

# 2017 Annual Report

H Share Code: 323  
A Share Code: 600808



**MAANSHAN IRON & STEEL COMPANY LIMITED**

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## IMPORTANT NOTICE

- 1. The board of directors (the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.**
- 2. All members of the Board attended the Board meeting.**
- 3. Ernst & Young Hua Ming LLP audited and issued a standard unqualified opinion on the annual financial statements of the Company.**
- 4. Mr. Ding Yi, representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the annual report.**
- 5. Profit distribution plan or plan for the capitalization of capital reserve during the reporting period considered by the Board.**

The Board suggests a final dividend of RMB0.165 per share (tax included) shall be distributed for the year of 2017 and retained earnings will be carried forward to the year of 2018. No capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

## Content (Continued)

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

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

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

# Definitions

## I. DEFINITIONS

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

### Definitions of common terms

The Company and Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	the Company and its subsidiaries
The Group Company	means	Magang (Group) Holding Company Limited
Board of Directors or the Board	means	the board of directors of the Company
Directors	means	the directors of the Company
Supervisory Committee	means	the supervisory committee of the Company
Supervisors	means	the supervisors of the Company
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
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Masteel Finance	means	Magang Group Finance Co. Ltd., a subsidiary of the Company
Hefei Company	means	Ma Steel (Hefei) Iron & Steel 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
Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd., a subsidiary of the Company
CRCC	means	China Railway Test & Certification Center
Rail Transportation Co.	means	Magang Rail Transportation Equipment Co. Ltd., a wholly owned subsidiary of the Company
Magang Investment Limited	means	Magang Group Investment Limited, a wholly owned subsidiary of the Group Company
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
reporting period	means	From 1 January 2017 to 31 December 2017

## 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

	<b>Secretary of the Board</b>	<b>Representative for Securities Affairs</b>
Name	(President will undertake responsibilities on behalf of Secretary of the Board)	He Hongyun
Office Address	No. 8, Jiuhuaxi Road, Maanshan City, Anhui Province, PRC	No. 8, Jiuhuaxi Road, Maanshan City, Anhui Province, PRC
Telephone	86-555-2888158/2875251	86-555-2888158/2875251
Fax	86-555-2887284	86-555-2887284
Email Address	mggfdms@magang.com.cn	mggfdms@magang.com.cn

### 3. INTRODUCTION OF THE COMPANY'S MAJOR BUSINESSES DURING THE REPORTING PERIOD

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	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a> (A Shares) <a href="http://www.magang.com.hk">http://www.magang.com.hk</a> (H Shares)
Email address	mggfdms@magang.com.cn

### 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	<a href="http://www.sse.com.cn">www.sse.com.cn</a>
Location for inspection of annual report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

## 5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Type of shares	Stock exchange for listing of shares	Short name of stock	Stock code
A Shares	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

Major accounting data	Unit: RMB			
	2017	2016	Increase/ decrease compared to previous year (%)	2015
Revenue	<b>73,228,029,624</b>	48,275,100,310	51.69	45,108,926,739
Net profit attributable to owners of the parent	<b>4,128,939,861</b>	1,228,892,407	235.99	-4,804,299,674
Net profit excluding non-recurring gains or losses attributable to owners of the parent	<b>3,969,088,696</b>	1,409,936,906	181.51	-5,129,504,672
Net cash flows from operating activities	<b>4,489,916,403</b>	4,619,861,014	-2.81	5,865,332,053
Major accounting data	As at the end of 2017	As at the end of 2016	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2015
Net assets attributable to owners of the parent	<b>23,895,739,812</b>	19,764,171,955	20.90	18,455,838,015
Total Assets	<b>72,191,589,979</b>	66,245,531,030	8.98	62,454,465,955
Total share capital	<b>7,700,681,186</b>	7,700,681,186	-	7,700,681,186

## II. Company Introduction and Major Financial Indicators (Continued)

### 7.2 MAJOR FINANCIAL INDICATORS

<u>Major accounting data</u>	<u>2017</u>	<u>2016</u>	Increase/ decrease compared to the previous year (%)	<u>2015</u>
Basic earnings per share (RMB/share)	<b>0.536</b>	0.160	235.00	-0.624
Diluted earnings per share (RMB/share)	<b>0.536</b>	0.160	235.00	-0.624
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	<b>0.515</b>	0.183	181.42	-0.666
Return on net assets (weighted average) (%)	<b>18.92</b>	6.43	Increased by 12.49 percentage points	-23.01
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	<b>18.18</b>	7.38	Increased by 10.80 percentage points	-24.57

### 8. MAJOR FINANCIAL DATA BY QUARTER IN 2017

<u>Major financial data</u>	<u>1st Quarter (Jan-Mar)</u>	<u>2nd Quarter (Apr-Jun)</u>	<u>3rd Quarter (Jul-Sep)</u>	<u>4th Quarter (Oct-Dec)</u>
Revenue	17,336,558,057	17,851,021,583	17,677,260,858	20,363,189,126
Net profit attributable to owners of the parent	901,746,797	741,649,717	1,096,467,287	1,389,076,060
Net profit excluding non-recurring gains or losses attributable to owners of the parent	894,603,238	636,515,910	1,104,939,721	1,333,029,827
Net cash flows from operating activities	1,644,749,451	-185,157,395	1,222,756,748	1,807,567,599

## 9. NON-OPERATING ITEMS AND AMOUNTS

<b>Non-operating items</b>	<b>2017</b>	2016	Unit: RMB 2015
Gains/(losses) from disposal of non-current assets	<b>-176,952,368</b>	-51,189,196	32,965,870
Government grants recognised in current gains/losses (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	<b>170,645,383</b>	74,522,778	259,052,828
Government grants related to the Company's normal operations	<b>238,868,248</b>	116,979,983	87,185,350
In addition to effective hedging business related to normal operations of the Company, changes in fair value of trading financial assets and trading financial liabilities held, as well as the return on investment generated from the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	<b>217,458,815</b>	62,627,178	14,845,619
Employee termination benefits	<b>-216,124,494</b>	-347,468,731	-
Reversal of provision for trade receivables assessed for impairment individually	<b>3,632,383</b>	927,877	-
Investment income from disposal of equity interests in a subsidiary	<b>736,943</b>	-	4,160,631
Return on investments generated from the revaluation of the shareholdings in the acquired subsidiaries held at fair value	<b>390,855</b>	-	-
Investment loss caused by passive dilution of equity because of increased capital of joint ventures and associates	<b>-22,335,060</b>	-	-
Non-operating income and expenses other than the above items	<b>-11,146,562</b>	-19,729,079	-12,682,505
Impact of non-controlling interests	<b>-11,689,059</b>	-6,551,217	-391,055
Impact of income tax	<b>-33,633,919</b>	-11,164,092	-59,931,740
<b>Total</b>	<b><u>159,851,165</u></b>	<b><u>-181,044,499</u></b>	<b><u>325,204,998</u></b>

## II. Company Introduction and Major Financial Indicators (Continued)

### 10. ITEMS AT FAIR VALUE MEASUREMENT

Item	Unit: RMB			
	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the profit for the reporting period
Financial assets at fair value through profit or loss	555,322,261	1,546,139,404	990,817,143	178,976,520
Financial liabilities at fair value through profit or loss	–	10,498,810	10,498,810	–10,498,810

### 11. OTHERS

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

Accounting Data (Indicators)	Unit: RMB million				
	2017	2016	2015	2014	2013
Revenue	73,228	48,275	45,109	59,821	73,849
Gross profit	5,809	1,369	–4,727	512	322
Net profit	5,072	1,257	–5,104	264	208
Basic earnings per share (RMB/share)	0.536	0.160	–0.624	0.029	0.020
Diluted earnings per share (RMB/share)	0.536	0.160	–0.624	0.029	0.020
Major Accounting Data	At the end of 2017	At the end of 2016	At the end of 2015	At the end of 2014	At the end of 2013
Total assets	72,192	66,246	62,454	68,511	71,822
Total liabilities	44,954	44,165	41,713	42,622	46,123
Net assets	27,238	22,081	20,742	25,889	25,699

# III. Overview of the Company's Businesses

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

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

**Plates:** Major products include thin plates and medium plates. Thin plates can be further categorized into hot and cold-rolled thin plates, galvanized plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, highgrade construction plates, and plates for businesses like packaging and utensil manufacturing. Coilcoating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurized utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six ship classification societies from China, the United Kingdom, Germany, the United States, France and Norway. Pickling plates and boiler vessel plates have obtained the PED certification (pressure equipment) of the European Union. The Company's automobile plate products have obtained the IATF16949 system certification, SAIC-GM, FAW Group and multiple original equipment manufacturers certification.

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

## III. Overview of the Company's Businesses (Continued)

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

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

During the reporting period, the iron and steel industry to which the Company belongs to was at its mature stage. Currently, the supply-side reform achieved initial success but the overcapacity contradicting was still highlighted.

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

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

Of which, overseas assets amounted to RMB1,840 million, accounting for 2.55% of total assets.

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

The Company has combined intellectual properties with restructuring of its industrial mix, technical development and marketing closely, and built a number of patent pools covering rail transport, building steel of high-performance, car plates, electric steel and environment-friendly coke ovens to protect its technologies and market presence. The Company is planning on international patent applications in target markets. Cylindrical Vacuum Refining Device and Its Application developed by the Company has received patents in both Japan and the USA. As of 31 December 2017, the Company had owned 953 valid patents and 3,339 technical know-hows (non-patent technologies).

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 76 senior technology leaders, of which 11 emerged newly in 2017.

# IV. Report of The Board

## 1. THE MANAGEMENT DISCUSSIONS AND ANALYSIS

### 1.1 CHAIRMAN STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2017.

In accordance with the China Accounting Standards, the Group achieved revenue of RMB73,228 million in 2017, representing a YoY growth of 51.69%. It turned around and recorded net profit attributable to owners of the parent of RMB4,129 million, representing a YoY growth of 235.99%. The basic earnings per share were RMB0.536, representing a YoY growth of 235.99%. As at the end of the reporting period, the Group's total assets amounted to RMB72,192 million, representing a YoY growth of 8.98%. Net assets attributable to owners of the parent were RMB23,896 million, representing a YoY growth of 20.90%.

The Company had net profit amounting to RMB2,694 million, and after deducting the opening cumulative loss amounting to RMB126 million, and surplus reserve by 10%, based on the China Accounting Standards, the distributable profit in 2017 was RMB2,311 million. The Board suggests a final dividend of RMB0.165 per share (tax included) shall be distributed for the year of 2017 and retained earnings will be carried forward to the year of 2018. The distribution plan is going to be submitted to the Annual General Meeting for approval.

In 2017, our country continuously adopted a proactive fiscal policy and prudent monetary policy. Chinese economy had kept the development trend of stable performance with good momentum with 6.9% of year-on-year GDP growth. The major downstream steel-consuming industries including real estate, automobile and home appliances in China kept better-than-expected development; investment in infrastructure also kept a high level; and the overall steel consumption made sustainable improvement. At the same time, structural reform is further implemented in steel industry at supply side. As a result, great achievements have been made in cutting of over-capacity and “ground steel strip” has been completely banned. According to National Bureau of Statistics of the People's Republic of China, in 2017, the country's crude steel production was 832 million tons, representing a YoY growth of 5.7%. The price of domestic steel got a reasonable recovery, and the consolidated steel price index increased by 22.29 points from 99.51 points at the beginning of 2017 to 121.80 points at the end of 2017, representing a growth of 22.4% YoY. As the steel industry experienced a steady rising trend, it turned significant improvement of profitability of the industry.



## IV. Report of The Board (Continued)

In 2017, the Company stuck to the tenet of “deepening the reform unswervingly and building the brand unremittingly”, seized the policy opportunity of supply-side structural reform, systematically planned the “1345” brand building project, kept lean operation and pursuing excellence, continuously optimized its product mix by ceaselessly cementing the leading edge of wheels and axles, effectively expanding the second-mover advantage of steel plates and bringing into full play of the traditional advantage of long products. The Company refined the blast furnace examination, alarm and response system, tightened quality control over ingredients, raw materials and fuels, ensured the stable and smooth running of iron-making system and saw continually improving performance indicators. By lowering the iron-steel ratio and optimizing division of work among production lines and production scheduling, the Company tapped into the greatest potential of key production lines. Product quality improved significantly thanks to the advancement of technical processes and equipment and enhanced quality process control and accountability and performance assessment. Technical innovations were encouraged. “The Study and Application of Key Manufacturing Technologies of Hot-rolled H beams for Structural Use in High-altitude Cold Regions” won first prize in metallurgical science and technology award.

In respect of the management, the Company continuously improved the effectiveness of management system operation. A number of management innovation achievements of the Company were awarded with CISA Modernized Innovation Achievement Award of Management of Metallurgical Industry in 2017, of which “Construction and Implementation of Operation Evaluation and Pre-warning Guarantee System of Blast Furnace” and “Innovation Promotion of Commercial Mode with EVI Technology Service Strategy” were awarded first and second prize, respectively. Three achievements including “Green and Harmonious Steel Corporate Construction Based on the Integration of Environmental Operation and Urban Development” were awarded third prize.

In terms of construction projects, the high-speed shaft production line, the comprehensive use project of the steel slag in the south area and the galvanization line regarding the steel sheet of Hefei company were completed and put into use, while the projects of heavy-duty H beam, premium special steel bar and medium section steel upgrading renovation were in progress.

In terms of external investment, Anhui Xinchuang Energy Saving & Environmental Protection Science & Technology Co., Ltd. got listed in NEEQ on Sep. 5, 2017, and Jinma Energy got listed in The Stock Exchange of Hong Kong on Oct. 10, 2017, in both of which the Company has an interest.

In terms of capital management, the Company successfully offered short-term financing bills with the worth of RMB2 billion and RMB1 billion on Apr. 18, 2017 and Sep. 19, 2017, respectively, and optimized its debt structure and beefed up its operating capital. The Company widened the coverage of zero inventory of spare parts and functional warranty and the amount of capital tied up dropped this year compared with last year.



In terms of corporate social responsibilities, the Company kept up efforts to drive coordinated development of the Company, the society and the environment and to build a “Green Magang”. In 2017, the Company responded to the government’s policy to cut overcapacity in the iron and steel industry, heightened overall production efficiency, and shut off one blast furnace and one converter, involving 62,000 ton iron refining capacity and 64,000 ton steel refining capacity. The energy efficiency and environment performance indicators improved, with integrated energy consumption per ton of steel declining 2.35% to 583 kg, and fresh water consumption per ton of steel dropping 4.93% to 3.47m<sup>3</sup>/t, on a year-on-year basis. In addition, the Company passed environmental protection inspection by the central authority and was listed among first national Green Plants.

The year of 2018 marks the kick-off of the blueprint mapped out at the 19<sup>th</sup> CPC National Congress. The government pledges to give first priority to quality and efficiency, focus on deepening supply-side structural reforms, and drive reforms in economic growth quality, efficiency and drivers. The iron and steel industry is faced with key contradictions between industrial mix and market demand, and between green development and environmental demand.

In the context of a new situation of the country and new changes of the industry, the Company needs to stay sensitive to crisis, strengthen its adaptability, quicken the pace of product upgrade and internationalization, secure a first-mover advantage in the new round of reform and development of the iron and steel industry and make the shift from a manufacturer to a material service provider. In 2018, the Company is going to become more innovative and competitive, meet the essential requirement for quality growth, implement the innovation-driven strategy, and take a big stride towards lean operation in the new era. For these purposes, the Company will:

**First, enhancing the competitiveness of technical innovations.** The Company will boost in-house technical innovations aiming at the market, field work and problem-solving, and cultivate a sustainable advantage; focus on rail transport, heavy-duty H beams and auto new materials, among other strategic products, and implement a basket of significant technical innovation programs; improve synergy among technical innovations, intellectual properties and technical specifications and support market development and international presence with patents.

**Second, enhancing the competitiveness of product innovations.** The Company will focus on the “135” product competition strategy, proceed with restructuring, and quicken the pace of upgrade of wheels and axles, steel plates and long products; improve product quality, put in place a production process control mechanism that “does not accept defects, create defects or pass on defects”, and endeavor to heighten quality reliability of the production lines; push ahead with certification, support mass customized production and high-quality customer development and develop high-end customers.

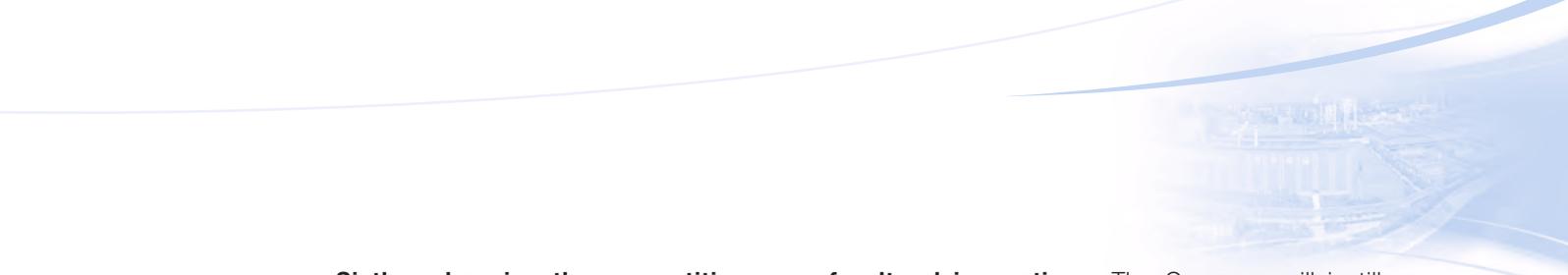
## IV. Report of The Board (Continued)

**Third, enhancing the competitiveness of market innovations.** The Company will stay market-oriented and shape a lean procurement and marketing mechanism; strengthen information management, refine the price monitoring system, build analysis models, produce more accurate market researches and forecasts and feed into procurement, sales and manufacturing, and achieve material benefits with market researches and forecasts.

**Fourth, enhancing the competitiveness of field work innovations.** The Company will be field-oriented and build lean plants; further the upcycle of lean TnPM and equipment information system, and apply new technologies to support the manufacturing of high-end products; prove itself to be law-abiding in waste discharge, move from Asking me to protect the environment to I want to protect the environment and take green development to the next level.

**Fifth, enhancing the competitiveness of management innovations.** The Company will combine brand building with everyday activities and enable the brand building and management system to work in a more efficient manner; create employee competency models and drive the application of lean approaches and continual improvement in the skill set of the staff; be customer-oriented, constantly fine-tune the processes, systematically promote lean process management, and move from a fragmented approach to a systematic approach.





**Sixth, enhancing the competitiveness of cultural innovations.** The Company will instill creativity and innovation into the company culture, organize theme activities to “Remain true to our original aspiration and keep our mission firmly in mind”, and enrich the cultural system with home culture, lean culture and competition culture.

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 progress in everything we do with the support of the shareholders and all stakeholders.

**Ding Yi**

*Chairman*

20 March 2018

Maanshan City, Anhui Province, the PRC

## IV. Report of The Board (Continued)

### 1.2 BUSINESS ENVIRONMENT

- **THE STEEL PRODUCT MARKET**

In 2017, the price of domestic steel (including long steel and steel plate) increased with a fluctuation and the price tendency of long steel is better than that of steel plate. The monthly average value of comprehensive index for domestic steel price in the whole year is 108.10 with a year-on-year increase of 32.22, increasing by 42.46%.

Chinese steel export was significantly decreased in 2017 due to the influence of factors including rising demands of domestic steel and international trade protection. According to China Customs, annual steel export was 75.43 million tons with 30.4% of year-on-year decline; and steel import was 13.30 million tons with 0.7% of year-on-year growth. The net export of crude steel is 62.13 million tons with a year-on-year decrease of 36.95%.

- **THE MARKET OF RAW MATERIALS AND FUELS**

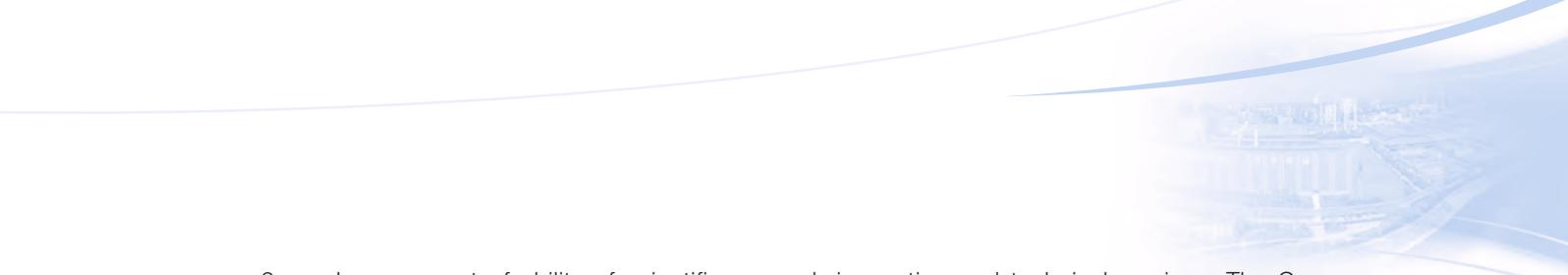
In 2017, price of iron ore fell back from highs in the first quarter and fluctuated violently in last three quarters. According to China Customs, the average CIF of import iron ore nationwide was US\$70.97/ton and increased by 26% from the previous year; price of coke fluctuated slightly in the first half year and sharply in the last half year with dramatic increase in average price than the first half year.

To sum up, the impact of increasing steel prices was greater than that of raw materials, and production and operation of iron and steel enterprises improved.

## 2 MAJOR BUSINESS PERFORMANCE IN THE REPORTING PERIOD

During the reporting period, the Group produced 18.17 million tons of pig iron, 19.71 million tons of crude steel and 18.60 million tons of steel, representing a year-on-year increase of 3.00%, 5.80% and 5.14%, respectively (of which the Company produced 14.20 million tons of pig iron, 15.38 million tons of crude steel and 14.30 million tons of steel, representing a year-on-year increase of 2.82%, 5.05% and 4.08%, respectively). Principal activities of the Company during the reporting period were as follows:

1. Optimization of two-side market operation. The marketing unit improved the market adaptability, seized market opportunities, increased expansion efforts of strategic users, terminal users and direct supply market with the help of integration of product, technology and service, combined marketing strategy as well as enlarged the percentage of high value-added products and the brand influence in the intraregional products market. Normalized supervision of inventory was realized by intensifying risk control of market price and optimizing the structure of finished goods inventory. In order to build safe, stable, efficient, sustainable and competitive supply chain, the procurement unit implemented operation modes of “production-ensuring inventory” and “operating inventory”, which realized normalized operation of low inventory of staple resources (including minerals and coke, etc.) and safe supply insurance.

