinchuang Environmental Protection	**128,756,189**	60,687,857
Ma Steel International Trade and Economic Co., Ltd.	**2,448,375**	6,439,946
Masteel Engineering Technology (Group) Co., Ltd.	**129,671,900**	198,725,638
Feimazhike Automation and Information Technology Co., Ltd.	**62,385,534**	32,336,697
Masteel Transportation Equipment Manufacturing Co., Ltd.	**59,672,213**	8,712,630
Anhui Masteel Equipment Maintenance Co., Ltd.	**88,039,551**	59,108,818
Ruitai Masteel New Material Technology Co., Ltd.	**170,731,535**	–
Other entities controlled by the Holding	**252,998,147**	161,287,512
	1,492,370,095	627,821,542
Joint ventures and associates of the Group		
BOC-Ma Steel	**53,705,028**	78,529,423
Shenglong Chemical	**434,506**	366,902
JinMa Energy	**196,042**	–
Magang Chemicals & Energy	**125,821,787**	–
Masteel Scrap	**75,080,164**	–
	255,237,527	78,896,325

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	31 December 2018	31 December 2017
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	**7,115,212**	6,598,827
Xinchuang Environmental Protection	**9,406,774**	6,257,260
Masteel Engineering Technology (Group) Co., Ltd.	**17,174,664**	19,908,392
Anhui Masteel Equipment Maintenance Co., Ltd.	**7,764,547**	6,584,855
Maanshan Masteel Electric Repair Co., Ltd.	**191,400**	1,477,621
Maanshan Port (Group) Co., Ltd.	**9,449,910**	15,470,463
Other entities controlled by the Holding	**27,434,050**	14,412,949
	78,536,557	70,710,367
Joint venture of the Group		
BOC-Ma Steel	**70,000**	70,000

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	31 December 2018	31 December 2017
Advances from customers		
The Holding and its subsidiaries		
The Holding	**150,785**	178,121
Ma Steel International Trade and Economic Co., Ltd.	**3,750,485**	838,098
Masteel Engineering Technology (Group) Co., Ltd.	**22,128,095**	13,365,245
Anhui BRC & Masteel Weldmesh Co., Ltd.	**585,745**	177,975
Maanshan Iron Construction Group Co., Ltd.	**682,723**	2,208,396
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**2,185,715**	2,185,715
Other entities controlled by the Holding	**1,665,681**	372,319
	31,149,229	19,325,869
Joint ventures and associates of the Group		
Ma-Steel OCI Chemical	**–**	7,606,264
Shenglong Chemical	**11**	11
Masteel K. Wah	**8,955,587**	–
	8,955,598	7,606,275
Interests receivable		
Joint ventures and associates of the Group		
Masteel Scrap	**8,119,136**	–
Masteel K. Wah	**1,812,970**	–
Magang Chemicals & Energy	**8,654,102**	–
	18,586,208	–

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	31 December 2018	31 December 2017
Customer deposits		
The Holding and its subsidiaries		
The Holding	**1,124,732,783**	893,256,203
Masteel Engineering Technology (Group) Co., Ltd.	**304,908,015**	279,389,411
Masteel Heavy Machinery Manufacturing Co., Ltd.	**55,357,489**	88,350,190
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**236,275,555**	412,747,007
Maanshan Iron & Steel Group Mining Co., Ltd.	**436,350,337**	152,763,055
Xinchuang Environmental Protection	**81,293,992**	118,673,055
Ma Steel International Trade and Economic Co., Ltd.	**35,453,705**	97,179,819
Masteel Group Kang Tai Land Development Co., Ltd.	**72,713,370**	33,005,890
Other entities controlled by the Holding	**587,520,264**	395,573,023
	2,934,605,510	2,470,937,653
Joint venture and associates of the Group		
BOC-Ma Steel	**151,648,202**	182,254,044
Masteel Scrap	**220,531,998**	–
Masteel K. Wah	**259,464,886**	–
Magang Chemicals & Energy	**757,556,054**	–
Shanghai Commercial Factoring	**3,433,606**	–
Shanghai Leasing	**23,367**	–
	1,392,658,113	182,254,044

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

The fee charged by Masteel Finance for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the parties.

* As of 31 December 2018, in current assets and current liabilities, except for the interests charge for the deposit and loans provided by Masteel Finance, all these receivables and payables had no interest, no pledge and would be paid in the future.