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2. Improvement of ability of scientific research innovation and technical services. The Company had closely surrounded structure adjustment and quality improvement of the corporate products to support market and on-site demands with R&D and tackling projects. Abiding by technical service concept of “going deep into market and integrating into users”, it continued to push the EVI cooperation with important and high-end users with carriers of 10 corporate APQP project groups, which obtained significant effects. There were 11 national, provincial and municipal projects and 44 corporate scientific research projects developed all year around. Four products including “Weather-resisting Hot Rolled H Beam for Railway Vehicle” were awarded CISA Golden Cup Award for Actual Quality of Metallurgical Production, in which “Weather-resisting Hot Rolled H-type Steel for Railway Vehicle” and “Rolled Steel Solid Wheel for Express Passenger Train” were awarded “Extra-superior Quality Award”. Maanshan Steel high speed train wheel was awarded annual charm brand of “Beacon of Quality” by China Quality Daily in 2017.
  3. Promotion of lean manufacturing in depth. Iron-making system continued to perfect blast furnace examination, early warning and coping mechanisms with goal of ensuring stable operation of blast furnace. Facing the situation of annual decrease of molten iron, steel rolling system realized over-fulfillment of steel capacity to support the corporate growth by vigorously decreasing iron/steel ratio. Meanwhile, the Company realized economical operation by strengthening the production and marketing convergence, optimizing production line division and increasing order fulfillment rate. The Company accelerated the construction of Integrated Planning System (IPS) and Quality Management System (QMS), focused on solution to problems of quality process control and overtop ratio of non-planned materials to try to achieve quality improvement and effect increase and improve customer satisfaction.
  4. Promotion of lean operation of energy control system. In the aspect of energy, the Company took real-time dynamic adjustment for operation method of energy system to ensure stable energy supply according to production plan, overhauling plan and change of energy demands of all production lines; comprehensively enhanced control of energy process, fully exploited cost decline potential of energy system to promote cost reduction and system optimization. In the aspect of environmental protection, the Company smoothly passed central environmental supervision and won title of model enterprise (green factory) of first green manufacturing system construction conferred by National Ministry of Industry and Information. The Company was also rated as “Favorable Enterprise for Environmental Credit Evaluation in Anhui Province” by the Environmental Protection Department of Anhui Province.

## IV. Report of The Board (Continued)

5. Efficient completion of external audit of quality system. The Company accepted 15 external audits all year around and mainly completed second party audit of General Motors, CIMC and Dongfeng Peugeot-Citron Automobile; CJ6 wheels for standard CRH train passed CRCC certification, H beams passed EU CE certification, KS certification of South Korea and TISI certification of Thailand as well as succeeded in license renewal approval of IATF 16949 quality management system. And the Company became the first direct supplier in Asia after wheel set products passed audit of Deutsche Bahn.
6. Continuous optimization of human resources. The Company regarded human resources as an important strategic resources of the corporate development, selected pilot units to promote management reform of employee position hierarchy and push the balanced and coordinated development of personnel in three teams of management, technology and operation. The Company also successfully introduced several high-end R&D and application-oriented talents from outside to contribute to the improvement of the corporate talent soft power.
7. Intensification of safe production management. The Company continued to develop in depth specific activity of “danger remove and safety construction in one hundred days” for safe production and carried out emergency drills for safety production accidents; took reidentification and confirmation of danger source and eliminated hidden danger according to operation requirements of occupational health safety control system and “six-mechanism” construction of safety production risk control; and increased full-access security management for engineering construction and overhauling projects as well as focused on specific system renovation for safety of projects involving external units.

## (1) ANALYSIS OF PRINCIPAL OPERATION

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

Unit: RMB

<u>Items</u>	<u>Amount of the current year</u>	<u>Amount of the same period of last year</u>	<u>Change (%)</u>
Revenue	73,228,029,624	48,275,100,310	51.69
Cost of sales	63,556,258,449	42,557,487,675	49.34
Selling expenses	865,396,451	694,782,730	24.56
General and administrative expenses	1,419,135,407	1,780,281,484	-20.29
Financial expenses	998,780,259	793,650,976	25.85
Taxes and surcharges	741,194,307	432,096,408	71.53
Gain on the changes in fair value	10,145,756	4,051,190	150.44
Investment income	676,516,349	291,396,463	132.16
Loss from disposal of assets	176,952,368	51,189,196	245.68
Other income	238,868,248	-	-
Operating profit	5,649,467,742	1,196,801,858	372.05
Non-operating expenses	16,625,157	26,241,544	-36.65
Profit before tax	5,808,966,563	1,368,575,540	324.45
Income tax expense	736,728,434	111,880,234	558.50
Net profit	5,072,238,129	1,256,695,306	303.62
Net profit attributable to non-controlling interests	943,298,268	27,802,899	3,292.81
Net profit attributable to owners of the parent	4,128,939,861	1,228,892,407	235.99
Exchange differences on translation of foreign operations	-826,029	46,990,704	-101.76
Net cash flows from operating activities	4,489,916,403	4,619,861,014	-2.81
Net cash flows used in investing activities	-3,414,422,532	-1,937,596,411	-
Net cash flows used in financing activities	-2,376,736,277	-2,090,939,141	-
Research and development expenditure	770,350,000	752,570,000	2.36

## IV. Report of The Board (Continued)

- Revenue increased by 51.69% over the previous year, mainly due to increase in sales price and sales volume of steel this year.
- Cost of sales increased by 49.34% over the previous year, mainly due to increase in purchase price of raw materials and increase in sales volume of steel this year.
- Selling expenses increased by 24.56% over the previous year, mainly due to increase in sales volume of steel, which caused increase in transportation times and increase in unit price of transportation.
- General and administrative expenses decreased by 20.29% over the previous year, and the main reason is that expenses for staff resettlement and dismissal welfare decreased this year and property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes are not included in this account.
- Financial expenses increased by 25.85% over the previous year, mainly due to increase in exchange loss incurred this year.
- Taxes and surcharges increased by 71.53% over the previous year, and the main reason is that the value-added taxes increased on a year-on-year basis than that of last year and urban construction taxes and surcharges increased correspondingly. Moreover, influenced by Provisions for Accounting Treatment of Value-added Taxes (CK [2016] No. 22), property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes incurred from the Company's operating activities are no longer accounted in general and administrative expenses but in this account.
- Gain on the changes in fair value increased by 150.44% over the previous year, and the main reason is that the Company's futures products had not been settled at the end of this year and changes in fair value increase than that at the end of last year.
- Investment income increased by 132.16% over the previous year, mainly due to increase in net profit of the Company's associates and joint ventures and increase in investment income of Magang Group Finance Co. Ltd.'s financial products.
- Loss from disposal of assets increased by 245.68% over the previous year, mainly due to the increase in losses of fixed assets disposal, caused by addressing overcapacity, technical transformation and environmental protection, etc.
- Other income was RMB238,868,248 this year and it was nil last year. The main reason is, influenced by Accounting Standards for Enterprises No.16 – Government Grants (revised in 2017) (CK [2017] No. 15), government grants related to daily activities will be recorded in this account rather than in non-operating income and the government grants for transformation development recognised this year have increased than that of last year.

- Operating profit increased by 372.05% over the previous year, profit before tax increased by 324.45% over the previous year, net profit increased by 303.62% over the previous year, and net profit attributable to owners of the parent increased by 235.99% over the previous year. These were all mainly due to the increase of the gross profit of steel products during the year.
- Non-operating expenses decreased by 36.65% over the previous year, mainly due to the decrease in contract compensation paid this year than that of last year.
- Income tax increased by 558.50% over the previous year, mainly due to the substantial increase in some subsidiaries' profits this year.
- Net profit attributable to non-controlling interests increased by 3,292.81% over the previous year, mainly due to the substantial increase in profits of non-wholly-owned subsidiaries this year.
- Exchange differences on translation of foreign operation decreased by 101.76% over the previous year, mainly due to the appreciation in RMB to Hong Kong dollar and depreciation to Australian dollar and Euro.

### **Financial position and exchange risks**

As at 31 December 2017, the total loans of the Group amounted to RMB12,539 million. Except for foreign currency loans amounting to US\$325 million and Euro25 million, all other loans were denominated in Renminbi. Among loans denominated in foreign currencies, US dollar loans amounting to US\$303 million and Euro loans amounting to 15 million carried fixed interest rates and US dollar loans of US\$22 million and Euro10 million at LIBOR plus premium. Among the Renminbi-denominated loans of the Group, loans amounting to RMB4,024 million carried fixed interest rates and loans amounting to RMB6,316 million carried floating interest rates. In April and September 2017, the company issued short-term financing notes with a total amount of RMB3 billion.

The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. The Group had no overdue loans in the reporting period, except for Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd.'s short-term bank loans. At present, the Group is financing its capital projects primarily via its own funds. As at the end of the Reporting period, banking facilities available to the Group amounted to approximately RMB21,305 million. The debt ratio was 62.27%, representing a decrease of 4.4 percentage points from the previous year.

As at 31 December 2017, the Group's cash and bank balances amounted to RMB4,978 million and notes receivable amounted to RMB8,375 million, the majority of which derived from sales proceeds.

## IV. Report of The Board (Continued)

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. During the reporting period, the Group's purchase of equipment in Europe and Japan was not significant and, as a result, the impact of foreign exchange rate fluctuations on procurement payment was relatively immaterial.

### 1. Sales and Cost

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

Unit: RMB million

Industry	Revenue	Cost of sales	Principal operation by industry			
			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 (%)
Iron and Steel	69,361	58,961	14.99	50.47	46.68	2.20 bps

Unit: RMB million

Product	Revenue	Cost of sales	Principal operation by product			
			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 (%)
Long products	29,881	24,889	16.71	68.70	53.65	8.16 bps
Steel plates	35,651	30,520	14.39	37.61	40.41	-1.71 bps
Wheels and axles	1,802	1,624	9.88	23.17	29.71	-4.45 bps

Unit: RMB million

Region	Revenue	Cost of sales	Principal operation by region			
			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	26,086	22,920	12.14	37.44	34.55	1.89 bps
Shanghai	11,736	9,733	17.07	55.36	49.19	3.43 bps
Jiangsu	11,352	9,828	13.42	47.81	41.61	3.79 bps
Zhejiang	4,563	3,953	13.37	61.29	55.63	3.16 bps
Guangdong	2,125	1,829	13.93	31.25	32.44	-0.79 bps
Other Mainland regions	14,466	12,672	12.40	143.62	154.92	-3.88 bps
Overseas and Hong Kong	2,900	2,621	9.62	-21.09	-17.21	-4.25 bps

Explanations on principal operation by industry, products and regions

During the reporting period, the group's revenue from principal operation was RMB72,216 million, wherein the iron & steel income was RMB69,361 million, accounting for 96% of the principal operation revenue.

## (2). Analysis of Production and Sales Volumes

Product	Production Volume ton	Sales Volume ton	Inventory ton	By products		
				Year-on-year increase/ decrease of production volume (%)	Year-on-year increase/ decrease of sales volume (%)	Year-on-year increase/ decrease of inventory (%)
Long products	8,938,000	8,997,000	144,000	6.66	8.67	-32.08
Steel plates	9,474,000	9,471,000	53,000	3.33	2.92	6.00
Wheels and axles	193,000	188,000	10,000	35.92	30.56	100

The inventory of long products decreased, mainly due to increased customer orders.

The production volume and sales volume of wheels and axles increased year-on-year, mainly due to increased customer orders. The inventory of wheels and axles increased was mainly due to wheel tender preparation.

## IV. Report of The Board (Continued)

### (3). Analysis of Costs

Unit: RMB million

Industry	Cost components	By industry				Change in proportion of amount in current period against amount in same period last year (%)
		Amount in current period	% of total cost in current period (%)	Amount in same period last year	% of total cost in same period last year (%)	
	Raw materials					
Iron and Steel	and fuels	48,968	77.05	31,495	74.01	55.48
Iron and Steel	Salary	3,854	6.06	3,273	7.69	17.75
Iron and Steel	Depreciation	3,520	5.54	3,245	7.63	8.47
	Energy and					
Iron and Steel	power	3,474	5.47	3,260	7.66	6.56
Iron and Steel	Others	3,740	5.88	1,284	3.01	191.28

### (4). Analysis of Major Customers and Major Suppliers

The amount of total sales to the top five customers was RMB6,029.16 million, accounting for 8% of the annual sales. Among the sales to the top five customers, the amount of sales to the related parties was nil, accounting for 0% of the annual sales.

The amount of the total purchase from the top five suppliers was RMB12,763.78 million, accounting for 38% of the annual purchase. Among the purchase from the top five suppliers, the amount of purchase from the related parties was RMB3,669.06 million, accounting for 11% of the annual purchases.

Amongst the key suppliers, Magang (Group) Holding Co., Ltd. is the controlling shareholder of the Company. Saved that, in 2017, 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.

## 2. Expenses

During the reporting period, there was no significant change in the Group's selling expenses, general and administration expenses and financial expenses.

### 3. Research and Development (R&D) Expenditure

#### *R&D expenditure breakdown*

	Unit: RMB million
Expensed R&D expenditure in 2017	759.11
Capitalized R&D expenditure in 2017	11.24
Total R&D expenditure	770.35
Total R&D expenditure as a percentage of revenue (%)	1
Number of the Company's R&D staff	3,709
Percentage of R&D staff number to the Company's total number of employees (%)	12.27
Percentage of capitalized R&D expenditure (%)	1.46

Expensed R&D expenditure in 2017 comprises of R&D expenditures included in general and administrative expenses and cost of sales.

Capitalized R&D expenditure in 2017 was mainly used for purchasing related equipments for experiments and testings.

### 4. Cash Flows

Net cash inflows from operating activities amounted to RMB4,489,916,403, decreased by 2.81% over the last year, which was mainly due to the increased profitability and the increase of notes receivable.

Net cash outflows used in investing activities amounted to RMB3,414,422,532, increasing by 76.22% over the last year, which was mainly caused by increase in cash invested and paid in financial products of Magang Group Finance Co. Ltd. this year than that of last year.

Net cash outflows used in financing activities amounted to RMB2,376,736,277, increasing by 13.67% over the last year, which was mainly due to the repayment of loans and decrease in financing.

During the period, net cash inflows from operating activities amounted to RMB4,489,916,403, and net profit was RMB5,072,238,129. There was no major differences.

## IV. Report of The Board (Continued)

### (2) ANALYSIS OF ASSETS AND LIABILITIES

#### 1. Assets and liabilities

Unit: RMB

Item	Closing balance of 2017	Percentage of closing balance of 2017 in total assets (%)	Closing balance of 2016	Percentage of closing balance of 2016 in total assets (%)	Year-on-year change (%)
Financial assets measured at fair value through profit or loss	1,546,139,404	2.14	555,322,261	0.84	178.42
Notes payable	8,375,166,683	11.60	3,608,459,121	5.45	132.10
Interest receivable	6,390,787	0.01	4,044,939	0.01	57.99
Other receivables	278,837,287	0.39	127,614,834	0.19	118.50
Financial assets purchased under agreements to resell	1,204,603,000	1.67	230,047,000	0.35	423.63
Current portion of held-to- maturity investments	305,228,376	0.42	-	-	N/A
Assets held for sell	73,454,334	0.10	-	-	N/A
Other current assets	916,037,331	1.27	692,471,233	1.05	32.29
Available-for-sale financial assets	1,111,168,160	1.54	577,947,698	0.87	92.26
Deferred tax assets	478,235,280	0.66	348,095,783	0.53	37.39
Non current portion of held- to-maturity investments	100,854,230	0.14	-	-	N/A
Deposits from banks and other financial institutions	200,000,000	0.28	-	-	N/A
Repurchase agreements	308,100,956	0.43	596,565,698	0.90	-48.35
Short-term loans	4,630,303,694	6.41	6,942,952,420	10.48	-33.31
Financial liabilities measured at fair value through profit or loss	10,498,810	0.01	-	-	N/A
Notes payable	4,809,848,470	6.66	3,584,228,362	5.41	34.19
Taxes payable	1,342,836,597	1.86	274,232,114	0.41	389.67
Non-current liabilities due within one year	4,928,758,378	6.83	3,211,056,320	4.85	53.49
Accrued liabilities	38,537,369	0.05	29,580,435	0.04	30.28
Other current liabilities	3,081,026,301	4.27	2,273,058,356	3.43	35.55
Long-term loans	6,975,958,634	9.66	5,163,168,960	7.79	35.11
Bonds payable	-	-	3,987,666,667	6.02	-100.00
Long-term payables	210,000,000	0.29	-	-	N/A
Retained profits	3,643,443,763	5.05	-190,568,622	-0.29	-
Non-controlling interests	3,341,524,501	4.63	2,316,334,486	3.50	44.26

- Financial assets measured at fair value through profit or loss amounted to RMB1,546,139,404 and increased by 178.42% compared with the end of last year, which was mainly due to increase in financial products held by Magang Group Finance Co. Ltd. (“Masteel Finance”) this year.
- Notes receivable amounted to RMB8,375,166,683 and increased by 132.10% compared with the end of last year, which was mainly due to increase in notes received from sales of products caused by the increase in steel price this year and decrease in note endorsement transfer.
- Interest receivable amounted to RMB6,390,787 and increased by 57.99% compared with the end of last year, mainly due to increase in interest receivable of Masteel Finance’s fixed-term deposit in commercial bank this year.
- Other receivables amounted to RMB278,837,287 and increased by 118.50% compared with the end of last year, mainly due to the increase in deposits for steel futures trading.
- Financial assets purchased under agreements to resell amounted to RMB1,204,603,000 and increased by 423.63% compared with the end of last year, mainly because Masteel Finance increased reverse repurchase business this year.
- The current portion of held-to-maturity investments amounted to RMB305,228,376 this year and nil at the end of last year, mainly because that Masteel Finance purchases national debt and local government debt that it plans to hold to maturity this year.
- Assets held for sale amounted to RMB73,454,334 this year and nil at the end of last year, mainly because that Ma Steel (Hefei) would hand over its industrial heritage assets to Hefei Municipal Land Reserve Center and these assets were accounted in this account.
- Other current assets amounted to RMB916,037,331 and increased by 32.29% compared with the end of last year, mainly due to increase in withholdings on VAT to be deducted at the end of this year than that at the end of last year.
- Available-for-sale financial assets amounted to RMB1,111,168,160 and increased by 92.26% compared with the end of last year, mainly due to increase in Masteel Finance’s negotiable certificate of deposit this year.

## IV. Report of The Board (Continued)

- Deferred tax assets amounted to RMB478,235,280, and increased by 37.39% compared with the end of last year. The main reason is that the Company recognised deferred tax assets relating to deductible temporary difference incurred from fixed assets impairment and part of tax losses in previous years based on profit forecast in future years.
- The non-current portion of held-to-maturity investments amounted to RMB100,854,230 this year and nil at the end of last year, mainly because that Masteel Finance purchases national debt with the intention to hold to maturity this year.
- Deposits from banks and other financial institutions amounted to RMB200,000,000 this year and nil at the end of last year, mainly due to increase in the borrowing by Masteel Finance from banks and other financial institutions.
- Repurchase agreements amounted to RMB308,100,956, and decreased by 48.35% compared with the end of last year. The main reason is Masteel Finance decreased rediscount for notes and bonds in other financial institutions this year.
- Short-term loans amounted to RMB4,630,303,694, and decreased by 33.31% compared with the end of last year. The main reason is due to repayment of short-term loans of the Company in current year.
- Financial liabilities measured at fair value through profit or loss amounted to RMB10,498,810 this year and nil at the end of last year. The main reason is changes in fair value of forward foreign exchange contract purchased by the Company this year.
- Notes payable amounted to RMB4,809,848,470 and increased by 34.19% compared with the end of last year. The main reason is that due to increase in price of raw materials this year, the Company and some subsidiaries have increased use of credit facilities and thus the banker's acceptance notes increased.
- Taxes payable amounted to RMB1,342,836,597 and increased by 389.67% compared with the end of last year. The main reason is increase of taxes due but unpaid by the Company and some subsidiaries this year than that at the end of last year.

- Non-current liabilities due within one year amounted to RMB4,928,758,378 and increased by 53.49% compared with the end of last year, mainly due to the fact that the three-year medium term notes issued in July and August 2015 would be due within one year and were classified into this account, and repayment of long-term loan due in current year.
- Accrued liabilities amounted to RMB38,537,369 and increased by 30.28% compared with the end of last year, mainly due to increase in predicted losses in executory contract of the Group's subsidiary (MG-VALDUNES S.A.S).
- Other current liabilities amounted to RMB3,081,026,301, increasing by 35.55% compared with the end of last year. The main reason was that the one-year short-term notes of RMB2 billion issued last year was paid in this year and another one-year short-term notes of RMB3 billion was issued this year.
- Long term loans amounted to RMB6,975,958,634, increasing by 35.11% compared with the end of last year, mainly due to the Company' newly-added long term loans this year.
- Bonds payable was nil this year and RMB3,987,666,667 by the end of last year. The main reason is that the three-year medium term notes issued by the Company in July and August 2015 would be due within one year and had been classified into non-current liabilities due within one year.
- Long-term payables amounted to RMB210,000,000 this year and nil at the end of last year, mainly because that Hefei Steel Plate Company had borrowed interest-free loans from Hefei Industrial Investment Holding Co., Ltd.
- Retained earnings amounted to RMB3,643,443,763, increasing by RMB3,834,012,385 compared with the end of last year, mainly due to the Group's rising profit for this year.
- Non-controlling interests amounted to RMB3,341,524,501, increasing by 44.26% compared with the end of last year, mainly due to rising profit of non-wholly-owned subsidiaries this year as compared with last year.

## IV. Report of The Board (Continued)

### 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 RMB1,661 million consisted of mandatory reserves with the central bank of approximately RMB711 million, bill deposits placed in bank of approximately RMB950 million.

### (3) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

In 2017, great achievements have been made in cutting of over-capacity in steel industry and the target of handling 50-million-ton over-capacity in a year has been completed ahead of schedule, which effectively relieves the problem of excessive capacity. As a result, the capacity factor of compliant enterprises in our country has been basically recovered within a reasonable range. Real estate, automobile, home appliances, engineering machinery and downstream steel-consuming industry show favorable development trend, the investment in infrastructure is at a high level, and demands of steel correspondingly increase, and consumption of steel is basically better than expected situation and the steel price reasonably increases.