7. COMMITMENT TO RELATED PARTIES

As of 31 December 2018, the Group had no investment commitment to related parties.

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

Capital commitments

	31 December 2018	31 December 2017
Contracted, but not provided for		
Capital commitments	**2,887,401,034**	1,130,565,007
Investment commitments	**13,969,500**	15,000,000
	2,901,370,534	1,145,565,007

Loan commitments

	31 December 2018	31 December 2017
Acceptance bill	**529,327,274**	365,268,818

Credit commitments of the Group are the payment commitments made by MaSteel Finance for its customers' acceptance bill.

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 eight 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. 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 was 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 was adjusted from the original 15%. The Company had 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 provision or adjustments related to the income tax differences.

Pending litigation

As of 31 December 2018, the Group and the Company did not have significant pending litigation.

XII. EVENTS AFTER THE BALANCE SHEET DATE

On 21 March 2019, with the approval from the 19th meeting of the 9th session of the Board of Directors of the Company, a 2018 final cash dividend of RMB0.31 (tax included) with an amount of RMB2,387,211,168 was recommended to be distributed to shareholders. The dividend distribution proposal is still subject to approval of the shareholders at the 2018 Annual General Meeting of the Company.

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group had leased certain of its investment properties under operating lease arrangements ranging from three to eighteen years. The periodic rental was fixed during the operating lease periods.

	31 December 2018	31 December 2017
Remaining lease period		
Within 1 year, inclusive	**1,558,490**	1,558,490
1 to 2 years, inclusive	**1,250,000**	1,558,490
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**1,407,534**	2,657,534
	5,466,024	7,024,514

As lessee

According to the leasing contract signed with the lessor, the minimum lease payment for the irrevocable lease is as follows:

	31 December 2018	31 December 2017
Remaining lease period		
Within 1 year, inclusive	**338,912**	–
1 to 2 years, inclusive	**338,912**	–
2 to 3 years, inclusive	**277,720**	–
Over 3 years	**–**	–
	955,544	–

2. OPERATING SEGMENT INFORMATION

Operating segments

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 its subsidiaries except for Masteel Finance

- Financial service: Masteel Finance

The Group did not consider financial service as an individual reportable segment, as Masteel Finance mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

	2018	2017
Sale of steel products	**74,107,142,467**	67,328,791,716
Sale of steel billets and pig iron	**2,088,810,111**	2,031,982,992
Sale of coke by-products	**933,738,098**	824,520,152
Others	**3,783,555,349**	2,030,659,794
	80,913,246,025	72,215,954,654

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Other information *(continued)*

Geographical information

External principal operating income

	2018	2017
Mainland China	**75,648,970,094**	67,815,626,883
Overseas	**5,264,275,931**	4,400,327,771
	80,913,246,025	72,215,954,654

Non-current assets

	31 December 2018	31 December 2017
Mainland China	**37,608,891,886**	38,072,610,336
Overseas	**319,090,492**	330,183,194
	37,927,982,378	38,402,793,530

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

Major customer information

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

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. OTHER FINANCIAL INFORMATION*

	Group		Company	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Current assets	**38,405,267,817**	32,098,538,779	**21,589,293,692**	23,227,123,182
Less: Current liabilities	**39,737,027,081**	36,118,138,248	**26,518,782,308**	28,093,364,985
Net current liabilities	**(1,331,759,264)**	(4,019,599,469)	**(4,929,488,616)**	(4,866,241,803)

	Group		Company	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Total assets	**76,871,999,293**	72,191,589,979	**58,445,169,405**	60,044,692,283
Less: Current liabilities	**39,737,027,081**	36,118,138,248	**26,518,782,308**	28,093,364,985
Total assets less current liabilities	**37,134,972,212**	36,073,451,731	**31,926,387,097**	31,951,327,298

4. EMPLOYEE COSTS (EXCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (NOTE X.5 (19))*

	2018	2017
Wages and salaries	**3,147,531,921**	2,781,927,679
Welfare	**823,262,275**	682,659,254
Pension scheme contributions (i)	**607,643,897**	674,394,634
Employee termination benefits	**150,464,248**	216,124,494
	4,728,902,341	4,355,106,061

(i) As of 31 December 2018 and 31 December 2017, no contribution was capitalized or waived to reduce the Group's liability to pay pension scheme contributions in the future.

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. COMPARATIVE AMOUNT

As stated in Note III. 34, due to the changes in financial statements format, the Company combined "notes receivable" and "trade receivables" as "notes and trade receivables", and combined "interest receivable" and "dividends receivable" as "other receivables", combined "fixed assets" and "disposal on fixed assets" as "fixed assets", and combined "notes payable" and "trade payable" as "notes and trade payables". The Company split "Research and Development expense" from "General and administrative expenses" in the income statement, split "interest expenses" and "interest income" from the item "financial expenses". Cash received from government grant on assets was changed to cash flows from operating activities from investing activities. Accounting treatment and presentation of the above items in the financial statements have been changed to meet the new requirements. Correspondingly, the Company retrospectively represented the comparative amount to meet this year's requirement of disclosure and accounting treatment.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. NOTES AND TRADE RECEIVABLES

	31 December 2018	31 December 2017
Notes receivable	**4,692,435,408**	8,065,941,428
Trade receivables	**2,460,866,900**	2,104,541,167
	7,153,302,308	10,170,482,595

Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	**4,692,435,408**	8,065,941,428

As of 31 December 2018, there were no pledged notes receivable (31 December 2017: Nil) for obtaining bank loans.

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Notes receivable *(continued)*

As of the financial position date, the undue notes discounted or endorsed were as follows:

	31 December 2018		31 December 2017	
	Derecognized	**Not derecognized**	Derecognized	Not derecognized
Bank acceptance notes	**5,920,324,384**	**141,260,870**	3,377,050,840	59,005,216

As of 31 December 2018 and 31 December 2017, there was no trade receivables transferred from notes receivable because of the drawers' inability to pay.

Trade receivables

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days. The ageing of trade receivables, based on the invoice date, is analyzed below:

	31 December 2018	31 December 2017
Within one year	**2,340,825,024**	1,964,496,309
One to two years	**23,995,607**	74,975,028
Two to three years	**54,169,295**	69,673,222
Over three years	**105,690,621**	43,317,628
	2,524,680,547	2,152,462,187
Less: Provisions for bad debts	**63,813,647**	47,921,020
	2,460,866,900	2,104,541,167

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

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

The movements of the provision for bad debts were as follows:

	Opening balance	Changes during the year: Increase	Changes during the year: Reversal	Changes during the year: Write-back	Changes during the year: Write-off	Other changes	Ending balance
2018	**47,921,020**	**15,892,627**	**–**	**–**	**–**	**–**	**63,813,647**
2017	13,382,203	34,538,817	–	–	–	–	47,921,020

The trade receivables balances are analyzed as follows:

	31 December 2018			
	Carrying amount		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed for bad debt provision individually	**1,760,653,533**	**70**	**–**	**–**
Assessed bad debt provision in portfolios based credit risk characteristics	**764,027,014**	**30**	**(63,813,647)**	**8**
	2,524,680,547	**100**	**(63,813,647)**	

	31 December 2017			
	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	40,137,408	2	(40,137,408)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	1,925,329,597	89	(5,354,261)	–
Individually insignificant but assessed for impairment individually	186,995,182	9	(2,429,351)	1
	2,152,462,187	100	(47,921,020)	

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

As of 31 December 2017, those individually significant and assessed for impairment individually were as follows:

	Carrying amount	Provision for bad debts	Ratio (%)	Reason
Company 1	20,279,298	(20,279,298)	100	Note
Company 2	6,927,040	(6,927,040)	100	Note
Company 3	6,291,156	(6,291,156)	100	Note
Company 4	3,920,206	(3,920,206)	100	Note
Company 5	2,719,708	(2,719,708)	100	Note
	40,137,408	(40,137,408)	100	

Note: The Company has confirmed trade receivables to these companies were uncollectible. Therefore provision for bad debts was fully recognized.

The provision for bad debts applying other method by the Company is as follows:

	31 December 2018		
	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss
Trade receivables to subsidiaries	**1,760,653,533**	**–**	**–**
	1,760,653,533		**–**

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

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

The Company's provision for bad debts of trade receivables analyzed by ageing was follows:

	31 December 2018			31 December 2017		
	Carrying amount expected to default	Expected Credit loss percentage (%)	Expected credit loss	Carrying amount	Bad debts ratio (%)	Provision for bad debts
Within one year	672,838,883	1	(6,728,389)	1,911,419,009	–	–
One to two years	23,995,607	14	(3,359,385)	3,708,544	10	(370,854)
Two to three years	23,953,223	51	(12,216,144)	392,049	20	(78,410)
Over three years	43,239,301	96	(41,509,729)	9,809,995	50	(4,904,997)
	764,027,014		(63,813,647)	1,925,329,597		(5,354,261)

In 2018, the Company's provision for bad debts was RMB15,892,627 (2017: RMB34,538,817), and there was no collection or reversal of provision for bad debts (2017: Nil).