#### Company Information

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

Product type	Production capacity ('000 tonnes)	Utilisation rate of production capacity (%)
Pig iron	19,930	94
Crude steel	22,980	86
Steel production	21,270	87

#### Steel and Iron Industry Operational Information Analysis

##### 1. Manufacturing and sales of steel material based on Processing Techniques

Unit: RMB Million

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	4,833,780	4,787,338	4,822,887	4,785,420	20,604	14,684	18,262	12,702	11.37	13.50
Hot-rolled steel	13,577,833	12,761,582	13,645,056	12,695,554	44,928	28,937	37,147	25,232	17.32	12.80
Wheel and axles	192,638	142,196	188,808	143,814	1,802	1,462	1,624	1,251	9.88	14.43

## 2. Performances of Steel Material Manufacturing and Sales Based on Forms of Finished

Unit: RMB Million

Types 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	8,937,750	8,380,085	8,996,905	8,278,910	29,881	17,713	24,889	16,198	16.71
Steel Plates	9,473,863	9,168,835	9,471,038	9,202,064	35,651	25,908	30,520	21,736	14.39	16.10
Wheels and axles	192,638	142,196	188,808	143,814	1,802	1,462	1,624	1,251	9.88	14.43

## 3. Performances of Steel Material Sales Based on Sales Channels

Unit: RMB Million

Based on sales channels	Revenue		Percentage (%) in total revenue	
	This Year	Last Year	This Year	Last Year
	Offline sales	64,240	43,190	87.72
Online sales	3,090	1,890	4.22	3.92

## 4. Supply of iron ore

Unit: RMB Million

Supply source of iron ore	Supply volume (tonnes)		Expenditure	
	This Year	Last Year	This Year	Last Year
	Domestic source	8,303,087	7,196,830	4,793
Overseas import	20,336,050	19,864,484	11,150	8,273

## IV. Report of The Board (Continued)

### (4) INVESTMENT ANALYSIS

#### 1. General analysis of external equity investment

Unit: RMB Million

Investment amount as at the end of the reporting period of the Company	8,597.01
Increase/decrease of investment amount	1,678.12
Investment amount as at the end of previous year of the Company	7,278.89
Increase/decrease in investment amount (%)	23.05

#### (1) Significant Equity Investment

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

Unit: RMB'000

Name of Invested Company	Equity Ratio	Main Business	Newly-invested amount during the reporting period
Magang Group Finance Co., Ltd.	91%	Providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members.	910,000
Masteel (Hong Kong) Co., Ltd.	100%	Steel trade	31,440
MG-VALDUNES S.A.S.	100%	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.	309,310

<b>Name of Invested Company</b>	<b>Equity Ratio</b>	<b>Main Business</b>	<b>Newly-invested amount during the reporting period</b>
Mascometal Co., Ltd.	66%	Development, manufacturing and sales of steel wire rods and bars used in automobile industry and finished iron and steel products, the provisions of after-sales services and related technical services, as well as trading businesses (excluding distribution).	127,369
Ma Steel (Hefei) Processing and Distribution Co., Ltd.	67%	Process and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services.	12,396

- 1) Increased capital of Magang Group Finance Co., Ltd. and contributed RMB910 million according to shareholding proportion.
- 2) Purchase 9% share rights of Ma Steel (Hong Kong) Co., Ltd. which are held by Ma Steel International Economy and Trade Co., Ltd.
- 3) Increased capital amounting to 40 million Euros to the wholly-owned subsidiary MG-VALDUNES S.A.S.
- 4) Increased capital amounting to Euro 10.296 million to Mascometal Co.,Ltd. ("Mascometal") as planned. In 2017, Mascometal became a controlling subsidiary of the Company instead of a joint venture of the Company. Therefore, the Company increased capital to Mascometal based on the fair value of its equity the Company held, amounting to RMB127,759,486.
- 5) Purchased 6% share rights of Ma Steel (Hefei) Processing and Distribution Co., Ltd. held by Anhui JAC Logistics Co., Ltd.

## IV. Report of The Board (Continued)

### (2) Significant non-equity investment

Unit: RMB million

<u>Project Name</u>	<u>Budgeted Investment</u>	<u>New Investment</u>	<u>Project Progress</u>
Product quality projects	11,024	703	51%
Energy-saving and environment protection projects	2,843	347	69%
Equipment advancement and other modification projects	1,626	250	79%
Other projects	N/A	467	/
Total	N/A	<u>1,767</u>	/

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

Unit: RMB million

<u>Project name</u>	<u>Budget of total investment</u>	<u>Work progress</u>
Production Line Project for Steel Rolling of Heavy H-shaped Steel	1,196	In the stage of plant construction and equipment bidding
Section Upgrading, Rebuilding and Road Auxiliary Supporting Project	810	In the stage of pile machine construction and equipment installation
Deep Processing and Road Auxiliary Supporting Project for Special Steel Bar and Wire for High-end Auto Parts	650	In the stage of plant construction, and equipment foundation construction and installation
Purification System Combination Project of Coal-Coking Company (Southern District)	380	In the stage of equipment manufacture and installation

<b>Project name</b>	<b>Budget of total investment</b>	<b>Work progress</b>
Continuous Casting Machine Project for Beam Blank in Production Line of Heavy H-shaped Steel	330	In the stage of civil construction and equipment bidding
High-grade Renovation Project of Silicon Steel in Cold Rolling Factory	260	In the stage of plant construction, and equipment manufacture and installation
Dry Quenching Project in Old Area of Coal-Coking Company	160	In the stage of being organized to bid
Square Billet Continuous Casting Machine Project for Newly-built Six Machines and Six Production Lines in No. 1 Steel Rolling Factory	100	Relocation is being implemented
Total	<u>3,886</u>	

Project construction fund comes from the company's own fund and bank loans.

### **(3) FINANCIAL ASSETS MEASURED AT FAIR VALUE**

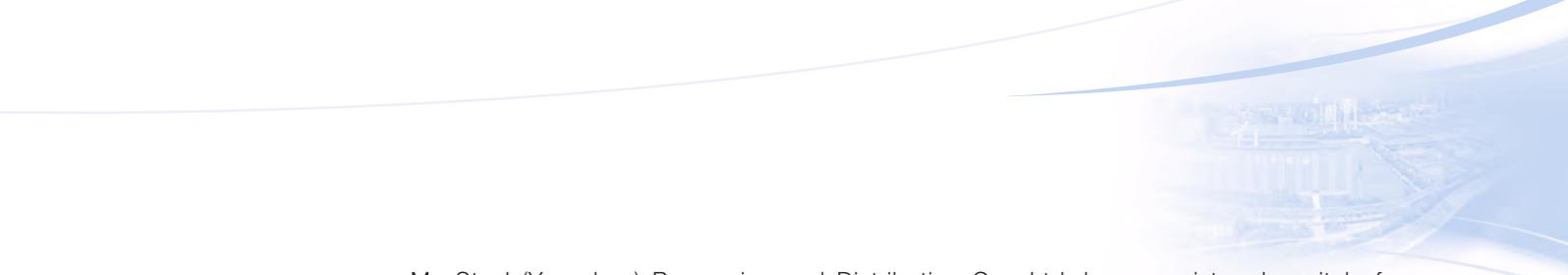
See "Section 10. Items at Fair Value Measurement" in Section 2 of this report.

## **(5) ANALYSIS OF THE GROUP'S MAJOR SUBSIDIARIES AND INVESTEEES**

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB118 million. As at the end of the reporting period, it had total assets amounting to RMB4,684 million and net assets of RMB2,015 million.

## IV. Report of The Board (Continued)

- Anhui Changjiang Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. As at the end of the reporting period, it recorded net profit of RMB1,998 million, total assets of RMB8,897 million and net assets of RMB4,465 million.
- Magang Group Finance Co., Ltd. has a registered capital of RMB2,000 million and 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include interlending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB200 million. At the end of the reporting period, its total asset value was RMB12,298 million and net asset was RMB2,769 million.
- The wholly-owned subsidiary MG-VALDUNES S.A.S., with registered capital of Euro80.2 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 RMB136 million; at the end of reporting period, the total assets stood at RMB719 million, and the net assets were RMB288 million.
- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US\$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilization products and the provision of related technological consultation services. Net profit for the reporting period was RMB103 million. As at the end of the reporting period, it had total assets amounting to RMB321 million and net assets of RMB223 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB8 million. As at the end of the reporting period, it had total assets amounting to RMB420 million and net assets of RMB123 million.

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- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB18 million. As at the end of the reporting period, it had total assets amounting to RMB311 million and net assets of RMB204 million.
  - Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB27 million. As at the end of the reporting period, it had total assets amounting to RMB239 million and net assets of RMB229 million.
  - Ma Steel (Hefei) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 67% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB497 million and net assets of RMB193 million.
  - The wholly-owned subsidiary Ma Steel (Hong Kong) Co., Ltd. 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 RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB846 million and net assets of RMB257 million.
  - Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the company directly holds 50% equity, to mainly 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 RMB181 million; at the end of reporting period, the total assets stood at RMB751 million, and the net assets were RMB669 million.

In 2017, Anhui Changjiang Steel Co., Ltd. had a revenue of RMB14,858 million and a profit of RMB3,348 million from its principal business. Net profit of Changjiang Steel during the reporting period was RMB1,998 million, increasing by 575% over the previous year, which was mainly due to the increase of sales volume of the products and the increase of gross profit of long products during the reporting period.

## IV. Report of The Board (Continued)

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

#### (1) INDUSTRY LANDSCAPE AND TREND

The steel industry in China is now in critical period of transforming from large to strong. Therefore, it is necessary to vigorously improve development quality and efficiency to meet the society's increasing new demands of development quality, supply quality, service quality and quality of ecological environment. This endows higher requirements for capacity, quality, service life, safety, environment protection and practicability of steel. It is expected from 2018 to 2020, the apparent consumption of steel remains stable but the consumption structure gradually changes, which has higher requirements on capacity, quality and performance of steel and high-grade demands still have great potential of increase. In addition, "Environmental Protection Tax Law of the People's Republic of China" and its implementation rules were effective since 1st January 2018. The provinces, municipalities, and autonomous regions have issued specific applicable tax amounts for taxable atmospheric pollutants and water pollutants. Environmental-protection pressure will urge steel companies to increase environmental protection investment, promote emission reduction technology applications, and continue pollution control and standard upgrading.

#### (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

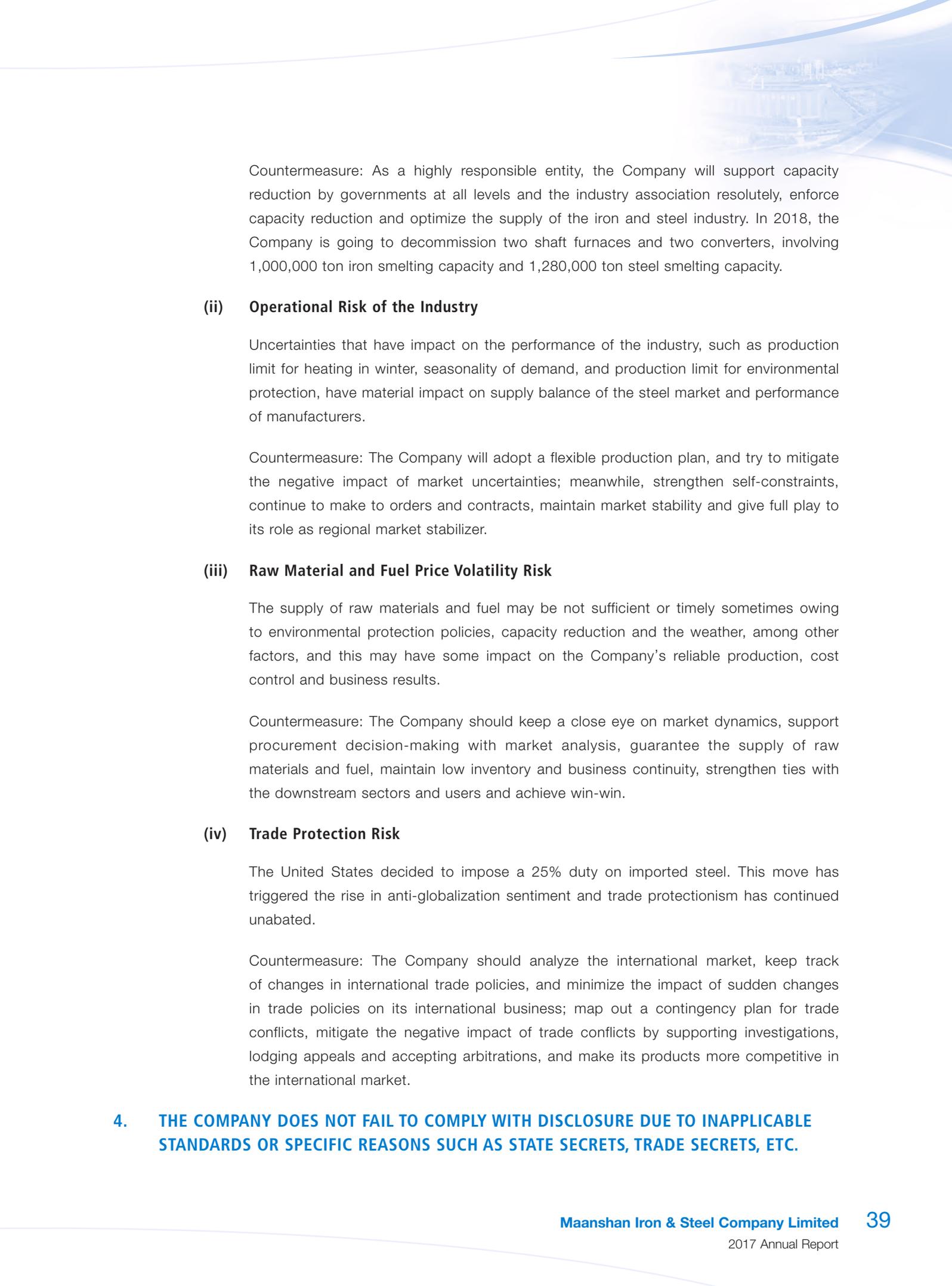
In 2018, the group plans to produce pig iron of 18.30 million tons, crude steel of 19.85 million tons and steel of 18.82 million tons (of which the company plans to produce pig iron of 14.50 million tons, crude steel of 15.65 million tons and steel of 14.62 million tons), and there is no significant change compared with last year.

The above forward-looking statements do not constitute the company's commitment to investors. Investors should pay attention to investment risks.

#### (4) POTENTIAL RISKS

##### (i) Capacity Reduction Risk

The iron and steel industry will reduce another 30 million ton capacity in 2018. However, investment in the iron and steel industry has grown recently, driven by a rebound in profit. More cases of new capacity installation, capacity swap and changing converters into electric furnaces are seen and make overcapacity worse.



Countermeasure: As a highly responsible entity, the Company will support capacity reduction by governments at all levels and the industry association resolutely, enforce capacity reduction and optimize the supply of the iron and steel industry. In 2018, the Company is going to decommission two shaft furnaces and two converters, involving 1,000,000 ton iron smelting capacity and 1,280,000 ton steel smelting capacity.

**(ii) Operational Risk of the Industry**

Uncertainties that have impact on the performance of the industry, such as production limit for heating in winter, seasonality of demand, and production limit for environmental protection, have material impact on supply balance of the steel market and performance of manufacturers.

Countermeasure: The Company will adopt a flexible production plan, and try to mitigate the negative impact of market uncertainties; meanwhile, strengthen self-constraints, continue to make to orders and contracts, maintain market stability and give full play to its role as regional market stabilizer.

**(iii) Raw Material and Fuel Price Volatility Risk**

The supply of raw materials and fuel may be not sufficient or timely sometimes owing to environmental protection policies, capacity reduction and the weather, among other factors, and this may have some impact on the Company's reliable production, cost control and business results.

Countermeasure: The Company should keep a close eye on market dynamics, support procurement decision-making with market analysis, guarantee the supply of raw materials and fuel, maintain low inventory and business continuity, strengthen ties with the downstream sectors and users and achieve win-win.

**(iv) Trade Protection Risk**

The United States decided to impose a 25% duty on imported steel. This move has triggered the rise in anti-globalization sentiment and trade protectionism has continued unabated.

Countermeasure: The Company should analyze the international market, keep track of changes in international trade policies, and minimize the impact of sudden changes in trade policies on its international business; map out a contingency plan for trade conflicts, mitigate the negative impact of trade conflicts by supporting investigations, lodging appeals and accepting arbitrations, and make its products more competitive in the international market.

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

## V. Significant Events

### 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 the Article 195 of the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, dividends will be distributed to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis.

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

#### (2) THE 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: RMB Million

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)	Ratios to	
					Attributable to ordinary equity holders of Listed Company in Consolidated Financial Statements in the Year of Distribution	Net Profits Attributable to ordinary equity holders of Listed Company in Consolidated Financial Statements (%)
2017	-	1.65	-	1,270.6	4,128.9	30.8
2016	-	-	-	-	1,228.9	-
2015	-	-	-	-	-4,804.3	-

The Board suggests a final dividend of RMB0.165 per share (tax included) shall be distributed for the year of 2017 and retained earnings will be carried forward to the year of 2018. No capital surplus shall be transferred to share capital. The plan is in compliance with the requirements of the Articles. The basis and ratio of the distribution are specific and clear. The relevant procedures and system are sound. The independent Directors have duly performed their duties. The legal rights of minority shareholders have been fully protected. The distribution plan is going to be submitted to the Annual General Meeting for approval. Minority shareholders can express their opinions and needs.

## 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

Type of undertaking	Undertake	Content of undertaking	Time of making the undertaking and its term	Deadline for the fulfillment of undertaking	Undertaking fulfilled on a timely basis	Reasons for non-fulfillment of undertaking	Next steps to be taken after non-fulfillment of undertaking
Other	The Group Company	The controlling shareholder intended to further acquire A Shares of the Company for not less than RMB409 million at an appropriate price through Magang Investment Limited in a way complying with applicable laws and regulations, and promised the shares acquired would not be sold within six months after the completion of the further acquisition plan.	2015-7-24	No	No	The Group Company was under less stress in 2017 but will redouble its de-leveraging efforts in 2018 in response to the de-leveraging drive of the iron and steel industry. As a result, the Group Company is experiencing financial strains and has not raised the fund needed to increase the equity holdings.	Under the premise of ensuring the normal operation of funds, the Group Company will make more efforts to increase the intensity of financing and implement the increased holding in a legitimate and compliance manner.

### (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 WAS FOUND DURING THE REPORTING PERIOD

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

## V. Significant Events (Continued)

### 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

##### **Change in Presentation of Gain/Loss from Disposal of Assets**

As required by the Notice of the Ministry of Finance on Revising and Circulating General Corporate Financial Statement Formats (Financial Accounting [2017] No.30), the Group presents Gain/Loss from Disposal of Assets as a new item above Operating Profit in the Income Statement, and the Gain/Loss from Disposal of Non-current Assets which was previously recorded in Nonoperating Income and Non-operating Expenses is included in this new item. The Group has represented the comparative income statement. This change to accounting policies has no impact on the consolidated and company net profit and shareholders' equity.

##### **Change in Presentation of Government Grants**

As required by the Notice on Revising and Circulating Enterprise Accounting Standards No.16-Government Grants (Financial Accounting [2017] No.15), the Group presents the Other Income item separately above Operating Profit in the Income Statement, and government grants related to daily activities is stated under Other Income instead of Non-operating Income; in line with the standards, the Group has applied the prospective approach to government grants existing prior to 1 January 2017, and adjusted government grants received between 1 January 2017 and the effective date of the standards (12 June 2017) accordingly. This change in accounting policies has no impact on consolidated and company net profit and shareholders' equity.

##### **Change in Presentation of Discontinued Operations**

As required by the Notice on Circulating Enterprise Accounting Standards No.42-Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations (Financial Accounting [2017] No.13), the Group adds two items below Net Profit in the Income Statement, Net Profit from Continuing Operations and Net Profit from Discontinued Operations, to state profit or loss from continuing operations and profit or loss from discontinued operations. Since the Group had no discontinued operation in 2017, this change in accounting standards has no impact on consolidated and company net profit stated in the Income Statement for the year of 2017 and 2016 based on business continuity.

The accounting policies adopted in the preparation of 2017 annual financial statements are consistent with those followed in the preparation of the Group's last consolidated financial statements for the year 2016, except for the above changes.

(2) DURING THE REPORTING PERIOD, THERE WAS NO 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 RMB600,000)
Tenure of auditors in the PRC	24

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

### APPOINTMENT AND REMOVAL OF AUDITORS

As Ernst & Young Hua Ming LLP, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firm as the auditors for 2017. The Board of Directors did not have any contrary opinion and the related resolution was approved at the 2016 Annual General Meeting held on 12 June 2017.

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. NO DESCRIPTION ON THE SITUATION OF THE COMPANY'S EQUITY INCENTIVE PLANS, EMPLOYEE EQUITY OWNERSHIP PLANS OR OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPACT WAS NEEDED

## V. Significant Events (Continued)

### 12. SUBSTANTIAL RELATED PARTY TRANSACTIONS

#### (1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS

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

Summary of matter	Index for enquiry
“Sale and Purchase of Ore Agreement”, “Continuing Connected Transaction Agreement” and “Energy Saving and Environmental Protection Agreement” 2016-2018	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-09-11/600808_20150911_4.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-09-11/600808_20150911_4.pdf</a>
Financial Services Agreement 2017	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-30/600808_20161230_3.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-30/600808_20161230_3.pdf</a>
Integrated Support Services Agreement 2017	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-30/600808_20161230_4.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-30/600808_20161230_4.pdf</a>

The normal business transactions between the Group and the Group Company 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 “Sale and Purchase of Ore Agreement”

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

In the period between 1 January 2017 and 31 December 2017, the transaction between the Company and the Group Company in respect of the 2016-2018 Sale and Purchase of Ore Agreement, which was signed in 2015, was as follows (RMB'000):

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, Limestone and dolomite	3,720,681	22

The prices per ton of iron ore, limestone and dolomite the Group purchases from the Group Company 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 Group Company (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. The continuing related party transactions contemplated under the "Sale and Purchase of Ore Agreement" between the Company and the Group Company were approved at the shareholders' general meeting. In the reporting period, such transactions were carried out according to the terms for the "Sale and Purchase of Ore Agreement" and their transaction amount was under the annual cap of 2017 for that agreement, amounting to RMB4,873 million.

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

In the period between 1 January 2017 and 31 December 2017, the transaction between in respect of the 2016-2018 Energy Saving and Environmental Protection Agreement, which was signed in 2015, was as follows (RMB'000):

	<b>Amount</b>	<b>Proportion of transaction of the same category (%)</b>
Purchases of energy saving and environmental protection engineering services	567,360	10
Sale of waste material	15,912	-
Total	<u>583,272</u>	

The Energy Saving and Environmental Protection Agreement between the Group and Environment Protection Company was approved by the shareholders at the shareholders' general meeting. All Directors of the Board who are not associated with 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. Their transaction amount did not exceed the annual cap of RMB665 million specified in the agreement.