In 2018, there were no trade receivables that had been written off (2017: Nil).

The top five trade receivables classified by debtor are as follows:

31 December 2018

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Subsidiary	885,944,872	Within one year	36%	–
Company 2	Subsidiary	298,679,663	Within one year	12%	–
Company 3	Third party	160,493,736	Within one year	7%	1,604,937
Company 4	Third party	145,378,033	Within one year	6%	1,453,780
Company 5	Subsidiary	124,421,700	Within one year	5%	–
		1,614,918,004		66%	3,058,717

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

Trade receivables *(continued)*

The top five trade receivables classified by debtor are as follows: *(continued)*

31 December 2017

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Subsidiary	905,424,701	Within one year	42%	–
Company 2	Subsidiary	170,135,854	Within one year	8%	–
Company 3	Subsidiary	159,853,738	Within one year	7%	–
Company 4	Subsidiary	116,262,406	Within one year	5%	–
Company 5	Subsidiary	102,945,205	Within one year	5%	–
		1,454,621,904		67%	–

2. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Dividends receivable	**20,346,208**	–
Other receivables	**43,497,924**	188,725,018
	63,844,132	188,725,018

Dividends Receivable

	31 December 2018	31 December 2017
Other equity instruments investments – MCC17		
Associate – Masteel Scrap	**1,760,000**	–
Associate – Masteel K. Wah	**8,119,136**	–
Associate – Magang Chemicals & Energy	**1,812,970**	–
	8,654,102	–
	20,346,208	–

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

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables

An ageing analysis of the other receivables is as follows:

	31 December 2018	31 December 2017
Within one year	**44,172,475**	187,226,756
One to two years	**37,130**	1,181,088
Two to three years	**243,945**	304,865
Over three years	**410,870,901**	423,726,846
	455,324,451	612,439,555
Less: Provision for bad debts	**411,826,527**	423,714,537
	43,497,924	188,725,018

The movements of bad debt provision based on the lifetime credit losses is as follows:

		Changes during the year				
	Opening balance	Increase	Reversal	Write-back/ write-off	Other changes	Closing balance
2018	**423,714,537**	**–**	**(11,888,010)**	**–**	**–**	**411,826,527**
2017	422,847,239	867,298	–	–	–	423,714,537

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables *(continued)*

	31 December 2018			
	Carrying amount		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed expected credit losses individually	**74,298**	**–**	**–**	**–**
Assessed expected credit loss in portfolios based on credit risk characteristics	**455,250,153**	**100**	**(411,826,527)**	**90**
	455,324,451	**100**	**(411,826,527)**	

	31 December 2017			
	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	418,316,326	68	(418,316,326)	100
Assessed bad debts provision in portfolios based on credit risk characteristics	181,292,054	30	(2,607,132)	1
Individually insignificant but assessed for impairment individually	12,831,175	2	(2,791,079)	22
	612,439,555	100	(423,714,537)	

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

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables *(continued)*

As of 31 December 2017, those individually significant and assessed for impairment individually were as follows:

	Carrying amount	Provision for bad debts	Ratio (%)	Reason
Company 1	**132,058,434**	**(132,058,434)**	**100**	Note
Company 2	**127,685,367**	**(127,685,367)**	**100**	Note
Company 3	**60,939,960**	**(60,939,960)**	**100**	Note
Company 4	**57,988,833**	**(57,988,833)**	**100**	Note
Company 5	**37,243,732**	**(37,243,732)**	**100**	Note
Company 6	**2,400,000**	**(2,400,000)**	**100**	Note
	418,316,326	**(418,316,326)**	**100**	

Note: Full provision for bad debts were made as these long-term uncollected other receivables were unable to be collected for a long time and less expected to be recovered in the future.

The Company's provision for bad debts of other receivables analyzed by ageing are disclosed as follows:

	31 December 2018			31 December 2017		
	Carrying amount expected to default	**Expected Credit loss percentage (%)**	**Expected credit loss**	Carrying amount	Bad debts ratio (%)	Provision for bad debts
Within one year	**44,098,177**	**2**	**(881,964)**	174,950,001	–	–
One to two years	**37,130**	**21**	**(7,797)**	1,181,088	10	(118,109)
Two to three years	**243,945**	**27**	**(65,865)**	304,865	20	(60,973)
Over three years	**410,870,901**	**100**	**(410,870,901)**	4,856,100	50	(2,428,050)
	455,250,153		**(411,826,527)**	181,292,054		(2,607,132)

In 2018, there was no provision for bad debts of other receivables (2017: RMB867,297), and there was a reversal of provision for bad debts at RMB11,888,010 (2017: Nil).

In 2018, there was no other receivables that had been written off (2017: Nil).

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables *(continued)*

Other receivables classified by nature:

	31 December 2018	31 December 2017
Due from trading companies	**403,317,627**	415,916,327
Guarantee for steel futures	**74,298**	131,482,895
Prepayments of custom duties and VAT	**8,425,735**	39,396,766
Others	**43,506,791**	25,643,567
	455,324,451	612,439,555
Less: Provision for bad debts	**411,826,527**	423,714,537
	43,497,924	188,725,018

As of 31 December 2018, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	29	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,368	28	Due from trading companies	More than 3 years	(127,685,368)
Company 3	60,939,960	13	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	10	Due from trading companies	More than 3 years	(45,390,133)
Company 5	37,243,732	8	Due from trading companies	More than 3 years	(37,243,732)
	403,317,627	88			(403,317,627)

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

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables *(continued)*

As of 31 December 2017, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	22	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,367	21	Due from trading companies	More than 3 years	(127,685,367)
Company 3	73,560,769	12	Futures deposit	Within 1 year	–
Company 4	60,939,960	10	Due from trading companies	More than 3 years	(60,939,960)
Company 5	57,988,833	9	Due from trading companies	More than 3 years	(57,988,833)
	452,233,363	74			(378,672,594)

3. LONG-TERM EQUITY INVESTMENTS

	31 December 2018	31 December 2017
Long-term investments under the equity method		
Joint ventures (i)	**268,590,692**	335,003,849
Associates (i)	**2,455,625,221**	1,190,221,353
Long-term investments under the cost method		
Subsidiaries (ii)	**7,422,056,043**	7,365,064,910
Subtotal	**10,146,271,956**	8,890,290,112
Less: Provision for impairment	**–**	60,000,000
Total	**10,146,271,956**	8,830,290,112

In the opinion of the directors, there was no material restriction on the realization of investments as of the financial position date.

3. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Investment in joint ventures and associates

2018

	Opening balance	Changes during the year: Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Ending balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	334,457,696	-	-	83,631,261	-	-	(150,000,000)	-	268,088,957	-
MASTEEL-CMI	546,153	-	-	(44,418)	-	-	-	-	501,735	-
Associates										
JinMa Energy	441,184,749	-	-	222,404,961	(2,745,469)	(305,382)	(47,520,000)	-	613,018,859	-
Shenglong Chemical	469,646,241	-	-	294,692,833	-	339,819	(31,992,968)	-	732,685,925	-
Shanghai Iron and Steel Electronic	22,759,705	-	-	(2,969,594)	-	-	(12,000,000)	-	7,790,111	-
Xinchuang Environmental Protection	48,584,024	-	-	10,054,228	-	471,699	(1,428,658)	-	57,681,293	-
Anhui Linhuan Chemical (Note)	80,254,391	-	(106,810,899)	26,475,894	-	80,614	-	-	-	-
Ma-Steel OCI Chemical	127,792,243	-	-	17,455,827	-	1,271,803	-	-	146,519,873	-
Ma-Steel Commercial Factoring (Note)	-	75,000,000	-	2,647,587	-	-	-	-	77,647,587	-
Magang Chemicals & Energy (Note)	-	600,632,763	-	-	-	-	-	-	600,632,763	-
Masteel K.Wah. (Note)	-	79,975,786	-	-	-	-	-	-	79,975,786	-
Masteel Scrap (Note)	-	139,673,024	-	-	-	-	-	-	139,673,024	-
	1,525,225,202	895,281,573	(106,810,899)	654,348,579	(2,745,469)	1,858,553	(242,941,626)	-	2,724,215,913	-

Note: Please refer to Note V.15 for details.