## V. Significant Events (Continued)

- (3) The continuing related party transactions under the “Continuing Connected Transaction Agreement”

In the period between 1 January 2017 and 31 December 2017, the transaction in respect of the 2016-2018 Continuing Related Party Transaction Agreement, which was signed in 2015, was as follows (RMB'000):

	<u>Amount</u>	<u>Proportion of transaction of the same category (%)</u>
Sales of finished goods related commodities and provision of services	464,143	–
Purchase of infrastructure spare-parts and related services	<u>3,943,466</u>	95
Total	<u><u>4,407,609</u></u>	

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

Those transactions were approved by the Board and conducted under the related terms of the agreement. The transaction amount did not exceed the annual cap of RMB4,924 million.

- (4) The continuing related party transactions under the “Financial Services Agreement in 2017”

<b>Business Nature</b>	<b>Amount of loan or deposit</b>	<b>Interest income/ expenses</b>		
		RMB billion		RMB'000
Deposit	Maximum daily deposit balance	4.69	Interest expenses	34,940
	Monthly average maximum daily deposit balance	4.17		
Loan	Maximum daily loan balance	0.498	Interest income	21,560
	Monthly average maximum daily loan balance	0.497		
<b>Other income</b>				
Net income from handling fee and commission (RMB'000)				1,453
Income from discount interest (RMB'000)				35,192

The continuing related party transactions contemplated under the Financial Services Agreement between Masteel Finance and the Group Company were approved by the Board. 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 RMB60 million.

## V. Significant Events (Continued)

- (5) The continuing related party transactions under the “Integrated Support Services Agreement in 2017”

For the period between 1 January 2017 and 31 December 2017, transaction of the Group in respect of the Integrated Support Services Agreement was as follows (RMB'000):

	<u>Amount</u>	<u>Proportion of transaction of the same category (%)</u>
Energy, technical support and other products or services purchased by the Group Company from the Company	41,509	–
Products, printing services and other professional services purchased from the Group Company by the Company	<u>215,149</u>	5
Total	<u><u>256,658</u></u>	

The continuing related party transactions contemplated under the Integrated Support Services Agreement between the Group and the Group Company were approved by the Board. 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 transaction amount did not exceed the annual cap of RMB360 million.

- As of 31 December 2017, there were no claims or debts between the Company and its related parties except for daily business activities.
- Significant contracts concluded with the controlling shareholder:

Approved by the Board of Directors, the Company and the Group Company signed the Financial Services Agreement and Integrated Support Services Agreement on 27 December 2017. Other than that, the Company or any of its affiliates had concluded no significant contract with the Group Company anytime for the year ended 31 December 2017.

Some of the aforesaid continuing related party transactions constitute continuing connected transactions as defined in 14A.56, 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 conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with 14A.56 of the HKEx Listing Rules. A copy of the auditors' letter will be submitted to the HKEx 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 enquiry**

Purchase 9% equity interest of Ma Steel (Hong Kong) Co., Ltd. which was previously held by Ma Steel International Economy and Trade Co., Ltd.	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-04-26/600808_20170426_3.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-04-26/600808_20170426_3.pdf</a>
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**13. MATERIAL CONTRACTS AND PERFORMANCE THEREOF**

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

## V. Significant Events (Continued)

### (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	33.28
Total ending balance of guarantees offered to subsidiaries (B)	34.78

#### **Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)**

Total amount of guarantees (A+B)	34.78
Total amount of guarantees as a percentage of net assets of the Company (%)	14.55

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)	–
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)	–

Explanation on guarantees

During the reporting period, the Company provided MG-Valdunes S.A.S with a guarantee of Euro42 million (equivalent to RMB328 million); and provided the Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing. Additionally, at the end of the reporting period, Changjiang Steel provided its wholly-owned subsidiary with a guarantee of RMB150 million.

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

- (1) As at 31 December 2017, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.
- (2) As at 31 December 2017, the Company did not provide any guarantees to connected parties in which the Company and its shareholders held less than 50% equity interest, non-legal entities or individuals.
- (3) As at 31 December 2017, the total amount of external guarantees provided by the Company accounted for less than 50% of the net assets of the Company as stated in its consolidated financial statements of the latest accounting 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.**

## V. Significant Events (Continued)

### 14. OTHER MAJOR EVENTS

#### 1. DISCLOSURE

Items	Date by published
Announcement on Estimated Profit in Annual Results of 2016	2017.1.26
Announcement on Resolutions of the Twentieth Meeting of the Eighth Session of the Supervisory Committee	2017.2.15
Announcement on Resolutions of the Board of Directors	2017.2.15
Announcement in Relation to Resignation of the Secretary to the Board of Directors	2017.2.15
Announcement in Respect to the Provision of Guarantee by Maanshan Iron & Steel Company Limited to Its Subsidiary	2017.2.15
Announcement of the Operating Data for the Year of 2016	2017.3.30
Announcement on Resolutions of the Twenty-First Meeting of the Eighth Session of the Supervisory Committee	2017.3.30
Announcement on Resolutions of the Board of Directors	2017.3.30
Announcement Regarding the Changes in Accounting Policies	2017.3.30
Announcement on Resolutions of the Board of Directors	2017.4.26
Announcement on Connected Transaction	2017.4.26
Announcement in Respect to Capital Increase and External Investment by Maanshan Iron & Steel Company Limited in Its Wholly Owned Subsidiary	2017.4.26
Notice of 2016 Annual General Meeting	2017.4.26
Announcement in Respect to the Provision of Guarantee by Maanshan Iron & Steel Company Limited to its Subsidiary MaSteel (Hong Kong) Co., Ltd.	2017.4.26
Indicative Notice Regarding Annual General Meeting	2017.5.24
Announcement on Resolutions Passed at the 2016 Annual General Meeting	2017.6.13
Announcement on Resolutions of the Board of Directors	2017.6.13
Announcement of Maanshan Iron & Steel Company Limited on the Approval for the Listing of an Investee Company Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited on the National Equities Exchange and Quotations System	2017.7.29

<b>Items</b>	<b>Date by published</b>
Announcement on the Completion of the First Short-term Financing Bonds in 2016	2017.8.8
Announcement of the Operating Data for the First Half of 2017	2017.8.24
Announcement on Resolutions of the Board of Directors	2017.8.24
Announcement on Resolutions of the Twenty-Third Meeting of the Eighth Session of the Supervisory Committee	2017.8.24
Announcement Regarding the Changes in Accounting Policies Proposed Amendments to the Articles of Association	2017.8.24
Announcement in Relation to the Postponement of Election of the Board of Directors and the Supervisory Committee	2017.8.30
Announcement on the Issue of the Second Short-term Financing Bond in 2017	2017.9.21
Announcement in Relation to the Listing of an Investee Company Henan Jinma Energy Company Limited on the Hong Kong Stock Exchange	2017.10.10
Announcement on Resolutions of the Twenty-Fourth Meeting of the Eighth Session of the Supervisory Committee	2017.10.12
Announcement on Resolutions of the Board of Directors	2017.10.12
Notice of 2017 First Extraordinary General Meeting	2017.10.12
Announcement of the Operating Data for the First Three Quarters of 2017	2017.10.27
Announcement on Resolutions of the Twenty-Fifth Meeting of the Eighth Session of the Supervisory Committee	2017.10.27
Indicative Announcement Regarding the 2017 First Extraordinary General Meeting	2017.11.14
Announcement on Resolutions Passed at the 2017 First Extraordinary General Meeting	2017.12.1
Announcement on Resolutions of the First Meeting of the Ninth Session of the Supervisory Committee	2017.12.1
Announcement on Resolutions of the Board of Directors	2017.12.1
Announcement on Resolutions of the Second Meeting of the Ninth Session of The Supervisory Committee	2017.12.28
Announcement on Resolutions of the Board of Directors	2017.12.28

## V. Significant Events (Continued)

Items	Date by published
Announcement on Release of Stock Pledge of the Controlling Shareholder	2017.12.28
Announcement on Connected Transaction on the Financial Service Agreement signed between Magang Group Finance Co., Ltd. and Magang (Group) Holdings Co., Ltd.	2017.12.28
Announcement on Connected Transaction on the Integrated Support Services Agreement signed with Magang (Group) Holdings Co., Ltd	2017.12.28

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 2017, 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 2017, 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.

## 15. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

### (1) POVERTY ALLEVIATION WORK BY THE LISTED COMPANY

#### (i) Annual Review of Targeted Poverty Relief

The Company is dedicated to poverty relief of Malou Village of Wangyan Town and Liji Village of Dicheng Town, Funan County. The Company assists the Poverty Relief Office of the county in developing village-level communal economy and increasing the income of poverty-stricken families, to realize the ultimate goal of eliminating poverty.

In 2017, the Company donated RMB500,000 to fund the agricultural machinery cooperative project of Liji Village and RMB300,000 to 14 families in poverty at Malou Village for renovation of dilapidated buildings. In addition, the Company gave safe schoolbags to primary school students at these two villages for free, sent greetings to families in poverty with money and daily necessities, donated air-conditioners and office devices to the Administration and Clinic of Liji Village and the Administration of Malou Village, and computers to the electronic library of Malou Primary School.

#### (ii) Results of Targeted Poverty Relief Efforts

		Currency: RMB'000
Indicator		<b>Figures and Progress</b>
I.	Summary	
1.	Funding	860
2.	Materials	185
3.	Number of persons getting rid of poverty	5,740
II.	Breakdown	
1.	Poverty relief by industries	
1.1	Sector of industrial poverty alleviation programs	<input type="checkbox"/> Agriculture and forestry <input type="checkbox"/> Tourism <input type="checkbox"/> Online Retailers <input checked="" type="checkbox"/> Return on assets <input type="checkbox"/> Science and technology <input type="checkbox"/> Others
1.2	Number of industrial poverty alleviation programs	1
1.3	Funding for industrial poverty alleviation programs	500

## V. Significant Events (Continued)

Indicator	Figures and Progress
2. Poverty relief by education	
2.1 Funding for students in poverty	74.5
2.2 Number of students in poverty funded	250
2.3 Funding for improving education resources in disadvantaged regions	2
3. Poverty relief by health	
3.1 Funding for healthcare resources in disadvantaged regions	5.5
4. Social poverty relief	
4.1 Funding of designated place poverty relief programs	860
4.2 Poverty relief foundation	80
5. Other programs	
5.1. Number of programs	1
5.2. Funding	300
5.3. Number of persons getting rid of poverty	11
5.4. Notes	Helped poverty-stricken families renovate dilapidated buildings

### (2) SOCIAL RESPONSIBILITY WORK

Further details are stated in “Maanshan Iron & Steel Company Limited Social Responsibility

Report 2017”. Information sources: [www.sse.com.cn](http://www.sse.com.cn), [www.hkex.com.hk](http://www.hkex.com.hk)

### (3) ENVIRONMENTAL INFORMATION

#### (i) Notes on environmental protection by the Company and its key subsidiaries listed among key pollution producers by the environment authority

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.

Name of Company	Pollutant Category	Typical Pollutants	Way of Discharge	Processing Equipment	Number and Distribution of Discharge Outlets
Magang	Waste gases	Dust, NO <sub>x</sub> , SO <sub>2</sub>	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	205 sets	40, distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	70 sets	9
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Recycled totally	36 sets	-
Hefei Company	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged to the sewage plant	10 sets	10, distributed along the production lines
	Waste water	acid and alkali, oil	Discharged after up-to-standard processing by online treatment facilities	10 sets	1
	Hazardous wastes	emulsified liquid slag, oil sludge, used oil	Treatment by qualified service provider	-	-
Changjiang Steel	Waste gases	Dust, NO <sub>x</sub> , SO <sub>2</sub>	Discharged after up-to-standard processing	76 sets	44, 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	-	-

In addition to the above list, pollution-proof facilities are designed, built and operated in parallel with production facilities at these key pollution producers. All of their construction projects come with environmental impact assessment reports and approvals. All of them have prepared environment emergency response plans and self-test plans, and have filed these documents with the local environment authority.

## V. Significant Events (Continued)

Also, the Company strictly abides by The Environmental Protection Law, Environmental Impact Assessment Law, Air Pollution Prevention and Control Law, Water Pollution Prevention and Control Law, and Solid Waste Pollution Prevention and Control Law, and imposes internal controls stricter than national emission limits on certain pollutants. The Company monitors closely key points exposed to environment risk; maintains a weekly examination plan, carries out examination regularly and put any defect found to rights timely. The Company reinforces online management of pollution sources and process data monitoring in an effort to discover and address any problem timely. The Company maintains automated detection of key pollutants around the clock by using monitoring devices approved by the state environment authority. Data acquisition devices submit real-time data, minutely data, hourly data and daily data to Anhui Provincial Administration of Environment. The Company has 208 sets of online pollution source monitoring devices and 21 sets of visual monitoring devices.

For details of the Company's environmental related situation, please refer to the "2017 Corporate Social Responsibility Report" disclosed on the same day. For details, please refer to the Shanghai Stock Exchange website at [www.sse.com.cn](http://www.sse.com.cn).

# VI. Movements in Share Capital and Shareholders

## 1. SHARE MOVEMENTS

### (1) TABLE ON SHARE MOVEMENTS

#### 1. Table on share movements

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

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

## 2. SHAREHOLDER AND ACTUALHOLDERS

### (1) TOTAL SHAREHOLDER

Numbers of Shareholder as end of the reporting period (unit)	239,411
Numbers of Shareholder as end of last month (unit)	234,331

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

### (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

Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	Shareholding of the top ten shareholders			No. of Shares under Restricted Condition for Sales	Pledged or Frozen Situations		Shareholder
		No. of Shares at the End of Period	Percentage (%)			Share status	Number	
Magang (Group) Holding Co., Limited	-	3,506,467,456	45.54	-	Nil	-	State-owned shareholder	
Hong Kong Securities Clearing Nominees Limited	3,202,000	1,714,016,900	22.26	-	Unknown	Unknown	Unknown State-owned shareholder	
Central Huijin Investment Ltd.	-	142,155,000	1.85	-	Unknown	Unknown	Unknown	
Haitong Securities Co., Ltd.	Unknown	35,027,700	0.45	-	Unknown	Unknown	Unknown	
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	Unknown	33,756,512	0.44	-	Unknown	Unknown	Unknown	
China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 005L-CT001 Shanghai	Unknown	20,766,599	0.27	-	Unknown	Unknown	Unknown	
Li Xiaozhong	Unknown	16,464,955	0.21	-	Unknown	Unknown	Unknown	
Jinzheng Trading Co., Ltd.	Unknown	15,701,600	0.20	-	Unknown	Unknown	Unknown	
China International Finance Corporation	Unknown	13,166,000	0.17	-	Unknown	Unknown	Unknown	
China Resources SZITIC Trust Co., Ltd. – Runzhixin 50th Collective Fund Trust Plan	Unknown	12,897,000	0.17	-	Unknown	Unknown	Unknown	

**Top Ten Shareholders with unrestricted selling condition**

<b>Name of Share Holder</b>	<b>The number of unrestricted outstanding shares held</b>	<b>Type and Quantity of Shares</b>	
		<b>Type</b>	<b>Quantity</b>
Magang (Group) Holding Co., Limited	3,506,467,456	ordinary shares in RMB	3,506,467,456
Hong Kong Securities Clearing Nominees Limited	1,714,016,900	Overseas listed shares	1,714,016,900
Central Huijin Investment Ltd.	142,155,000	ordinary shares in RMB	142,155,000
Haitong Securities Co., Ltd.	35,027,700	ordinary shares in RMB	35,027,700
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	33,756,512	ordinary shares in RMB	33,756,512
China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 005L-CT001 Shanghai	20,766,599	ordinary shares in RMB	20,766,599
Li Xiaozhong	16,464,955	ordinary shares in RMB	16,464,955
Jinzheng Trading Co., Ltd.	15,701,600	ordinary shares in RMB	15,701,600
China International Finance Corporation	13,166,000	ordinary shares in RMB	13,166,000
China Resources SZITIC Trust Co., Ltd. – Runzhixin 50th Collective Fund Trust Plan	12,897,000	ordinary shares in RMB	12,897,000

**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.

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

### **Top Ten Shareholders with Restricted Selling Condition and the Related Condition**

On December 21, 2017, the Group Company repurchased 800 million shares of the company's shares pledged on December 8, 2016. For details, see the announcement issued by the Company on December 27. Search address is: <http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-12-28/600808201712286.pdf>.

Apart from mentioned above, 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 1,714,016,900 H Shares of the Company on behalf of multiple clients.

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

As at 31 December 2017, 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).

Save as disclosed above, as at 31 December 2017, 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.

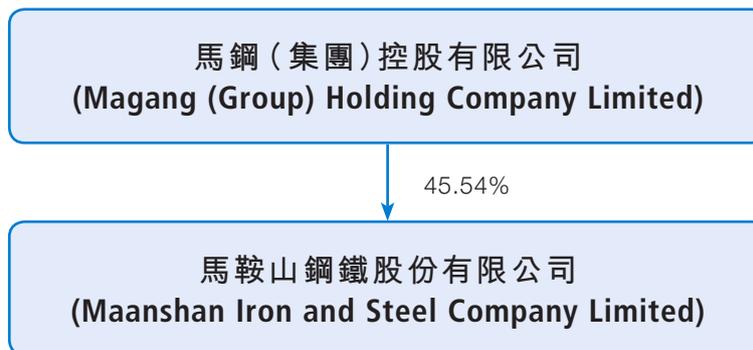
### 3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

#### (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 manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	During the reporting period, the substantial shareholders did not control or partially own any other domestic and overseas listed company.

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



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

### (2) ACTUAL HOLDERS

#### 1. Legal Person

Name	State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province
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#### 2. Block diagram of property rights and controlling relations between the Company and actual controllers



## VII. Directors, Supervisors, Senior Management And Employees

### 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:

Name	Position	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments (RMB10 thousand)	Receive emoluments from the Company's related parties
Ding Yi	Chairman	Male	54	2013-8-9	2020-11-30	-	Yes
Qian Haifan	Director	Male	57	2011-8-31	2020-11-30	63.50	No
Qian Haifan	General Manager	Male	57	2011-7-14	2020-11-30	-	No
Zhang Wenyang	Director	Male	50	2017-11-30	2020-11-30	46.79	No
Zhang Wenyang	Deputy General Manager	Male	50	2017-2-14	2020-11-30	-	No
Ren Tianbao	Director	Male	54	2011-8-31	2020-11-30	-	Yes
Zhang Chunxia	Independent Director	Female	55	2017-11-30	2020-11-30	0.83	No
Zhu Shaofang	Independent Director	Female	54	2017-11-30	2020-11-30	0.83	No
Wang Xianzhu	Independent Director	Male	38	2017-11-30	2020-11-30	0.83	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	56	2008-8-31	2020-11-30	57.07	No
Zhang Qianchun	Supervisor	Male	56	2017-11-30	2020-11-30	-	Yes
Yan Kailong	Supervisor	Male	53	2015-12-1	2020-11-30	32.81	No
Qin Tongzhou	Independent Supervisor	Male	48	2017-11-30	2020-11-30	0.61	No
Yang Yada	Independent Supervisor	Female	62	2017-11-30	2020-11-30	0.61	No
Gao Haichao	Deputy General Manager, Chief Engineer	Male	60	2013-2-17	2018-3-5	57.28	No
Lu Kecong	Deputy General Manager	Male	54	2011-7-14	2020-11-30	57.07	No
Tian Jun	Deputy General Manager	Male	57	2017-2-14	2020-11-30	46.74	No
Fu Ming	Deputy General Manager	Male	51	2017-10-11	2020-11-30	12.69	No
Su Shihuai	Director	Male	59	2013-2-5	2017-11-30	-	Yes
Fang Jinrong	Supervisor	Male	54	2005-8-31	2017-11-30	-	Yes
Qin Tongzhou	Independent Director	Male	48	2011-8-31	2017-11-30	9.17	No
Yang Yada	Independent Director	Female	62	2011-8-31	2017-11-30	9.17	No
Liu Fang Duan	Independent Director	Male	54	2012-10-25	2017-11-30	9.17	No
Su Yong	Independent Supervisor	Male	63	2011-8-31	2017-11-30	6.76	No
Wang Zhenhua	Independent Supervisor	Male	44	2011-8-31	2017-11-30	6.76	No
Hu Shunliang	Board Secretary	Male	60	2015-6-16	2017-2-14	4.08	No
Total						<u>422.77</u>	

## VII. Directors, Supervisors, Senior Management And Employees (Continued)

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

On November 30, 2017, the Company's board of directors and board of supervisors held a general election. Independent directors of the 8<sup>th</sup> board of directors, Mr. Qin Tongzhou and Ms. Yang Yada, were elected as independent supervisors of the 9<sup>th</sup> session of the board of supervisors. The Company's current directors, supervisors and senior management personnel and their working experiences are as follows:

<b>Name</b>	<b>Working Experience</b>
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. and MG Trading and Development Gambit in Germany.
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., and Ma Steel (Hefei) Steel Plates Co., Ltd., and the director of Magang Group Investment Limited, and the director of Ma Steel (Hong Kong) Co., Ltd.
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 appointed as the Company's deputy general manager. He served as a director of the Company on 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 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.
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 managing 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.
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.

## VII. Directors, Supervisors, Senior Management And Employees (Continued)

<b>Name</b>	<b>Working Experience</b>
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 Maanshan Port (Group) Co., Ltd., Magang (Group) Logistics Co., Ltd. and Maanshan Iron & Steel Group Mining Co., Ltd., the Vice Chairman of Henan Jinma Energy Company Limited 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.

## VII. Directors, Supervisors, Senior Management And Employees (Continued)

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

## 2 CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN REPORTING PERIOD

### (1) POSITIONS IN SHAREHOLDERS' COMPANY

<u>Name</u>	<u>Name of shareholders' company</u>	<u>Position in shareholders' company</u>
Ding Yi	Magang (Group) Holding Company Limited	Chairman, General Manager
Zhang Xiaofeng	Magang (Group) Holding Company Limited	Chairman of the Labor Union
Su Shihuai	Magang (Group) Holding Company Limited	Deputy General Manager, Chief Engineer
Qian Haifan	Magang (Group) Holding Company Limited	Director
Ren Tianbao	Magang (Group) Holding Company Limited	Deputy General Manager
Lu Kecong	Magang (Group) Holding Company Limited	Director
Zhang Qianchun	Magang (Group) Holding Company Limited	Deputy Chief Accountant, Finance Manager
Fang Jinrong	Magang (Group) Holding Company Limited	Deputy Manager of Supervision and Audit Department

### (2) POSITIONS IN OTHER ENTITIES

<u>Name</u>	<u>Name of other entities</u>	<u>Position in other entities</u>
Zhang Chunxia	Central Iron & Steel Research Institute	PhD Supervisor
Wang Xianzhu	Anhui University of Technology	Secretary of the Communist Youth League
Wang Xianzhu	Mashanshan Huashan District Committee and District Government	Standing Committee, Deputy District Governor
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
Liu Fangduan	Anhui Xingwan Law Firm	Director

### 3 EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management	Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Management Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders general meeting, and based on their respective appraisals. Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.
Basis for determination of Directors, Supervisors and Senior Management	Appraisals
Actual payment to Directors, Supervisors and Senior Management	Please refer to the previous section “Changes in Shareholding 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 RMB4,227.7 thousand (tax inclusive).

### 4 PERSONAL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Position</u>	<u>Movement</u>	<u>Reasons of movement</u>
Zhang Wenyang	Director	Election	General election
Zhang Chunxia	Independent Director	Election	General election
Zhu Shaofang	Independent Director	Election	General election
Wang Xianzhu	Independent Director	Election	General election
Zhang Qianchun	Supervisor	Election	General election
Qin Tongzhou	Independent Supervisor	Election	General election
Yang Yada	Independent Supervisor	Election	General election
Zhang Wenyang	Deputy General Manager	Appointment	Proposed by the General Manager
Tian Jun	Deputy General Manager	Appointment	Proposed by the General Manager
Fu Ming	Deputy General Manager	Appointment	Proposed by the General Manager

## VII. Directors, Supervisors, Senior Management And Employees (Continued)

<u>Name</u>	<u>Position</u>	<u>Movement</u>	<u>Reasons of movement</u>
Su Shihuai	Director	Resignation	Term expires
Qin Tongzhou	Independent Director	Resignation	Term expires
Yang Yada	Independent Director	Resignation	Term expires
Liu Fangduan	Independent Director	Resignation	Term expires
Fang Jinrong	Supervisor	Resignation	Term expires
Su Yong	Independent Supervisor	Resignation	Term expires
Wang Zhenhua	Independent Supervisor	Resignation	Term expires
Hu Shunliang	Board Secretary	Resignation	Reappointed as non-management due to age
Gao Haichao	Standing Deputy General Manager, Chief Engineer	Resignation	Retirement

### 5 THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORY AGENCIES IN THE PAST THREE YEARS

### 6 EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

#### (1) EMPLOYEES

The number of current employees of the parent company	25,097
The number of current employees of the major subsidiaries	5,139
Total number of current employees	30,236
Total number of current employees	20,874

#### Professional constitution

<u>Profession category</u>	<u>Number of staff of profession constitution</u>
Production Line	24,212
Sales representative	488
Technician	2,990
Financial staff	223
Administrative Staff	2,323
Total	<u>30,236</u>

<b>Education</b>	<b>Number of staff</b>
<b>Educational level</b>	
Postgraduate	631
Graduate	3,929
Junior College	6,657
Vocational secondary or below	19,019
Total	<u>30,236</u>

## (2) REMUNERATION POLICY

The Company has implemented a diversified compensation mechanism which is dominated by the post-performance wage system, and complemented by the annual salary system and allowance for skilled personnel. In 2017, the Company has redesigned the package method of total wages. Firstly, the total wages are linked to the target number of workers set, driving different units to strengthen the optimization of human resources and decrease the number of workers allocated, and the first unit to implement will be rewarded first. Secondly, the Company encouraged formal employees to replace labor services, and formulate incentive policies for saving labor costs. Thirdly, the Company guided employees to upgrade their skills and literacy, and formulated incentive mechanism for major jobs.

## (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 2017 the Company launched 253 training activities, with a total of 35,175 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 and Measures of External Investment Management.

### 1. CORPORATE GOVERNANCE REPORT

In 2017, 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 eighth session of the Board of the Company comprised seven Directors, of whom two were Executive Directors and five were Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-seventh of the members of the Board.

The Executive Directors and two Non-Executive Director of the eighth 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, Mr. Qin Tongzhou is the member of the Chinese Institute of Certified Public Accountants (CICPA), the CFO of China Fire & Security Group Inc. with years of experience in the accounting profession; Ms. Yang Yada is professor, master instructor of School of Management of Anhui University of Technology, who is knowledgeable in corporate management. Mr. Liu Fangduan is a second-grade lawyer and currently serves as director at Anhui Xingwan Law Firm, with extensive experience in the legal profession.

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 Non-executive Directors, three of them were Independent Directors, accounting for three-seventh of the members 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. Zhushaofang is a member of the first batch of certified public accountants of the Chinese Institute of Certified Public Accountants and has many years of experience in auditing; Ms. Zhang Chunxia is a doctoral supervisor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute. She is knowledgeable in the iron and steel industry; Mr. Wang Xianzhu served as vice president of the School of Economics, Anhui University of Technology and vice president of the School of Business. He has profound knowledge in economics.

All independent directors of the eighth and 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.

## VIII. Corporate Governance (Continued)

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:

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

## VIII. Corporate Governance (Continued)

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

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

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. Taking into account the performance of the Company and the Directors' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board' approval. No director may determine his/her own remuneration.

### *Supervisors' remuneration*

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

## VIII. Corporate Governance (Continued)

The annual aggregate remuneration of all Supervisors of the ninth 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, and such remuneration shall be reported to the annual general meeting.

### *Senior Management's remuneration*

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

### **(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 eighth board of directors of the company is as follows:

<b>Directors</b>	<b>Committee</b>			
	<b>Strategic Development Committee</b>	<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>The Remuneration Committee</b>
Mr. Ding Yi	Chairman		member	
Mr. Qin Tongzhou	member	Chairman	member	member
Ms. Yang Yada	member	member	Chairman	member
Mr. Liu Fangduan	member	member	member	Chairman

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

<b>Directors</b>	<b>Committee</b>			
	<b>Strategic Development Committee</b>	<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>The Remuneration Committee</b>
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

## VIII. Corporate Governance (Continued)

### (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 2017, the Strategic Committee of the Board of Directors totally held one meeting, with all committee members (Mr. Ding Yi, Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan) attending in person. Agenda of the meeting was as follows: 1) reviewed the 2016 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.

In 2017, The Audit Committee of the eighth session of the Board of the Company held four meetings, with all committee members (Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan) attending in person. The Audit Committee of the ninth session of the Board of the Company held two meetings, with all committee members (Zhang Chunxia, Zhu Shaofang and Wang Xianzhu) attending in person. Details of the meetings in 2017 are as follows:

- Discussed the unaudited 2016 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 2016 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.
- Having considered and approved the summary report on the Company's auditing work in 2016 conducted by the external auditors.
- Approved the payment of RMB5.185 million to Ernst & Young Hua Ming LLP in 2016, which included an annual audit fee of RMB4.6 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.

## VIII. Corporate Governance (Continued)

- Considered and agreed that Ernst & Young Hua Ming LLP would be re-appointed as the Company's auditors for 2017.
- Following deliberations, concluded that the continuing connected transactions contemplated under the "Sale and Purchase of Ore Agreement" between the Company and the Group Company in 2016 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 2016 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 2016 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 2016 were compliant with the laws and regulations.
- Considered and passed the 2016 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 2016.
- Reviewed the Company's unaudited first quarterly financial statement of 2017 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.
- Reviewed the Company's unaudited interim financial statement of 2017 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.
- Reviewed the Company's unaudited third quarterly financial statement of 2017 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.

- Elected Ms. Zhu Shaofang Chairman of the Audit Committee.
- Discussed and determined the Annual Audit Plan for 2017 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 2017, 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.

The Nomination Committee of the eighth session of the Board of the Company comprises Independent Directors Ms. Yang Yada, Mr. Qin Tongzhou, Mr. Liu Fangduan. In 2017, the Nomination Committee held four meetings. All committee members presented each meeting in person. The Nomination Committee of the ninth session of the Board of the Company comprises Independent Directors Mr. Wang Xianzhu, Mr. Ding Yi, Ms. Zhang Chunxia and Ms. Zhu Shaofang. In 2017, the Nomination Committee held one meeting. All committee members presented each meeting in person. Agenda of the meeting was as follows:

## VIII. Corporate Governance (Continued)

- Confirmed after proper inspection that Tian Jun and Zhang Wenyang, two nominees for Deputy General Manager recommended by General Manager Qian Haifan, were qualified and suggested the Board appoint Tian Jun and Zhang Wenyang Deputy General Manager of the Company.
- Considered the 2016 Report on Performance of Duties by the Nomination Committee under the Board of Maanshan Iron and Steel Company Limited.
- Nominated Ding Yi, Qian Haifan, Ren Tianbao and Zhang Wenyang as candidates for the ninth session of the Board of the Company (excluding independent directors).
- Nominated Zhang Chunxia, Zhu Shaofang and Wang Xianzhu as independent director candidates for the ninth session of the Board of the Company.
- Confirmed after proper inspection that Fu Ming, a nominee for Deputy General Manager recommended by General Manager Qian Haifan, was qualified and suggested the Board appoint him Deputy General Manager of the Company.
- Elected Zhang Chunxia Chairman of the Nomination Committee.
- Nominated Qian Haifan as General Manager of the Company.
- Confirmed after proper inspection that Gao Haichao, Lu Kecong, Tian Jun, Zhang Wenyang and Fu Ming, candidates for Executive Deputy General Manager, chief engineer and Deputy General manager nominated by General Manager, were qualified for senior management roles and suggested the Board appoint them accordingly.

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 2017, the Remuneration Committee of the eighth session of the Board held two meetings. All members (Mr. Liu Fangduan, Mr. Qin Tongzhou, and Ms. Yang Yada) attended the meeting in person. The Remuneration Committee of the ninth session of the Board held one meeting. All members (Wang Xianzhu, Ren Tianbao, Zhang Chunxia and Zhu Shaofang) attended the meeting in person. The details of the meeting are as follows:

- Reviewed remuneration of directors and senior management for 2016;
- Reviewed the Remuneration Committee's Report on Discharge of Duties for 2016.
- Considered and determined the cap to annual total remuneration of directors of the ninth session of the Board who receive pay from the Company during their term of office.
- Elected Wang Xianzhu Chairman of the Remuneration Committee.

## VIII. Corporate Governance (Continued)

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.

During the reporting period, Zhang Wenyang, when he was a director candidate, attended a training programme intended for directors of listed companies, organized by Anhui Association of Listed Companies; and Zhang Chunxia, Zhu Shaofang and Wang Xianzhu, when they were independent director candidates, received independent director competency training offered by SSE.

### (10) RISK MANAGEMENT AND INTERNAL CONTROL

The Board of the Company undertakes to be responsible for the availability and fine-tuning, 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 to 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 managing 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 be 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 well-knit 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.

## VIII. Corporate Governance (Continued)

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 2017), 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 defect in internal controls other than over financial reporting was found, based on the identification of material defects in internal controls other than over financial reporting.

### (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 attached financial statements prepared under the PRC Accounting Standards and internal control audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5,385,000, including annual audit fee (exclusive of taxes) of RMB4,800,000 (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on interim financial statements of RMB585,000 (exclusive of taxes). The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

As at 31 December 2017, Ernst & Young Hua Ming LLP has provided auditing services to the Group for 24 consecutive years. Ms. An Xiuyan and Ms. Dong Nan were the certified public accountants who have signed the Company's 2017 auditors' reports. Ms. An Xiuyan has provided auditing services to the Company for three consecutive years, while Ms. Dong Nan has provided auditing services to the Company for the first time.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company for RMB35,000, 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 encouraging them to attend the shareholders' general meetings.

During the reporting period, the Company stated clearly in the 2016 annual general meeting notice 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.

## VIII. Corporate Governance (Continued)

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.

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

- a) With respect to personnel, the Company's production, technical, financial and sales personnel are independent of controlling shareholders; general manager, deputy general manager and other senior managers are paid by the Company.
- b) With respect to assets, the Company has its separate production system, auxiliary system and supporting facilities and has separate industry property, trademark and non-patented technologies; purchasing and sales systems are also independently owned by the Company.
- c) With respect to finance, the Company has an independent financial department, and has established independent accounting system and comprehensive financial management system.
- d) With respect to organization, the Company has established sound organization system; the board of directors and the board of supervisors operate separately, while other internal organizations and functional departments of controlling shareholders have subordination relationships.
- e) With respect to business, the Company has independent and complete business operation and independent management ability; controlling shareholders haven't carried out and can't carry out horizontal competition.

### **(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 2017; these annual accounts presented a fair and true overview of the Company's financial position, business results and cashflows. Ernst & Young Hua Ming LLP (Special General Partnership), 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 2017. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2016 annual general meeting held on 12 June 2017.
- 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 company management and relevant requirements of CSRC.

## II. SHAREHOLDERS’ GENERAL MEETING

<u>Session of Meeting</u>	<u>Date of Meeting</u>	<u>Specified Website for Publishing Resolutions</u>	<u>Publishing Date of Resolution</u>
2016 Annual General Meeting	2017-6-12	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-06-13/600808_20170613_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-06-13/600808_20170613_1.pdf</a>	2017-6-13
2017 First Extraordinary General Meeting	2017-11-30	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-12-01/600808_20171201_2.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-12-01/600808_20171201_2.pdf</a>	2017-12-1

### DESCRIPTION OF SHAREHOLDERS’ GENERAL MEETING

The following items were on the agenda of the 2016 Annual General Meeting: reviewing and approving the 2016 Directors’ Report, 2016 Supervisors’ Report, 2016 Auditors’ Report and 2016 Profit Distribution Plan, engaging Ernst & Young Hua Ming LLP (Special General Partnership) as the auditor in 2017 and authorizing the Board to determine its remuneration on the basis of the amount in 2016, and the bill on the provision of guarantee to Ma Steel (Hong Kong) Co., Ltd. All of these items were adopted after deliberations. A debriefing from independent directors was presented at the meeting.

## VIII. Corporate Governance (Continued)

The following items were on the agenda of the 2017 first extraordinary general meeting: reviewing and approving revisions to the Articles of Association and its attachments, reviewing and approving the bill on remuneration of directors of the ninth session of the Board, reviewing and approving the bill on remuneration of supervisors of the ninth session of the Supervisory Committee, election of members of the ninth session of the Board, and election of supervisors other than the representative of the staff for the ninth session of the Supervisory Committee. All of these items were adopted after deliberations.

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.sse.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

Name of Director	Independent Director	Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two	
							consecutive personal absence	In the General Meeting Attendance
Ding Yi	No	9	8	1	0	0	No	2
Qian Haifan	No	9	5	1	3	0	Yes	1
Zhang Wenyang	No	2	1	1	0	0	No	1
Ren Tianbao	No	9	7	1	1	0	No	2
Zhang Chunxia	Yes	2	1	1	0	0	No	1
Zhu Shaofang	Yes	2	1	1	0	0	No	1
Wang Xianzhu	Yes	2	1	1	0	0	No	1
Su Shihuai	No	7	7	0	0	0	No	1
Qin Tongzhou	Yes	7	7	0	0	0	No	1
Yang Yada	Yes	7	7	0	0	0	No	1
Liu Fangduan	Yes	7	7	0	0	0	No	1

### **Explanation on absence from two consecutive meetings of the Board**

Qian Haifan was absent from two meetings of the Board consecutively held on Apr. 25 and Jun. 12, 2017, because he had other business to attend to, but he had Chairman Ding Yi attend these meetings and exercise the voting right of expressing opinion as his proxy.

Number of meetings held by the Board during the reporting year	9
Of which : Number of face-to-face meetings	8
Number of meetings by teleconferencing	1
Number of face-to-face meetings combined with teleconferencing	0

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

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

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

#### **V. SUPERVISORY COMMITTEE'S EXPLANATION ON IDENTIFICATION OF RISKS IN THE COMPANY**

The Supervisory Committee found no risks in the Company.

#### **VI. EXPLANATIONS ON THE COMPANY'S INABILITY TO ENSURE INDEPENDENCE AND OPERATE INDEPENDENTLY FROM ITS CONTROLLING SHAREHOLDER IN RESPECT OF BUSINESS, STAFF, ASSETS, ORGANIZATION AND FINANCE.**

No explanations on the Company's inability to ensure independence and operate independently from its controlling shareholder in respect of business, staff, assets, organization and finance.

#### **CORRESPONDING SOLUTIONS, WORK PROGRESS AND FOLLOW-UP PLANS OF THE COMPANY IN RESPONSE TO COMPETITION AMONG PEERS IN THE INDUSTRY**

No industry competition among the Company and controlling shareholders.

## VIII. Corporate Governance (Continued)

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

The Company has adopted an annual salary system for the Senior Management. Taking into account the performance of the Company and the individual contribution of Senior Management members, 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.

### VIII. WHETHER TO DISCLOSE INTERNAL CONTROL SELF-ASSESSMENT

Report on Internal Control Assessment of the Company in 2017 has been discussed and approved by fifth Session of the Ninth Board of Directors of the Company on March 20, 2018, confirming that the Company’s internal control in 2017 is effective. Search the follow websites for the report on the internal control assessment at: [www.sse.com.cn](http://www.sse.com.cn) and [www.hkex.com.hk](http://www.hkex.com.hk).

There was no major 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 December 31, 2017 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](http://www.sse.com.cn) and [www.hkex.com.hk](http://www.hkex.com.hk).

Whether to disclose audit report on internal control: Yes

# IX. Financial Statements

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# Independent Auditor's Report



Ernst & Young Hua Ming (2018) 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 2017, and the consolidated and company statements of profit or loss, 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 2017 and their financial performance and cash flows for the year then ended in accordance with 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 Auditor’s 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 Auditor’s 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 property, plant and equipment*

Property, plant and equipment (“PPE”) amounted to RMB33,130,499,862 as of 31 December 2017, representing 45.9% of the total assets and 82.6% of the long-term assets in the consolidated financial statements. Management assessed impairment indicators for these items of PPE. For those with impairment indicators identified, management performed impairment testing. The recoverable amounts were determined at the higher of the present value of estimated future cash flows and the fair value, or referring to the asset valuation result of valuation agency, less costs to sell. Management needed to make significant judgement and estimation regarding the future selling price, production cost, operating expenses, discount rate and etc. during the process of assessing impairment indicators, determining the cash generating units (“CGUs”) and calculating the recoverable amounts.

The disclosures related to the impairment of PPE of Maanshan Iron & Steel Company Limited are disclosed in Notes III.19, III.31 and V.17 to the financial statements.

We obtained an understanding and tested internal controls related to the asset impairment testing. We also reviewed management’s assessment of impairment indicators, determination of CGUs and significant parameters in determining the recoverable amounts of the PPE and CGUs that the PPE belongs to. Specifically for the steel price forecasted by management, we had compared it with the forecasts issued by third party industry analysts. We also reviewed other significant parameters such as production volume, production costs and operating expenses by comparing them to historical data, checking supporting documentation, and obtaining evidence subsequent to the year end, and relevant industry forecasts. Meanwhile, for the work of the appraisers which was relied on by management, we evaluated the independence and competency of the valuation agency and the reasonableness of the valuation results. In addition, we also reviewed the disclosures regarding the impairment of PPE in the financial statements.

# Independent Auditor's Report (Continued)

## 3. KEY AUDIT MATTERS (CONTINUED)

### *Recognition of deferred tax assets*

As of 31 December 2017, deferred tax assets of RMB478,235,280 were recognised in the consolidated financial statements regarding to temporary differences and tax losses to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the timing and amount of future taxable profits together with tax planning strategies and the expiration dates of the tax losses.

The disclosures related to the deferred tax assets of Maanshan Iron & Steel Company Limited are disclosed in Notes III.25, III.31, and V.20 to the financial statements.

We obtained an understanding and tested internal controls related to the recognition of deferred tax assets. We reviewed management's record of the temporary difference, recovery timing, tax losses and the expiration dates, and management's method and significant assumptions in determining the future available taxable profits. Specifically for the estimated steel price, we had compared it with the forecasts issued by third party industry analysts. In addition, we also reviewed the disclosures regarding deferred tax assets in the financial statements.

### *Impairment of inventories*

As of 31 December 2017, inventories amounted to RMB11,445,747,808 in the consolidated financial statements. Management performed impairment testing of inventories and if the cost is in excess of the net realisable value, impairment of inventories is recognised. Net realisable 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, operating expenses, related taxes and etc.

The disclosures related to the impairment of inventories of Maanshan Iron & Steel Company Limited are disclosed in Notes III.11, III. 31 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, operating expenses, related taxes and etc. In addition, we also reviewed the disclosures regarding the impairment testing of inventories in the financial statements.

#### **4. OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT**

The management of Maanshan Iron & Steel Company Limited (hereinafter referred to as the “management”) is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not 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 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.

# Independent Auditor's Report (Continued)

## 6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 auditor's 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 auditor's report. However, future events or conditions may cause Maanshan Iron & Steel Company Limited to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**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

20 March 2018

# Consolidated Statement of Financial Position

31 December 2017  
Renminbi Yuan

ASSETS	Note V	31 December 2017	31 December 2016
<b>CURRENT ASSETS</b>			
Cash and bank balances	1	<b>4,978,352,093</b>	5,312,101,041
Financial assets measured at fair value through profit or loss	2	<b>1,546,139,404</b>	555,322,261
Notes receivable	3	<b>8,375,166,683</b>	3,608,459,121
Trade receivables	4	<b>966,447,592</b>	859,929,107
Interest receivable		<b>6,390,787</b>	4,044,939
Prepayments	5	<b>750,818,831</b>	925,051,274
Other receivables	6	<b>278,837,287</b>	127,614,834
Inventories	7	<b>11,445,747,808</b>	10,548,061,832
Financial assets purchased under agreements to resell	8	<b>1,204,603,000</b>	230,047,000
Loans and advances to customers	9	<b>1,251,315,253</b>	1,555,212,556
Assets held for sale	10	<b>73,454,334</b>	–
Held-to-maturity investments	11	<b>305,228,376</b>	–
Other current assets	12	<b>916,037,331</b>	692,471,233
Total current assets		<b>32,098,538,779</b>	24,418,315,198
<b>NON-CURRENT ASSETS</b>			
Available-for-sale financial investments	13	<b>1,111,168,160</b>	577,947,698
Held-to-maturity investments	14	<b>100,854,230</b>	–
Long-term equity investments	15	<b>1,525,225,202</b>	1,239,776,313
Investment properties	16	<b>57,508,684</b>	58,833,998
Property, plant and equipment	17	<b>33,130,499,862</b>	35,522,601,715
Construction in progress	18	<b>1,805,955,609</b>	2,258,191,398
Intangible assets	19	<b>1,883,604,173</b>	1,821,768,927
Deferred tax assets	20	<b>478,235,280</b>	348,095,783
Total non-current assets		<b>40,093,051,200</b>	41,827,215,832
<b>TOTAL ASSETS</b>		<b>72,191,589,979</b>	66,245,531,030

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	<b>31 December 2017</b>	31 December 2016
<b>CURRENT LIABILITIES</b>			
Deposits from banks and other financial institutions	22	<b>200,000,000</b>	–
Customer deposits	23	<b>2,947,639,610</b>	3,708,225,021
Repurchase agreements	24	<b>308,100,956</b>	596,565,698
Short term loans	25	<b>4,630,303,694</b>	6,942,952,420
Financial liabilities measured at fair value through profit or loss	26	<b>10,498,810</b>	–
Notes payable	27	<b>4,809,848,470</b>	3,584,228,362
Accounts payable	28	<b>6,968,534,360</b>	6,668,807,923
Advances from customers	29	<b>3,842,903,332</b>	3,682,322,418
Payroll and employee benefits payable	30	<b>654,822,505</b>	550,444,683
Taxes payable	31	<b>1,342,836,597</b>	274,232,114
Interest payable	32	<b>121,108,052</b>	107,691,398
Dividends payable	33	<b>9,050,620</b>	8,713,584
Other payables	34	<b>2,224,169,194</b>	1,912,575,078
Non-current liabilities due within one year	35	<b>4,928,758,378</b>	3,211,056,320
Accrued liabilities	36	<b>38,537,369</b>	29,580,435
Other current liabilities	37	<b><u>3,081,026,301</u></b>	<u>2,273,058,356</u>
<b>Total current liabilities</b>		<b><u>36,118,138,248</u></b>	<u>33,550,453,810</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	38	<b>6,975,958,634</b>	5,163,168,960
Bonds payable	39	–	3,987,666,667
Deferred income	40	<b>1,462,490,533</b>	1,269,496,538
Long-term payables	41	<b>210,000,000</b>	–
Long-term employee benefits payable	42	<b>160,896,586</b>	159,173,203
Deferred tax liabilities	20	<b><u>26,841,665</u></b>	<u>35,065,411</u>
<b>Total non-current liabilities</b>		<b><u>8,836,187,418</u></b>	<u>10,614,570,779</u>
<b>Total liabilities</b>		<b><u><u>44,954,325,666</u></u></b>	<u><u>44,165,024,589</u></u>

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

# Consolidated Statement of Financial Position (Continued)

31 December 2017  
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	<b>31 December 2017</b>	31 December 2016
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	43	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	44	<b>8,352,287,192</b>	8,348,726,741
Other comprehensive income	45	<b>(124,156,060)</b>	(119,263,454)
Special reserve	46	<b>31,929,722</b>	27,969,571
Surplus reserve	47	<b>4,100,007,341</b>	3,843,231,617
General reserve	48	<b>191,546,668</b>	153,394,916
Retained earnings/(accumulated losses)	49	<b><u>3,643,443,763</u></b>	<u>(190,568,622)</u>
Equity attributable to owners of the parent		<b><u>23,895,739,812</u></b>	<u>19,764,171,955</u>
Non-controlling interests		<b><u>3,341,524,501</u></b>	<u>2,316,334,486</u>
Total shareholders' equity		<b><u>27,237,264,313</u></b>	<u>22,080,506,441</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u><u>72,191,589,979</u></u></b>	<u><u>66,245,531,030</u></u>

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

The financial statements were signed by the following persons:

Legal Representative:  
**Ding Yi**

Chief Accountant:  
**Qian Haifan**

Head of Accounting:  
**Xing Qunli**

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2017  
Renminbi Yuan

	Note V	2017	2016
Revenue	50	<b>73,228,029,624</b>	48,275,100,310
Less: Cost of sales	50	<b>63,556,258,449</b>	42,557,487,675
Taxes and surcharges	51	<b>741,194,307</b>	432,096,408
Selling expenses	52	<b>865,396,451</b>	694,782,730
General and administrative expenses	53	<b>1,419,135,407</b>	1,780,281,484
Financial expenses	54	<b>998,780,259</b>	793,650,976
Impairment losses	55	<b>746,374,994</b>	1,064,257,636
Add: Gain on changes in fair value	56	<b>10,145,756</b>	4,051,190
Investment income	57	<b>676,516,349</b>	291,396,463
including: share of profits of			
associates and joint ventures		<b>490,410,552</b>	232,820,475
Gain/(loss) from disposal of assets	58	<b>(176,952,368)</b>	(51,189,196)
Other income	59	<b>238,868,248</b>	–
Operating profit		<b>5,649,467,742</b>	1,196,801,858
Add: Non-operating income	60	<b>176,123,978</b>	198,015,226
Less: Non-operating expenses	61	<b>16,625,157</b>	26,241,544
Profit before tax		<b>5,808,966,563</b>	1,368,575,540
Less: Income tax expense	63	<b>736,728,434</b>	111,880,234
Net profit		<b>5,072,238,129</b>	1,256,695,306
Categorized by operation continuity			
Net profit from continuing operations		<b>5,072,238,129</b>	1,256,695,306
Net profit from discontinued operations		–	–
Categorized by ownership			
Net profit attributable to owners of the parent		<b>4,128,939,861</b>	1,228,892,407
Net profit attributable to non-controlling interests		<b>943,298,268</b>	27,802,899

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

# Consolidated Statement of Profit or Loss (Continued)

For the year ended 31 December 2017  
Renminbi Yuan

	Note V	2017	2016
Other comprehensive income, net of tax		<b>(6,520,394)</b>	47,099,406
Other comprehensive income attributable to owners of the parent, net of tax	45	<b>(4,892,606)</b>	46,187,097
Other comprehensive income to be reclassified to profit or loss in subsequent periods		<b>(4,892,606)</b>	46,187,097
Fair value changes of available-for-sale financial assets		<b>(4,066,577)</b>	(803,607)
Exchange differences on translation of foreign operations		<b>(826,029)</b>	46,990,704
Other comprehensive income attributable to non-controlling interests, net of tax		<b>(1,627,788)</b>	912,309
Total comprehensive income		<b><u>5,065,717,735</u></b>	<b><u>1,303,794,712</u></b>
Attributable to:			
Owners of the parent		<b><u>4,124,047,255</u></b>	<b><u>1,275,079,504</u></b>
Non-controlling interests		<b><u>941,670,480</u></b>	<b><u>28,715,208</u></b>
EARNINGS PER SHARE:			
Basic earnings per share (cent)	64	<b><u>53.62 cents</u></b>	<b><u>15.96 cents</u></b>
Diluted earnings per share (cent)	64	<b><u>53.62 cents</u></b>	<b><u>15.96 cents</u></b>

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

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017  
Renminbi Yuan

	Attributable to owners of the parent							Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital (Note V. 43)	Capital reserve (Note V. 44)	Other comprehensive income (Note V. 45)	Special reserve (Note V. 46)	Surplus reserve (Note V. 47)	General reserve (Note V. 48)	Retained earnings (Note V. 49)			
1. At 1 January 2017	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 contribution and withdrawal										
(i) Capital contribution	-	-	-	-	-	-	-	-	92,940,000	92,940,000
(ii) Business combination (Note VI. 2)	-	-	-	-	-	-	-	-	65,815,493	65,815,493
(iii) Disposal of a subsidiary (Note VI. 3)	-	-	-	-	-	-	-	-	(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 reserve	-	-	-	-	-	38,151,752	(38,151,752)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	(28,271,220)	(28,271,220)
4) Special reserve										
(i) Additions	-	-	-	100,875,054	-	-	-	100,875,054	10,722,668	111,597,722
(ii) Utilisation	-	-	-	(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. At 31 December 2017	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 Changes in Equity (Continued)

For the year ended 31 December 2017  
Renminbi Yuan

	Attributable to owners of the parent							Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital (Note V 43)	Capital reserve (Note V 44)	Other comprehensive income (Note V 45)	Special reserve (Note V 46)	Surplus reserve (Note V 47)	General reserve (Note V 48)	Accumulated losses (Note V 49)			
1. At 1 January 2016	7,700,681,186	8,329,067,663	(165,450,551)	14,374,213	3,843,231,617	102,539,024	(1,368,605,137)	18,455,838,015	2,285,764,845	20,741,602,860
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	46,187,097	-	-	-	1,228,892,407	1,275,079,504	28,715,208	1,303,794,712
2) Capital contribution and withdrawal										
(i) Others	-	15,146,295	-	-	-	-	-	15,146,295	-	15,146,295
3) Profit appropriation										
(i) Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	50,855,892	(50,855,892)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	(2,455,170)	(2,455,170)
4) Special reserve										
(i) Additions	-	-	-	93,143,099	-	-	-	93,143,099	10,212,952	103,356,051
(ii) Utilisation	-	-	-	(84,892,033)	-	-	-	(84,892,033)	(5,903,349)	(90,795,382)
(iii) Changes in the share of associates and joint venture's special reserve, net	-	-	-	5,344,292	-	-	-	5,344,292	-	5,344,292
5) Others	-	4,512,783	-	-	-	-	-	4,512,783	-	4,512,783
3. At 31 December 2016	<u>7,700,681,186</u>	<u>8,348,726,741</u>	<u>(119,263,454)</u>	<u>27,969,571</u>	<u>3,843,231,617</u>	<u>153,394,916</u>	<u>(190,568,622)</u>	<u>19,764,171,955</u>	<u>2,316,334,486</u>	<u>22,080,506,441</u>

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017  
Renminbi Yuan

	Note V	2017	2016
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		<b>79,503,561,455</b>	53,536,500,347
Tax refunds received		<b>6,383,594</b>	43,331,736
Net decrease in loans and advances to customers		<b>317,273,741</b>	–
Net increase in repurchase agreements of financial assets		–	596,565,698
Net increase in customer deposits and deposits from banks		–	1,806,834,533
Cash received for interest charges, fees and commissions		<b>98,018,856</b>	68,966,168
Cash received relating to other operating activities	65	<b>310,904,665</b>	1,171,286,841
Sub-total of cash inflows		<b>80,236,142,311</b>	57,223,485,323
Cash paid for purchases of goods and services		<b>(66,036,305,432)</b>	(45,192,755,217)
Net increase in deposits in the central bank and other financial institutions		<b>(215,975,537)</b>	(103,901,102)
Net increase in financial assets purchased under agreements to resell		<b>(974,556,000)</b>	(230,047,000)
Net increase in loans and advances to customers		–	(852,919,383)
Net decrease in repurchase agreements of financial assets		<b>(288,464,742)</b>	–
Net decrease in customer deposits and deposits from banks and other financial institutions		<b>(560,585,411)</b>	–
Cash paid to or on behalf of employees		<b>(4,257,177,760)</b>	(3,759,522,641)
Taxes and surcharges paid		<b>(2,405,202,516)</b>	(2,018,756,738)
Cash paid for interest charges, fees and commissions		<b>(54,025,121)</b>	(30,304,313)
Cash paid relating to other operating activities	65	<b>(953,933,389)</b>	(415,417,915)
Sub-total of cash outflows		<b>(75,746,225,908)</b>	(52,603,624,309)
Net cash flows from operating activities	66(1)	<b>4,489,916,403</b>	4,619,861,014

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

# Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017  
Renminbi Yuan

	Note V	2017	2016
2. Cash flows from investing activities			
Cash received from disposal of investments		<b>584,769,557</b>	458,563,915
Cash received from investment income		<b>139,070,391</b>	141,575,987
Net cash from acquisition of subsidiaries and other operating units	66(2)	<b>115,777,566</b>	–
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		<b>13,103,681</b>	21,243,569
Net cash from disposal of a subsidiary and other operating units	66(3)	<b>4,854,450</b>	–
Cash received relating to other investing activities	65	<b>109,905,601</b>	103,844,476
Sub-total of cash inflows		<b>967,481,246</b>	725,227,947
Purchases of property, plant and equipment, intangible assets and other non-current assets		<b>(1,484,519,774)</b>	(2,130,913,649)
Cash paid for investments		<b>(2,750,126,487)</b>	(531,910,709)
Purchases of non-controlling interests		<b>(43,836,618)</b>	–
Cash paid relating to other investing activities	65	<b>(103,420,899)</b>	–
Sub-total of cash outflows		<b>(4,381,903,778)</b>	(2,662,824,358)
Net cash flows used in investing activities		<b>(3,414,422,532)</b>	(1,937,596,411)

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

	Note V	2017	2016
3. Cash flows from financing activities			
Cash received from borrowings		<b>12,648,723,311</b>	17,427,171,551
Proceeds from issuing bonds		<b>3,000,000,000</b>	—
Cash received from investors		<b>92,940,000</b>	—
Including: capital injection from a subsidiary's non-controlling interests		<b>92,940,000</b>	—
Cash received relating to other financing activities	65	<b>210,000,000</b>	—
Sub-total of cash inflows		<b>15,951,663,311</b>	17,427,171,551
Repayment of borrowings		<b>(17,371,993,271)</b>	(18,554,976,223)
Cash paid for distribution of dividends or profits and for interest expenses		<b>(956,406,317)</b>	(963,134,469)
Including: dividends paid to non-controlling interests by subsidiaries		<b>(27,934,184)</b>	(267,120)
Sub-total of cash outflows		<b>(18,328,399,588)</b>	(19,518,110,692)
Net cash flows used in financing activities		<b>(2,376,736,277)</b>	(2,090,939,141)
4. Effect of foreign exchange rate changes on cash and cash equivalents		<b>(82,387,266)</b>	186,395,867
5. Net (decrease)/increase in cash and cash equivalents	66(4)	<b>(1,383,629,672)</b>	777,721,329
Add: cash and cash equivalents at the beginning of the year		<b>4,324,131,687</b>	3,546,410,358
6. Cash and cash equivalents at the end of the year	66(4)	<b>2,940,502,015</b>	4,324,131,687

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

# Statement of Financial Position

31 December 2017  
Renminbi Yuan

ASSETS	Note XIV	<b>31 December 2017</b>	31 December 2016
<b>CURRENT ASSETS</b>			
Cash and bank balances		<b>4,169,232,422</b>	3,851,576,750
Financial assets measured at fair value through profit or loss		<b>62,721,800</b>	3,789,546
Notes receivable		<b>8,065,941,428</b>	3,518,320,171
Trade receivables	1	<b>2,104,541,167</b>	1,953,223,578
Dividends receivable		–	5,672,730
Prepayments		<b>600,539,572</b>	649,277,673
Other receivables	2	<b>188,725,018</b>	41,040,509
Inventories		<b>7,740,789,448</b>	7,370,937,053
Other current assets		<b>294,632,327</b>	294,632,327
Total current assets		<b>23,227,123,182</b>	17,688,470,337
<b>NON-CURRENT ASSETS</b>			
Available-for-sale financial investments		<b>126,722,160</b>	126,722,160
Long-term equity investments	3	<b>8,830,290,112</b>	7,152,166,287
Investment properties		<b>71,554,652</b>	73,988,855
Property, plant and equipment		<b>25,089,628,791</b>	27,272,692,483
Construction in progress		<b>1,356,492,361</b>	1,629,607,224
Intangible assets		<b>904,435,151</b>	933,763,504
Deferred tax assets		<b>438,445,874</b>	261,808,739
Total non-current assets		<b>36,817,569,101</b>	37,450,749,252
<b>TOTAL ASSETS</b>		<b>60,044,692,283</b>	55,139,219,589

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

	<b>31 December 2017</b>	31 December 2016
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term loans	<b>3,226,709,122</b>	4,617,240,417
Financial liabilities measured at fair value through profit or loss	<b>10,498,810</b>	–
Notes payable	<b>4,077,260,000</b>	2,766,056,791
Accounts payable	<b>5,972,985,456</b>	5,708,282,008
Advances from customers	<b>2,626,167,696</b>	2,396,866,345
Payroll and employee benefits payable	<b>502,689,195</b>	436,242,207
Taxes payable	<b>795,312,565</b>	165,339,271
Interest payable	<b>96,579,964</b>	104,959,511
Dividends payable	<b>6,569,410</b>	6,525,534
Other payables	<b>1,768,808,088</b>	1,502,658,072
Non-current liabilities due within one year	<b>5,928,758,378</b>	4,448,099,900
Other current liabilities	<b>3,081,026,301</b>	2,273,058,356
Total current liabilities	<b><u>28,093,364,985</u></b>	<u>24,425,328,412</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term loans	<b>9,461,264,824</b>	7,113,168,960
Bonds payable	–	3,987,666,667
Deferred income	<b>730,152,350</b>	556,222,033
Long-term employee benefits payable	<b>132,641,692</b>	127,425,119
Total non-current liabilities	<b><u>10,324,058,866</u></b>	<u>11,784,482,779</u>
Total liabilities	<b><u>38,417,423,851</u></b>	<u>36,209,811,191</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	<b>8,358,017,477</b>	8,358,017,477
Special reserve	<b>7,637,529</b>	3,827,107
Surplus reserve	<b>3,249,950,725</b>	2,993,175,001
Retained earnings/(accumulated losses)	<b>2,310,981,515</b>	(126,292,373)
Total shareholders' equity	<b><u>21,627,268,432</u></b>	<u>18,929,408,398</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>60,044,692,283</u></b>	<u>55,139,219,589</u>

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

# Statement of Profit or Loss

For the year ended 31 December 2017  
Renminbi Yuan

	Note XIV	2017	2016
Revenue	4	<b>59,882,440,515</b>	41,526,614,764
Less: Cost of sales	4	<b>54,607,086,565</b>	37,095,438,376
Taxes and surcharges		<b>542,554,260</b>	333,846,959
Selling expenses		<b>380,917,612</b>	311,149,677
General and administrative expenses		<b>1,060,607,069</b>	965,419,904
Financial expenses		<b>1,011,342,956</b>	817,756,613
Impairment losses		<b>531,569,167</b>	922,543,152
Add: Gain on changes in fair value		<b>8,914,844</b>	3,789,546
Investment income	5	<b>605,252,360</b>	253,435,060
Including: share of profits of associates and joint ventures		<b>490,410,552</b>	232,820,475
Gain/(loss) from disposal of assets		<b>(176,806,918)</b>	(47,495,781)
Other income		<b>172,071,814</b>	–
Operating profit		<b>2,357,794,986</b>	1,290,188,908
Add: Non-operating income		<b>170,961,545</b>	148,610,420
Less: Non-operating expenses		<b>11,344,053</b>	23,849,585
Profit before tax		<b>2,517,412,478</b>	1,414,949,743
Less: Income tax expense		<b>(176,637,134)</b>	52,407,898
Net profit		<b>2,694,049,612</b>	1,362,541,845
Categorized by operation continuity			
Net profit from continuing operations		<b>2,694,049,612</b>	1,362,541,845
Net profit from discontinued operations		–	–
Other comprehensive income, net of tax		–	–
Total comprehensive income		<b>2,694,049,612</b>	1,362,541,845

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

# Statement of Changes in Equity

For the year ended 31 December 2017  
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. At 1 January 2017	<u>7,700,681,186</u>	<u>8,358,017,477</u>	<u>3,827,107</u>	<u>2,993,175,001</u>	<u>(126,292,373)</u>	<u>18,929,408,398</u>
2. Increase/(decrease) during the year						
1) Total comprehensive income	-	-	-	-	2,694,049,612	2,694,049,612
2) Capital contribution and withdrawal						
(i) Others	-	-	-	-	-	-
3) Profit 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. At 31 December 2017	<u><b>7,700,681,186</b></u>	<u><b>8,358,017,477</b></u>	<u><b>7,637,529</b></u>	<u><b>3,249,950,725</b></u>	<u><b>2,310,981,515</b></u>	<u><b>21,627,268,432</b></u>

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

# Statement of Changes in Equity (Continued)

For the year ended 31 December 2017  
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Accumulated losses	Total shareholders' equity
1. At 1 January 2016	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>(1,517,185)</u>	<u>2,993,175,001</u>	<u>(1,488,834,218)</u>	<u>17,541,863,183</u>
2. Increase/(decrease) during the year						
1) Total comprehensive income	-	-	-	-	1,362,541,845	1,362,541,845
2) Capital contribution and withdrawal						
(i) Others	-	15,146,295	-	-	-	15,146,295
3) Profit appropriation						
(i) Transfer to surplus reserve	-	-	-	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	-
4) Special reserve						
(i) Additions	-	-	60,734,571	-	-	60,734,571
(ii) Utilization	-	-	(60,734,571)	-	-	(60,734,571)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	5,344,292	-	-	5,344,292
5) Others	-	4,512,783	-	-	-	4,512,783
3. At 31 December 2016	<u><u>7,700,681,186</u></u>	<u><u>8,358,017,477</u></u>	<u><u>3,827,107</u></u>	<u><u>2,993,175,001</u></u>	<u><u>(126,292,373)</u></u>	<u><u>18,929,408,398</u></u>

# Statement of Cash Flows

For the year ended 31 December 2017  
Renminbi Yuan

	2017	2016
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	<b>61,745,929,515</b>	41,141,395,987
Tax refunds received	-	24,507,200
Cash received relating to other operating activities	<b>137,141,707</b>	797,888,505
Sub-total of cash inflows	<b>61,883,071,222</b>	41,963,791,692
Cash paid for purchase of goods and services	<b>(52,080,808,429)</b>	(37,944,724,458)
Cash paid to or on behalf of employees	<b>(3,602,102,114)</b>	(2,930,467,496)
Taxes and surcharges paid	<b>(1,743,793,572)</b>	(1,435,486,557)
Cash paid relating to other operating activities	<b>(442,739,183)</b>	(83,170,827)
Sub-total of cash outflows	<b>(57,869,443,298)</b>	(42,393,849,338)
Net cash flows from/(used in) operating activities	<b>4,013,627,924</b>	(430,057,646)
2. Cash flows from investing activities		
Cash received from disposal of investments	<b>69,882,249</b>	4,879,915
Cash received from investment income	<b>272,553,905</b>	124,838,847
Net cash received from disposal of items of property, plant and equipment, intangible assets and other long-term assets	<b>8,736,415</b>	13,327,899
Net cash received from disposal of a subsidiary and other operating units	<b>8,696,084</b>	-
Cash received relating to other investing activities	<b>84,797,525</b>	72,790,158
Sub-total of cash inflows	<b>444,666,178</b>	215,836,819
Purchase of property, plant and equipment, intangible assets and other non-current assets	<b>(1,539,196,583)</b>	(1,925,759,949)
Cash paid for investments	<b>(1,454,039,151)</b>	(77,539,611)
Net cash paid for acquisition of a subsidiary and other operating units	-	(111,764,084)
Sub-total of cash outflows	<b>(2,993,235,734)</b>	(2,115,063,644)
Net cash flows used in investing activities	<b>(2,548,569,556)</b>	(1,899,226,825)

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

# Statement of Cash Flows (Continued)

For the year ended 31 December 2017  
Renminbi Yuan

	2017	2016
3. Cash flows from financing activities		
Proceeds from issuance of bonds, net of issuance costs	<b>3,000,000,000</b>	–
Cash received from borrowings	<b><u>13,440,721,353</u></b>	<u>10,347,247,864</u>
Sub-total of cash inflows	<b><u>16,440,721,353</u></b>	<u>10,347,247,864</u>
Repayment of borrowings	<b>(16,951,993,934)</b>	(7,422,588,144)
Cash paid for the distribution of dividend or profits and for interest expenses	<b><u>(924,899,777)</u></b>	<u>(919,289,458)</u>
Sub-total of cash outflows	<b><u>(17,876,893,711)</u></b>	<u>(8,341,877,602)</u>
Net cash flows (used in)/from financing activities	<b><u>(1,436,172,358)</u></b>	<u>2,005,370,262</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	<b>(81,470,338)</b>	150,304,664
5. Net decrease in cash and cash equivalents	<b>(52,584,328)</b>	(173,609,545)
Add: Cash and cash equivalents at the beginning of the year	<b><u>3,851,576,750</u></b>	<u>4,025,186,295</u>
6. Cash and cash equivalents at the end of the year	<b><u><u>3,798,992,422</u></u></b>	<u><u>3,851,576,750</u></u>

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

# Notes to Financial Statements

31 December 2017  
Renminbi Yuan

## I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganization of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was 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 headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 31 December 2017, 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 20 March 2018. According to the Article of Association of the Company, the financial statements will be submitted for examination and approval in shareholders’ meeting.

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

## II. BASIS OF PREPARATION

### 1. BASIS OF PREPARATION

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

The consolidated financial statements are prepared on going concern basis.

# Notes to Financial Statements (Continued)

31 December 2017  
Renminbi Yuan

## II. BASIS OF PREPARATION (CONTINUED)

### 1. BASIS OF PREPARATION (CONTINUED)

As of 31 December 2017, the net current liabilities of the Group amounted to RMB4,019,599,469. The directors of the Company have considered the availability of funding sources, including but not limited to an unused bank facilities of RMB21.3 billion as at 31 December 2017. The Company's board of directors believes that the Group has sufficient resources to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Company's board of directors continues to prepare the Group's financial statements for the year ended 31 December 2017 on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Assets held for sale are disclosed at the lower of carrying amount and fair value less costs to sell. 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 bad debt provision for accounts receivable and inventory provision, depreciation of fixed assets, amortisation 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 2017, and the results of their operations and their cash flows for year ended 31 December 2017.

### 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.

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

#### 4. BUSINESS COMBINATION

A business combination represents a transaction or event where two, or more than two separate entities form one reporting entity. 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 combination date is the date on which the combining entity effectively obtains control of the entity being combined.

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

# Notes to Financial Statements (Continued)

31 December 2017  
Renminbi Yuan

## 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 for the year ended 31 December 2017. 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.

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

#### 5. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

#### 6. JOINT ARRANGEMENT AND JOINT OPERATIONS

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

The 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.

# Notes to Financial Statements (Continued)

31 December 2017  
Renminbi Yuan

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

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

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

### 9. FINANCIAL INSTRUMENTS

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

#### Recognition and derecognition of financial instruments

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

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

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

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expires. If an existing financial liability is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from those of the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual 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 trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### Classification and measurement of financial assets

The Group classifies its financial assets into four categories at initial recognition, including financial assets 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 recognised as initial investment costs.

# Notes to Financial Statements (Continued)

31 December 2017  
Renminbi Yuan

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

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

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 recognised in profit or loss. All dividends or interest related to financial assets at fair value through profit or loss is recognised in profit or loss.

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.

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

#### 9. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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 amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss when the held-to-maturity investments are derecognised, impaired, or amortised.

##### *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 amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised, impaired, or amortised.

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

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Available-for-sale financial assets (continued)*

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

#### Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when they are recognised initially as financial liabilities 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 recognised at initial cost.

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 recognised 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 amortised cost using the effective interest rate method.

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

#### 9. FINANCIAL INSTRUMENTS (CONTINUED)

##### **Offsetting of financial instruments**

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

##### **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.

##### *Financial assets carried at amortised 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 recognised 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 recognised in profit or loss when objective evidence of impairment exists. Assets that are individually insignificant are also assessed for impairment individually.

# Notes to Financial Statements (Continued)

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Impairment of financial assets (continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would be had the impairment not been recognised 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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised 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 recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or 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 recognised in profit or loss.

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

#### 9. FINANCIAL INSTRUMENTS (CONTINUED)

##### **Impairment of financial assets** (continued)

###### *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 recognised in profit or loss. Impairment losses on these assets are not reversed.

##### **Transfer of financial assets**

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

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

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

#### 10. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS

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

# Notes to Financial Statements (Continued)

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

### 10. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### Receivables

The Group assesses bad debt provision as follows:

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

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

- (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 recognised 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 recognised bad debt provision loss shall not be assessed in portfolios based on credit risk characteristics.

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

	<u>Percentage of bad dept provision</u>
Within 1 year	0%
1 to 2 years	10%
2 to 3 years	20%
More than 3 years	50%

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

#### 10. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

##### 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.

#### 11. INVENTORIES

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

Inventories are initially recognised at cost, which comprises purchase cost, processing cost, and other costs. Costs of delivered inventories, other than construction contracts and spare parts, are determined on the weighted average basis. Costs of general spare parts, lower valued consumables and packing materials are charged to profit or loss when issued; accident spare parts are amortised in 8 years with 4% residual rate; Large rolls on rolling mills are amortised 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 recognised 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. And for the inventories sold, the carrying amount of the inventory should be recognised as an expense in the period in which revenue was recognised, and the inventory provision should be written back accordingly, and the current period's cost of sales should be reversed.

# Notes to Financial Statements (Continued)

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

### 12. 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. For an asset to be classified as held for sale, it should meet following requirements: (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 an 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 value less cost to sell and any excess of carrying value should be recognised as an impairment loss in profit and loss for that period. Non-current assets classified as held for sale should not be depreciated or amortised.

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

#### 13. LONG-TERM EQUITY INVESTMENTS

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

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

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

### 13. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

The cost method is applied for long-term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the power over the investee such that the Company is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

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

The equity method is applied for long-term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

#### 13. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's results should be based on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. The gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, they should be entirely recognised). The recognition should be based on the adjusted 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 amortisation using the straight-line method (if any) should be recognised 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 recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other long-term equity interests that are investment in the investee in substance is reduced to zero, except for which the investor has an extra obligation to assume loss of it. For the changes of equity in an investee other than profit or loss, the investor adjusts the carrying amount of the investment and recognised 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 recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be all charged to the profit or loss for the year; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to 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 recognised in profit or loss.

# Notes to Financial Statements (Continued)

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

### 14. INVESTMENT PROPERTIES

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

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

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

### 15. PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are initially recorded taking discard expenses into consideration. 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:

	<u>Estimated useful life</u>	<u>Estimated residual value</u>	<u>Annual depreciation rate</u>
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)

#### 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

#### 16. CONSTRUCTION IN PROGRESS

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

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

#### 17. BORROWING COSTS

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

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

The capitalization of borrowing costs commences when:

- (1) Expenditures for the assets are 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.

# Notes to Financial Statements (Continued)

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

### 17. BORROWING COSTS (CONTINUED)

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

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

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

### 18. INTANGIBLE ASSETS

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

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

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

	<u>Useful life</u>
Concession rights	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 amortisations and impairment, if any. The amortisation is calculated within a period of 25 years using straight-line method.

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

#### 18. 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 amortised over the useful lives on the straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts them if appropriate, at least at the end of each reporting period.

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

#### 19. 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 held for sale.

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

# Notes to Financial Statements (Continued)

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

### 19. IMPAIRMENT OF ASSETS (CONTINUED)

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case the recoverable amount is determined for the asset groups to which the asset belongs. An asset group is recognised 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.

### 20. 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.

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

#### 20. 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 recognised 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 recognised in profit or loss at the earlier of:

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

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

# Notes to Financial Statements (Continued)

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

### 20. 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 recognised in profit or loss.

### 21. PROVISIONS

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

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

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

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

### 22. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

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

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

#### 22. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS (CONTINUED)

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised in the statement of financial position as a “reverse repurchase agreement.” The corresponding cash paid, including accrued interest, is recognised 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.

#### 23. REVENUE

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

##### **Revenue from the rendering of services**

As of the end of reporting period, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow 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.

# Notes to Financial Statements (Continued)

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

### 23. REVENUE (CONTINUED)

#### Revenue from the rendering of services (continued)

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

#### Royalty income

Royalty income is recognised according to the agreed contract terms.

#### Lease income

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

### 24. GOVERNMENT GRANTS

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

If the grant is a compensation for related expenses or losses in future period, the grant is recognised as deferred income and should be recognised in profit or loss for the period when the expenses or losses are incurred.

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

#### 24. GOVERNMENT GRANTS (CONTINUED)

A government grant related to asset can be either accounted by reducing the carrying amount of the asset or by being recognised as deferred income, and evenly amortised systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognised 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 recognised 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.

#### 25. INCOME TAX

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

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

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

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

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

# Notes to Financial Statements (Continued)

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

### 25. INCOME TAX (CONTINUED)

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

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

At the end of each reporting period, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation 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 utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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.

### 26. 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.

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

#### 26. LEASES (CONTINUED)

##### 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.

#### 27. PROFIT DISTRIBUTION

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

#### 28. SAFETY PRODUCTION RESERVE

Safety production reserve sets aside in compliance with relevant regulations, is included in the cost of relevant products or recognised in profit or loss for the period, and credited to the special reserve at the same time. When safety production reserve is utilised, 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 recognised at the same amount.

#### 29. GENERAL RESERVE

According to the relevant policy of the MOF, Magang 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.

#### 30. FAIR VALUE MEASUREMENT

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

# Notes to Financial Statements (Continued)

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

### 30. FAIR VALUE MEASUREMENT (CONTINUED)

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 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

### 31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### Judgments

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

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

#### 31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

##### *Judgments (continued)*

##### *Going concern*

As stated in Note II, the going-concern ability 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 ability involves 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.

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.

# Notes to Financial Statements (Continued)

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

### 31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

#### **Judgments** (continued)

*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 2017, 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.

As of 31 December 2017, the Group held 12% equity interests in Anhui Linhuan Chemical Co., Ltd. (“Anhui Linhuan Chemical”). The Company designates one director to Anhui Linhuan Chemical according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Anhui Linhuan Chemical, despite the equity share is under 20%. Thus, the Company had accounted for the investment in Anhui Linhuan Chemical as an associate.

#### *Classification of assets held for sale*

As of 31 December 2017, the Group had signed legally binding disposal agreement regarding to certain fixed assets. The disposal is expected to be completed within one year since the end of the reporting period and thus those assets were classified as assets held for sale. Management applies judgement in determining the disposal completion date.

#### **Estimation uncertainty**

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

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

#### 31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

##### **Estimation uncertainty** (continued)

##### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When the carrying amount of an asset or 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 recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

##### *Estimation of 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.

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

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

# Notes to Financial Statements (Continued)

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

### 31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

#### Estimation uncertainty (continued)

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

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

Net realisable value of inventories is the estimated based on 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.

### 32. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

#### Change in Presentation of Gain/Loss from Disposal of Assets

As required by the Notice of the Ministry of Finance on Revising and Circulating General Corporate Financial Statement Formats (Financial Accounting [2017] No.30), the Group presents gain/loss from disposal of assets as a new item above operating profit in the income statement, and the gain/loss from disposal of non-current assets which was previously recorded in non-operating income and non-operating expenses is included in this new item. The Group has represented the comparative income statement. This change to accounting policies has no impact on the consolidated and company net profit and shareholders' equity.

#### Change in Presentation of Government Grants

As required by the Notice on Revising and Circulating Enterprise Accounting Standards No.16-Government Grants (Financial Accounting [2017] No.15), the Group presents the other income item separately above operating profit in the income statement, and government grants related to daily activities are stated under other income instead of non-operating income; in line with the standards, the Group has applied the prospective approach to government grants existing prior to 1 January 2017, and adjusted government grants received between 1 January 2017 and the effective date of the standards (12 June 2017) accordingly. Items disclosed in other income, operating profit and non-operating income in 2016 are different from those in 2017, but this has no impact on consolidated and company net profit in 2016 and 2017.

#### Change in Presentation of Discontinued Operations

As required by the Notice on Circulating Enterprise Accounting Standards No.42-Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations (Financial Accounting [2017] No.13), the Group adds two items below net profit in the income statement, net profit from continuing operations and net profit from discontinued operations, to state profit or loss from continuing operation and profit or loss from discontinued operations. Since the Group had no discontinued operation in 2017, this change in accounting standards has no impact on consolidated and company net profit stated in the income statement for the year of 2017 and 2016 based on operations continuity.

## IV. TAX

### 1. THE PRINCIPAL KINDS OF TAXES AND RELATED TAX RATES:

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refund rates of 9% to 17%.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Income tax	<p>The Group and certain of its subsidiaries were subject to corporate income tax (“CIT”) at a rate of 25% on their taxable profits.</p> <p>Maanshan Iron &amp; 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 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%.</p>
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.
Real estate tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CASH AND BANK BALANCES

	<b>31 December 2017</b>	31 December 2016
Cash on hand	<b>69,222</b>	90,515
Bank balances	<b>3,317,292,945</b>	4,324,041,172
Other monetary assets	<b>950,166,471</b>	493,121,436
Mandatory reserves of Masteel Finance deposited in the central bank	<b>710,823,455</b>	494,847,918
	<b><u>4,978,352,093</u></b>	<b><u>5,312,101,041</u></b>

As of 31 December 2017, the Group's other monetary assets amounting to RMB950,166,471 have been pledged to banks as security (31 December 2016: RMB493,121,436) for bank acceptance notes, letters of credit and performance guarantees.

As of 31 December 2017, the Group had cash and bank balances amounting to RMB405,464,133 that have been deposited outside the PRC (31 December 2016: RMB335,758,549).

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 2017, the Group had time deposits amounting to RMB376,860,152 (31 December 2016: Nil) with terms of three months.

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

### 2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>31 December 2017</b>	31 December 2016
Financial assets designated as at fair value through profit or loss		
including: Derivative financial assets		
– futures contracts	<b>62,721,800</b>	–
Investments in debt instruments	<b>1,483,417,604</b>	555,322,261
	<b><u>1,546,139,404</u></b>	<b><u>555,322,261</u></b>

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 and 31 December 2016, 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 realisation of these investments.

### 3. NOTES RECEIVABLE

	<b>31 December 2017</b>	31 December 2016
Bank acceptance notes	<b>8,369,466,683</b>	3,608,459,121
Commercial acceptance notes	<b>5,700,000</b>	–
	<b><u>8,375,166,683</u></b>	<b><u>3,608,459,121</u></b>

As of 31 December 2017, there were no pledged notes receivable (31 December 2016: RMB738,206,842) for obtaining bank loans.

# Notes to Financial Statements (Continued)

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

### 3. NOTES RECEIVABLE (CONTINUED)

As of 31 December 2017, the undue notes discounted or endorsed were as follows:

	31 December 2017		31 December 2016	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	<u>4,778,024,515</u>	<u>53,676,353</u>	<u>5,196,770,076</u>	<u>156,827,864</u>

As of 31 December 2017 and 31 December 2016, there were no trade receivables transferred from notes receivable because of the drawers' inability to pay.

### 4. TRADE RECEIVABLES

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

The aging of trade receivables is analysed below:

	31 December 2017	31 December 2016
Within one year	915,981,378	756,196,252
One to two years	50,266,296	66,905,447
Two to three years	8,034,401	24,337,627
Over three years	<u>39,838,727</u>	<u>33,219,589</u>
	<b>1,014,120,802</b>	880,658,915
Less: Provisions for bad debts	<u>47,673,210</u>	<u>20,729,808</u>
	<u><b>966,447,592</b></u>	<u>859,929,107</u>

The movements of provisions for bad debts against trade receivables for the year are disclosed in Note V.21.

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

### 4. TRADE RECEIVABLES (CONTINUED)

The balances of trade receivables are analysed as follows:

	31 December 2017				31 December 2016			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	33,846,252	3	(33,846,252)	100	6,927,040	1	(6,927,040)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	972,551,207	96	(8,122,204)	1	828,327,058	94	(8,173,427)	1
Individually insignificant but assessed for bad debt provision individually	7,723,343	1	(5,704,754)	74	45,404,817	5	(5,629,341)	12
	<b>1,014,120,802</b>	<b>100</b>	<b>(47,673,210)</b>		<b>880,658,915</b>	<b>100</b>	<b>(20,729,808)</b>	

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

	Book value	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	3,920,206	(3,920,206)	100	Note
Company 4	2,719,708	(2,719,708)	100	Note
	<b>33,846,252</b>	<b>(33,846,252)</b>	<b>100</b>	

As of 31 December 2016, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	6,927,040	(6,927,040)	100	Note
	<b>6,927,040</b>	<b>(6,927,040)</b>	<b>100</b>	

Note: The Company has confirmed trade receivables to these companies were uncollectible. Therefore provision for bad debts was fully recognised.

# Notes to Financial Statements (Continued)

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

### 4. TRADE RECEIVABLES (CONTINUED)

Provision for bad debts of trade receivables analyzed by aging is disclosed as follows:

	31 December 2017			31 December 2016		
	Book value Amount	Ratio (%)	Provision for bad debts Amount	Book value Amount	Ratio (%)	Provision for bad debts Amount
Within one year	911,939,548	94	-	754,161,597	91	-
One to two years	49,657,707	5	(4,965,771)	66,596,650	8	(6,659,665)
Two to three years	7,735,144	1	(1,547,029)	7,568,811	1	(1,513,762)
Over three years	3,218,808	-	(1,609,404)	-	-	-
	<b>972,551,207</b>	<b>100</b>	<b>(8,122,204)</b>	<b>828,327,058</b>	<b>100</b>	<b>(8,173,427)</b>

During the year, provision for bad debts was RMB30,468,944 (2016: RMB2,517,257) and the recovery or reversal of provision for bad debts was RMB3,632,383 (2016: RMB927,877).

During the year, there was no write-off of provision for bad debts (2016: RMB55,967).

As of 31 December 2017 and 31 December 2016, there were no trade receivables that were derecognised due to the transfer of financial assets.

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

31 December 2017	Relationship with the Group	Ending balance	Aging	Percentage of trade receivables (%)	Ending balance of provision for bad debts
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%	-
		<b>233,601,195</b>		<b>23%</b>	

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

### 4. TRADE RECEIVABLES (CONTINUED)

31 December 2016	Relationship with the Group	Ending Balance	Aging	Percentage of trade receivables (%)	Ending balance of provision for bad debts
Company 1	Third Party	117,299,709	Within 1 year	13%	-
Company 2	Third Party	48,312,244	Within 3 years	5%	-
Company 3	Third Party	35,735,250	Within 1 year	4%	-
Company 4	Third Party	29,169,562	Within 1 year	3%	-
Company 5	Third Party	<u>24,738,742</u>	Within 1 year	<u>3%</u>	-
		<u>255,255,507</u>		<u>29%</u>	

As of 31 December 2017, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continuingly involved (31 December 2016: Nil).

### 5. PREPAYMENTS

An aging analysis of the prepayments is as follows:

	31 December 2017		31 December 2016	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	<b>729,997,738</b>	<b>97</b>	896,450,454	96
One to two years	<b>6,785,513</b>	<b>1</b>	14,669,580	2
Two to three years	<b>2,301,075</b>	<b>-</b>	5,222,283	1
Over three years	<b>11,734,505</b>	<b>2</b>	<u>8,708,957</u>	<u>1</u>
	<u><b>750,818,831</b></u>	<u><b>100</b></u>	<u>925,051,274</u>	<u>100</u>

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.

# Notes to Financial Statements (Continued)

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

### 5. PREPAYMENTS (CONTINUED)

The top five prepayments classified by debtors are as follows:

31 December 2017	Relationship with the Group	Ending balance	Aging	Percentage of repayments (%)
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%
		<b>442,109,501</b>		<b>59%</b>
31 December 2016	Relationship with the Group	Ending balance	Aging	Percentage of repayments (%)
Company 1	Third Party	164,095,911	Within 1 year	18%
Company 2	Third Party	130,035,843	Within 1 year	14%
Company 3	Third Party	104,989,589	Within 1 year	11%
Company 4	Associate	100,000,000	Within 1 year	11%
Company 5	Third Party	96,486,201	Within 1 year	10%
		<b>595,607,544</b>		<b>64%</b>

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

### 6. OTHER RECEIVABLES

An aging analysis of other receivables is as follows:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>206,680,424</b>	66,975,647
One to two years	<b>66,060,251</b>	51,655,401
Two to three years	<b>615,046</b>	3,087,522
Over three years	<b>599,173,726</b>	600,141,779
	<b>872,529,447</b>	721,860,349
Less: Provision for bad debts	<b>593,692,160</b>	594,245,515
	<b>278,837,287</b>	127,614,834

The movements of provision for bad debts against other receivables for the period are disclosed in Note V.21.

The other receivable balance is analysed as follows:

	31 December 2017				31 December 2016			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	587,934,699	67	(587,934,699)	100	587,934,699	81	(587,934,699)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	215,595,435	25	(2,966,381)	1	84,689,551	12	(5,022,548)	6
Individually insignificant but assessed for bad debt provision individually	68,999,313	8	(2,791,080)	4	49,236,099	7	(1,288,268)	3
	<b>872,529,447</b>	<b>100</b>	<b>(593,692,160)</b>		<b>721,860,349</b>	<b>100</b>	<b>(594,245,515)</b>	

# Notes to Financial Statements (Continued)

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## 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:

	Book value	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)
	<b>587,934,699</b>	<b>(587,934,699)</b>	<b>100</b>	

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

### 6. OTHER RECEIVABLES (CONTINUED)

As of 31 December 2016, those individually significant and assessed for impairment individually were as follows:

	Book value	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)
	<u>587,934,699</u>	<u>(587,934,699)</u>	<u>100</u>	

# Notes to Financial Statements (Continued)

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

### 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"), 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 as of 31 December 2017.

Provision for bad debts of other receivables analysed by aging is disclosed as follows:

	31 December 2017			31 December 2016		
	Book value		Provision for bad debts Amount	Book value		Provision for bad debts Amount
	Amount	Ratio (%)		Amount	Ratio (%)	
Within one year	206,680,424	96	-	66,975,646	79	-
One to two years	3,420,290	2	(342,029)	7,456,371	9	(745,637)
Two to three years	410,026	-	(82,005)	2,839,522	3	(567,905)
Over three years	5,084,695	2	(2,542,347)	7,418,012	9	(3,709,006)
	<b>215,595,435</b>	<b>100</b>	<b>(2,966,381)</b>	<b>84,689,551</b>	<b>100</b>	<b>(5,022,548)</b>

During the year, the provision for bad debts was RMB1,167,321 (2016: RMB2,986,251) and no recovery or reversal of provision for bad debts was made (2016: Nil).

During the year, the write-off of provision for the debts was RMB1,727,676 (2016: RMB300,000).

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

### 6. OTHER RECEIVABLES (CONTINUED)

Other receivables analysed by nature were as follows:

	<b>31 December 2017</b>	31 December 2016
Payment on behalf of other companies	<b>50,733,791</b>	50,733,791
Tax refunds	<b>5,237,911</b>	5,237,911
Prepayment of customs duties and VAT	<b>39,396,766</b>	11,167,848
Prepayment for trading	<b>585,534,699</b>	585,534,699
Deposit for steel futures	<b>131,482,895</b>	28,061,996
Others	<b>60,143,385</b>	41,124,104
	<b>872,529,447</b>	721,860,349
Provision for bad debts	<b>(593,692,160)</b>	(594,245,515)
	<b>278,837,287</b>	127,614,834

As of 31 December 2017, the five largest other receivables were as follows:

	Book value	Ratio in other receivables (%)	Nature	Aging	Provision for bad debts
Company 1	132,058,434	15	Prepayment for trading	More than 3 years	132,058,434
Company 2	127,685,367	15	Prepayment for trading	More than 3 years	127,685,367
Company 3	76,821,224	9	Prepayment for trading	More than 3 years	76,821,224
Company 4	73,560,769	8	Guarantee	Within 1 year	-
Company 5	60,939,960	7	Prepayment for trading	More than 3 years	60,939,960
	<b>471,065,754</b>	<b>54</b>			<b>397,504,985</b>

# Notes to Financial Statements (Continued)

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

### 6. OTHER RECEIVABLES (CONTINUED)

As of 31 December 2016, the five largest other receivables were as follows:

	Book value	Ratio in other receivables (%)	Nature	Aging	Provision for bad debts
Company 1	132,058,434	18	Prepayment for trading	More than 3 years	132,058,434
Company 2	127,685,367	18	Prepayment for trading	More than 3 years	127,685,367
Company 3	76,821,224	11	Prepayment for trading	More than 3 years	76,821,224
Company 4	60,939,960	8	Prepayment for trading	More than 3 years	60,939,960
Company 5	57,988,833	8	Prepayment for trading	More than 3 years	57,988,833
	<u>455,493,818</u>	<u>63</u>			<u>455,493,818</u>

As of 31 December 2017, the government grants receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivable due from Taibai Town Government	Policy return from 2004 to 2009	<u>5,237,911</u>	More than three years	Note

As of 31 December 2016, the government grants receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivable due from Taibai Town Government	Policy return from 2004 to 2009	<u>5,237,911</u>	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 Changjiang 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. Part of it had been received in the year 2016. After communicating with the government, the rest of the amount is expected to be received in 2018.

The balances of other receivables as of 31 December 2017 and 31 December 2016 did not contain any amount derecognised due to the transfer of financial assets.

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

### 7. INVENTORIES

	31 December 2017			31 December 2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Raw materials	5,151,178,511	(25,064,421)	5,126,114,090	5,068,139,785	(83,746,075)	4,984,393,710
Work in progress	1,435,040,464	(35,139,247)	1,399,901,217	864,371,940	(17,659,670)	846,712,270
Finished goods	3,678,581,632	(57,103,281)	3,621,478,351	3,425,296,042	(64,188,089)	3,361,107,953
Spare parts	1,146,576,477	(81,796,976)	1,064,779,501	1,249,285,417	(126,912,167)	1,122,373,250
Others	233,474,649	-	233,474,649	233,474,649	-	233,474,649
	<b>11,644,851,733</b>	<b>(199,103,925)</b>	<b>11,445,747,808</b>	<b>10,840,567,833</b>	<b>(292,506,001)</b>	<b>10,548,061,832</b>

The movements of impairment provision against inventories for the year are disclosed in Note V.21.

At the balance sheet date, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable 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 the year, with the rising of net realisable values of inventories, the Group made a reversal of impairment provision against inventories amounting to RMB12,395,449 (2016: Nil).

As of 31 December 2017, the Group had no pledged inventories (31 December 2016: Nil).

### 8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2017	31 December 2016
Bonds	<b>1,204,603,000</b>	<b>230,047,000</b>

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.

# Notes to Financial Statements (Continued)

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

### 9. LOANS AND ADVANCES TO CUSTOMERS

	<b>31 December 2017</b>	31 December 2016
Loans	<b>531,000,000</b>	474,500,000
Discounted notes	<b>734,464,372</b>	1,128,238,113
Factoring	<b>20,000,000</b>	—
	<b>1,285,464,372</b>	1,602,738,113
Less : Bad debt provision for loans and advances	<b>34,149,119</b>	47,525,557
	<b><u>1,251,315,253</u></b>	<b><u>1,555,212,556</u></b>

The movement of the provision for bad debts against loans and advances to customers for the current period is disclosed in Note V.21.

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued no less than 2.5% of its closing balance. As of 31 December 2017, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from related parties as of 31 December 2017 and 31 December 2016 are stated in Note X.6 to the financial statements.

### 10. ASSETS HELD FOR SALE

	<b>31 December 2017</b>	31 December 2016
Non-current assets held for sale	<b><u>73,454,334</u></b>	<b><u>—</u></b>

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

### 10. ASSETS 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 458 items of 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. And the fair value for assets held for sale is the purchasing consideration. The Company expected that the handover of these assets would be completed in 2018 and thus these fixed assets met the definition of assets held for sale.

### 11. HELD-TO-MATURITY INVESTMENT

	31 December 2017			31 December 2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Treasury bonds	305,228,376	-	305,228,376	-	-	-

Significant held-to-maturity investments are as follows:

	Par value	Nominal	Actual	Purchase date	Maturity date
		interest rate	interest rate		
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 Jiangsu bonds 09	50,000,000	2.89%	3.84%	8 August 2017	6 November 2018
15 Anhui bonds 01	50,000,000	2.90%	3.79%	9 August 2017	6 June 2018

### 12. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Prepaid income tax	295,578,934	301,317,710
Deductible value added tax	620,091,558	386,609,452
Others	366,839	4,544,071
	<b>916,037,331</b>	<b>692,471,233</b>

# Notes to Financial Statements (Continued)

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

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017			31 December 2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Available-for-sale debt instruments	984,446,000	-	984,446,000	451,225,538	-	451,225,538
Available-for-sale equity instruments measured at cost	126,722,160	-	126,722,160	126,722,160	-	126,722,160
	<b>1,111,168,160</b>	<b>-</b>	<b>1,111,168,160</b>	<b>577,947,698</b>	<b>-</b>	<b>577,947,698</b>

Available-for-sale financial assets measured at fair value:

	31 December 2017	31 December 2016
Available-for-sale debt instruments		
Debt instruments' amortised cost	991,581,802	452,402,983
Fair value	984,446,000	451,225,538
Accumulated fair value changes recorded in other comprehensive income	(7,135,802)	(1,177,445)
Provision	-	-

Note: Available-for-sale debt instruments held by the Group were mainly bonds investment and interbank deposits purchased by Masteel Finance.

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

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets measured at cost:

#### 31 December 2017

	Book value				Provision for impairment				Equity interests (%)	Cash dividend received during the year
	Opening balance	Addition	Decrease	Ending balance	Opening balance	Addition	Decrease	Ending balance		
Henan Longyu Energy Co., Ltd.	10,000,000	-	-	10,000,000	-	-	-	-	0.66	-
China MCC17 Group Co., Ltd.	8,554,800	-	-	8,554,800	-	-	-	-	1.56	1,540,000
Shanghai LuoJing Ore Quay Co., Ltd.	88,767,360	-	-	88,767,360	-	-	-	-	12.00	-
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	-	-	1,000,000	-	-	-	-	3.40	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5.00	30,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	-	-	15,000,000	-	-	-	-	15.00	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.90	-
	<b>126,722,160</b>	<b>-</b>	<b>-</b>	<b>126,722,160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>1,570,000</b>

As of 31 December 2017, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment at the end of the reporting period, and their fair values were not disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group had no intention to dispose of the investments.

#### 31 December 2016

	Book value				Provision for impairment				Equity interests (%)	Cash dividend received during the year
	Opening balance	Addition	Decrease	Ending balance	Opening balance	Addition	Decrease	Ending balance		
Henan Longyu Energy Co., Ltd.	10,000,000	-	-	10,000,000	-	-	-	-	0.66	-
China MCC17 Group Co., Ltd.	8,554,800	-	-	8,554,800	-	-	-	-	1.56	-
Shanghai LuoJing Ore Quay Co., Ltd.	88,767,360	-	-	88,767,360	-	-	-	-	12.00	-
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	-	-	1,000,000	-	-	-	-	3.40	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5.00	40,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	-	-	15,000,000	-	-	-	-	15.00	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.90	-
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited	2,212,250	-	(2,212,250)	-	-	-	-	-	-	-
	<b>128,934,410</b>	<b>-</b>	<b>(2,212,250)</b>	<b>126,722,160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>40,000</b>

# Notes to Financial Statements (Continued)

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

### 14. HELD-TO-MATURITY INVESTMENT

	31 December 2017			31 December 2016		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Treasury bonds	100,854,230	-	100,854,230	-	-	-

Significant held-to-maturity investments are as follows:

	Par value	Nominal interest rate	Actual interest rate	Purchase date	Maturity date
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019
12 interest-bearing bonds 10	50,000,000	3.14%	3.565%	18 October 2017	7 June 2019

### 15. LONG-TERM EQUITY INVESTMENTS

#### 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
<b>Joint ventures</b>										
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	319,018,068	-	-	90,439,628	-	-	(75,000,000)	-	334,457,696	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	541,433	-	-	4,720	-	-	-	-	546,153	-
Mascometal Co., Ltd. ("Mascometal") (Note 1)	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
<b>Associates</b>										
Henan JinMa Energy Co., Ltd. ("Henan JinMa Energy") (Note 2)	296,196,390	-	(22,335,060)	202,392,735	-	930,684	(36,000,000)	-	441,184,749	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	309,396,424	-	-	179,443,817	-	-	(19,194,000)	-	469,646,241	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	27,120,592	-	-	1,639,113	-	-	(6,000,000)	-	22,759,705	-
Xinchuang Environmental Protection (Note 3)	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 Co., Ltd. ("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	-

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

### 15. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

Note 1: In 2016, the Company jointly established Mascometal with registered capital amounting to EUR32 million with a foreign invested enterprise (FIE), Asco Industries Ltd., and the Company and Asco Industries Ltd. held 75% and 25% of equity interests, respectively, according to the requirements of the joint venture contract and the Articles of Association. The Company designated three directors in the Board of Directors and Asco Industries Ltd. designated one director. According to the Articles of Association of Mascometal, the board of directors is the supreme authority, and important financial and operating decisions must be approved by all the directors. Accordingly, the directors represented that the Company was unable to exercise control over Mascometal, but only joint control over Mascometal with Asco Industries Ltd. Therefore the equity investment in Mascometal was accounted for as a joint venture in 2016.

According to the requirements of the joint venture contract, the Company completed the capital injection of EUR10,296,000 in June 2017 which was equivalent to RMB78,431,997.

In June 2017, Mascometal held the board meeting, and approved the revised Article of Association which changed the approval criteria from unanimous approval of all the directors to more than 50% of the directors' approval in respect of some key board of directors' resolution matters. According to the revised Article of Association, as the directors of the Company represented that the Company is able to exercise control over Mascometal. Mascometal is accounted for as a subsidiary and included in the scope of consolidation of the Group since the date of business combination as disclosed in Note VI.2.

Note 2: On 10 October 2017, Henan JinMa Energy, an associate of the Company, was listed on the Hong Kong Stock Exchange and issued its stock publicly. Accordingly its registered capital increased by RMB135,421,000, which caused the Company's equity interests in Henan JinMa diluted from 36% to 26.89%, and the Company's long-term equity investment in Henan JinMa Energy was reduced by RMB22,335,060.

Note 3: On 5 September 2017, Xinchuang Environmental Protection, an associate of the Company, was listed on the National Equities Exchange And Quotations.

\* Except Henan JinMa Energy and Xinchuang Environmental Protection, joint ventures and associates listed above, which are accounted for by the equity method, are unlisted investment.

# Notes to Financial Statements (Continued)

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

### 15. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

31 December 2016

	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
<b>Joint ventures</b>										
BOC-Ma Steel	316,030,791	-	-	80,857,392	-	1,129,885	(79,000,000)	-	319,018,068	-
MASTEEL-CMI	539,342	-	-	2,091	-	-	-	-	541,433	-
Mascometal	-	58,171,378	(4,879,915)	(7,426)	-	-	-	-	53,284,037	-
<b>Associates</b>										
Henan JinMa Energy	241,098,393	-	-	77,296,589	-	3,361,408	(25,560,000)	-	296,196,390	-
Shenglong Chemical	242,402,338	-	-	66,810,341	-	183,745	-	-	309,396,424	-
Shanghai Iron and Steel Electronic	26,604,521	-	-	4,516,071	-	-	(4,000,000)	-	27,120,592	-
Xinchuang Environmental Protection	35,539,691	-	-	3,059,233	-	5,182,037	-	-	43,780,961	-
Anhui Linhuan Chemical	72,000,000	-	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical	95,638,431	22,513,793	-	286,184	-	-	-	-	118,438,408	-
	<u>1,029,853,507</u>	<u>80,685,171</u>	<u>(4,879,915)</u>	<u>232,820,475</u>	<u>-</u>	<u>9,857,075</u>	<u>(108,560,000)</u>	<u>-</u>	<u>1,239,776,313</u>	<u>-</u>

### 16. INVESTMENT PROPERTIES

Investment properties measured using the cost method:

**2017**

	<b>Buildings</b>
Cost:	
At 1 January 2017	<b>65,075,379</b>
Addition	<u>-</u>
At 31 December 2017	<b>65,075,379</b>
Accumulated depreciation:	
At 1 January 2017	<b>6,241,381</b>
Provided	<u>1,325,314</u>
At 31 December 2017	<b>7,566,695</b>
Provision for impairment:	
At 1 January 2017 and 31 December 2017	<u>-</u>
Net carrying amount:	
At 31 December 2017	<b>57,508,684</b>
At 1 January 2017	<b>58,833,998</b>

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

### 16. INVESTMENT PROPERTIES (CONTINUED)

Investment properties measured using the cost method (continued):

31 December 2016

	Buildings
Cost:	
At 1 January 2016	67,649,781
Addition	–
Transferred into fixed assets	<u>(2,574,402)</u>
At 31 December 2016	<u>65,075,379</u>
Accumulated depreciation:	
At 1 January 2016	5,293,198
Provided	1,708,470
Transferred into fixed assets	<u>(760,287)</u>
At 31 December 2016	<u>6,241,381</u>
Provision for impairment:	
At 1 January 2016 and 31 December 2016	<u>–</u>
Net carrying amount:	
At 31 December 2016	<u><u>58,833,998</u></u>
At 1 January 2016	<u><u>62,356,583</u></u>

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

# Notes to Financial Statements (Continued)

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

### 17. PROPERTY, PLANT AND EQUIPMENT

2017

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 2)	Total
Cost:						
At 1 January 2017	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 (Note VI. 2)	-	112,713	177,003	7,849	-	297,565
Transfer from construction in progress (Note V.18)	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 (Note V. 10)	(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)
Estimated adjustments for construction	-	(363,572,672)	-	-	-	(363,572,672)
Disposal of a subsidiary (Note VI. 3)	-	(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 31 December 2017	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Accumulated depreciation:						
At 1 January 2017	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 (Note V. 10)	(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 (Note VI. 3)	-	(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 31 December 2017	13,242,580,090	36,046,867,181	301,161,332	251,424,893	-	49,842,033,496
Impairment:						
At 1 January 2017	6,514,174	32,093,290	-	-	-	38,607,464
Provided (Note 3)	101,594,293	487,885,152	619,468	-	-	590,098,913
Disposal (Note 1)	(3,700,321)	(32,093,290)	-	-	-	(35,793,611)
At 31 December 2017	104,408,146	487,885,152	619,468	-	-	592,912,766
Net carrying amount:						
At 31 December 2017	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862
At 1 January 2017	15,442,683,738	19,969,520,271	78,384,538	21,747,372	10,265,796	35,522,601,715

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

### 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2016

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 2)	Total
Cost:						
At 1 January 2016	26,337,817,814	52,433,784,044	388,260,936	353,968,343	10,265,796	79,524,096,933
Addition	8,203,647	88,449,039	7,769,757	7,702,254	-	112,124,697
Transfer from construction in progress	2,390,223,425	2,591,670,469	13,178,320	18,378,038	-	5,013,450,252
Reclassifications	(21,601,634)	138,103,232	(4,042,687)	(112,458,911)	-	-
Disposal	(66,178,321)	(260,848,701)	(17,695,392)	-	-	(344,722,414)
Transferred from investment properties	2,574,402	-	-	-	-	2,574,402
Exchange realignment	828,930	1,672,053	131,359	100,118	-	2,732,460
Estimated adjustments for construction	(330,000,000)	(400,000,000)	-	(1,289,037)	-	(731,289,037)
At 31 December 2016	28,321,868,263	54,592,830,136	387,602,293	266,400,805	10,265,796	83,578,967,293
Accumulated depreciation:						
At 1 January 2016	12,245,942,502	32,017,310,492	312,099,544	343,333,299	-	44,918,685,837
Provided	694,973,483	2,662,489,850	16,696,545	3,606,239	-	3,377,766,117
Reclassifications	(20,672,194)	126,871,668	(3,885,716)	(102,313,758)	-	-
Disposal	(48,396,925)	(215,894,967)	(15,746,318)	-	-	(280,038,210)
Transferred from investment properties	760,287	-	-	-	-	760,287
Exchange realignment	63,198	439,532	53,700	27,653	-	584,083
At 31 December 2016	12,872,670,351	34,591,216,575	309,217,755	244,653,433	-	48,017,758,114
Impairment:						
At 1 January 2016	-	-	-	-	-	-
Provided	6,514,174	32,093,290	-	-	-	38,607,464
At 31 December 2016	6,514,174	32,093,290	-	-	-	38,607,464
Net carrying amount:						
At 31 December 2016	15,442,683,738	19,969,520,271	78,384,538	21,747,372	10,265,796	35,522,601,715
At 1 January 2016	14,091,875,312	20,416,473,552	76,161,392	10,635,044	10,265,796	34,605,411,096

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

### 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note 1: Disposal was mainly related to the fixed assets sold and discarded by the Company.

Note 2: The land ownership was obtained by a subsidiary of the Group, MG-VALDUNES, in France.

Note 3: During the year, the Group had recognised impairment for fixed assets amounting to RMB590,098,913, including:

- (1) For the purpose of capacity reduction and product structure adjustment, the Company planned to dispose of part of its fixed assets. Therefore, based on the disposal plan, the Company estimated the present value of future cash inflows as the recoverable amount of these fixed assets and recognised provision for impairment amounting to RMB364,697,211 accordingly.
- (2) As approved by the board of directors, Ma Steel (Hefei), a subsidiary of the Company planned to list part of its plant, buildings, machinery and equipment on Property Rights Transaction Center for disposal. The recoverable amounts were determined based on the valuation report issued by third party valuation agency less cost to disposal, and the Company recognised provision for impairment amounting to RMB225,401,702 accordingly.

As of 31 December 2017, saved as above, the Group had no property, plant and equipment subject to impairment (31 December 2016: Nil).

As of 31 December 2017, certificates of ownership in respect of 35 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,343,778,609 (31 December 2016: RMB1,273,300,682), 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 operation.

### 18. CONSTRUCTION IN PROGRESS

	31 December 2017			31 December 2016		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Product quality projects	575,866,740	-	575,866,740	387,560,165	-	387,560,165
Energy-saving and environmental protection projects	345,489,968	-	345,489,968	448,789,128	-	448,789,128
Equipment advancement and other modification projects	565,711,125	-	565,711,125	856,066,507	-	856,066,507
Other projects	318,887,776	-	318,887,776	565,775,598	-	565,775,598
<b>Total</b>	<b>1,805,955,609</b>	<b>-</b>	<b>1,805,955,609</b>	<b>2,258,191,398</b>	<b>-</b>	<b>2,258,191,398</b>

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

### 18. CONSTRUCTION IN PROGRESS (CONTINUED)

In 2017, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Business	Transferred to	Closing balance RMB	Source of fund	The	Percentage of completion (%)	Accumulated	The	The interest
				combination (Note VI.2) RMB	fixed assets (Note V.17) RMB			proportion of projects investment account for budget (%)		interest capitalisation (Note) RMB	capitalised interest in current year RMB	capitalisation 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	NA	565,775,598	466,906,084	-	(713,793,906)	318,887,776	Internally financed/loan	NA	NA	3,005,256	-	-
		<u>2,258,191,398</u>	<u>1,766,860,163</u>	<u>57,634,890</u>	<u>(2,276,730,842)</u>	<u>1,805,955,609</u>				<u>26,866,719</u>	<u>1,775,312</u>	
Less: impairment		-	-	-	-	-						
		<u>2,258,191,398</u>	<u>1,766,860,163</u>	<u>57,634,890</u>	<u>(2,276,730,842)</u>	<u>1,805,955,609</u>				<u>26,866,719</u>	<u>1,775,312</u>	

In 2016, the movements of significant projects are as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to	Closing balance RMB	Source of fund	The	Percentage of completion (%)	Accumulated	The	The interest	
				fixed assets (Note V.17) RMB			proportion of projects investment account for budget (%)		Interest capitalisation (Note) RMB	capitalised interest in current year RMB	capitalisation rate in current year (%)	
Product quality projects	6,416,968	1,201,603,354	1,343,913,180	(2,157,956,369)	387,560,165	Internally financed/loan	82	82	9,671,641	2,140,342	4.4	
Energy-saving and environmental protection projects	2,623,235	1,206,463,445	994,194,028	(1,751,868,345)	448,789,128	Internally financed/loan	84	84	4,816,770	2,761,338	4.4	
Equipment advancement and other modification projects	2,359,778	1,651,195,135	272,488,041	(1,067,616,669)	856,066,507	Internally financed/loan	85	85	7,597,740	1,655,800	4.4	
Other projects	N/A	186,500,934	415,283,533	(36,008,869)	565,775,598	Internally financed/loan	N/A	N/A	3,005,256	619,779	-	
		<u>4,245,762,868</u>	<u>3,025,878,782</u>	<u>(5,013,450,252)</u>	<u>2,258,191,398</u>					<u>25,091,407</u>	<u>7,177,259</u>	
Less: impairment		-	-	-	-							
		<u>4,245,762,868</u>	<u>3,025,878,782</u>	<u>(5,013,450,252)</u>	<u>2,258,191,398</u>					<u>25,091,407</u>	<u>7,177,259</u>	

Note: The balance represents the capitalisation of borrowing costs included in construction in progress at 