2017

	Opening balance	Changes during the year: Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Ending balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	319,018,068	-	-	90,439,628	-	-	(75,000,000)	-	334,457,696	-
MASTEEL-CMI	541,433	-	-	4,720	-	-	-	-	546,153	-
Mascometal	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
Associates										
JinMa Energy	296,196,390	-	(22,335,060)	202,392,735	-	930,684	(36,000,000)	-	441,184,749	-
Shenglong Chemical	309,396,424	-	-	179,443,817	-	-	(19,194,000)	-	469,646,241	-
Shanghai Iron and Steel Electronic	27,120,592	-	-	1,639,113	-	-	(6,000,000)	-	22,759,705	-
Xinchuang Environmental Protection	43,780,961	-	-	5,362,627	-	746,827	(1,306,391)	-	48,584,024	-
Anhui Linhuan Chemical	72,000,000	-	-	7,320,968	-	933,423	-	-	80,254,391	-
Ma-Steel OCI Chemical	118,438,408	-	-	8,154,347	-	1,199,488	-	-	127,792,243	-
	1,239,776,313	78,431,997	(149,703,691)	490,410,552	-	3,810,422	(137,500,391)	-	1,525,225,202	-

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

3. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Investments in subsidiaries

2018

	Opening balance	Changes during the year: Increase	Changes during the year: Disposal/ cancellation of subsidiaries	Changes during the year: Other equity movement	Changes during the year: Provision for impairment	Ending balance	Impairment at the end of the year	Cash dividends declared
Masteel K. Wah	44,443,067	46,353,454	(90,796,521)	-	-	-	-	137,578,608
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	23,000,000
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	4,048,400
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	6,773,781
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	85,596,489	-	-	-	-	85,596,489	-	6,700,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	7,100,000
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	(100,000,000)	-	-	-	-	58,016,792
Masteel Shanghai Trading (Note 1)	-	-	-	-	-	-	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	5,600,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	528,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	63,362,007
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES (Note 2)	646,004,985	237,018,000	-	-	-	883,022,985	-	-
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 Sales	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	396,021,369	-	-	-	-	396,021,369	-	-
Ma Steel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Ma Steel America Inc	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antirust	3,060,000	-	-	-	-	3,060,000	-	-
Mascomental	127,368,631	-	-	-	-	127,368,631	-	-
Magang Chemical & Energy (Note1&3)	-	601,406,140	(601,406,140)	-	-	-	-	79,686,077
Meite Metallurgical Power (Note 3)	-	500,000	-	-	-	500,000	-	-
Masteel Middle East (Note 3)	-	2,041,200	-	-	-	2,041,200	-	-
Changchun Sales (Note 3)	-	10,000,000	-	-	-	10,000,000	-	-
Wuhan Material (Note 3)	-	31,875,000	-	-	-	31,875,000	-	-
	7,305,064,910	929,193,794	(812,202,661)	-	-	7,422,056,043	-	919,865,665

Note 1: For the information of the disposal of subsidiaries, please refer to Note VI.2.

Note 2: In 2018, the Company injected capital amounting to EUR 30,000,000, equivalent to RMB237,018,000 to MG-VALDUNES.

Note 3: For the information of the newly established subsidiaries, please refer to Note VI.1.

3. LONG-TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Investments in subsidiaries *(continued)*

2017

		Changes during the year						
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment	Ending balance	Impairment at the end of the year	Cash dividends declared
Masteel K. Wah	44,443,067	–	–	–	–	44,443,067	–	9,081,100
Ma Steel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	–
Ma Steel (Cihu)	48,465,709	–	–	–	–	48,465,709	–	6,858,085
Ma Steel (Guangzhou)	80,000,000	–	–	–	–	80,000,000	–	1,800,042
Ma Steel (HK)	21,146,421	31,440,129	–	–	–	52,586,550	–	–
MG Trading	1,573,766	–	–	–	–	1,573,766	–	–
Holly Industrial	21,478,316	–	–	–	–	21,478,316	–	–
Huayang Equipment	900,000	–	(900,000)	–	–	–	–	–
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	12,396,489	–	–	–	85,596,489	–	5,000,000
Ma Steel (Yangzhou) Processing	116,462,300	–	–	–	–	116,462,300	–	5,000,000
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	–	2,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	–	–	–	–	1,234,444,444	–	45,933,957
Masteel Finance	933,172,609	910,000,000	–	–	–	1,843,172,609	–	12,531,425
Hefei Materials	140,000,000	–	–	–	–	140,000,000	–	–
MG-VALDUNES	336,695,298	309,309,687	–	–	–	646,004,985	–	–
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 Sales	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	396,021,369	–	–	–	–	396,021,369	–	–
Ma Steel Oubang Color-coated	10,050,000	–	–	–	–	10,050,000	–	–
Ma Steel America Inc	3,298,375	–	–	–	–	3,298,375	–	–
Ma Steel Antirust	–	3,060,000	–	–	–	3,060,000	–	–
Mascomental	–	127,368,631	–	–	–	127,368,631	–	–
	5,912,389,974	1,393,574,936	(900,000)	–	–	7,305,064,910	60,000,000	88,204,609

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

4. REVENUE AND COST OF SALES

	2018		2017	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**66,162,309,714**	**59,321,456,810**	59,025,299,464	53,732,913,491
Other operating income	**1,070,552,763**	**979,720,054**	857,141,051	874,173,074
	67,232,862,477	**60,301,176,864**	59,882,440,515	54,607,086,565

Disaggregated revenue information:

	2018	2017
Sales of products	**67,195,491,692**	59,855,497,254
Rendering service	**25,333,729**	16,544,849
Rental income	**12,037,056**	10,398,412
	67,232,862,477	59,882,440,515

Timing of revenue recognition:

	2018	2017
Recognize at a point in time		
Sales of steel products	**62,863,775,845**	57,032,554,760
Sales of other products	**4,331,715,847**	2,822,942,494
Recognize over time		
Consulting services	**22,577,622**	11,988,457
Lease income	**12,037,056**	10,398,412
Other	**2,756,107**	4,556,392
	67,232,862,477	59,882,440,515

5. INVESTMENT INCOME

	2018	2017
Investment income from long-term investment under the equity method	**654,348,579**	490,410,552
Investment income from long-term investment under the cost method	**919,865,665**	58,533,389
Gain from disposal of subsidiaries	**135,171,383**	7,796,084
Loss from equity dilution in associate	**–**	(22,335,060)
Gain from disposal of an associate	**7,689,556**	–
Gain from changing cost method to equity method in disposal of subsidiaries	**37,313,053**	–
Investment income from available-for-sale financial assets in duration	**–**	1,570,000
Investment income from other equity instruments investments in duration	**3,380,000**	–
Gain from disposal of financial assets classified as held for sale measured at fair value through profit or loss	**25,838,839**	69,277,395
	1,783,607,075	605,252,360

As of the financial position date, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

For the year ended 31 December 2018
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)" ([2008] No.43) issued by the CSRC.

	2018
Items of non-recurring gains or losses	
Gain from disposal of non-current assets	**371,280,264**
Government grants recognized in current period profit or loss (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)	**337,543,274**
Employee termination compensation	**(150,464,248)**
Gain from disposal of subsidiaries	**188,829,498**
Gain from disposal of an associate	**7,689,556**
Except for the effective hedging business related to ordinary business of the Company, changes in fair value of financial assets and financial liabilities held-for-trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held-for-trading and financial assets at fair value through other comprehensive income	**225,957,069**
Net non-recurring income or expenses other than the above items	**(1,033,653)**
	979,801,760
Income tax effect	**88,002,196**
Non-controlling interests effect (net of tax)	**40,870,094**
Net effect of non-recurring gains or losses	**850,929,470**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	
Net profit attributable to owners of the parent	**5,943,286,585**
Less: net effect of non-recurring gains or losses	**850,929,470**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	**5,092,357,115**

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2018

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	**Diluted**
Net profit attributable to owners of the parent	**22.68**	**77.18**	**77.18**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	**19.44**	**66.13**	**66.13**

2017

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	18.92	53.62	53.62
Net profit attributable to owners of the parent excluding non-recurring gains or losses	18.18	51.54	51.54

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.

X. Document Available for Inspection

Documents Available for Inspection	Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.
Documents Available for Inspection	Original copy of the audit report, sealed by Ernst & Young Hua Ming LLP and signed by Ms. An Xiuyan and Ms. Dong Nan, certified public accountants in the PRC.
Documents Available for Inspection	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.
Documents Available for Inspection	Annual report announced on the website of the Hong Kong Stock Exchange.
Documents Available for Inspection	The Articles of Association of the Company
Documents Available for Inspection	Other Related Information

Chairman: Ding Yi

Submission date approved by the Board of Directors：21 March 2019

馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited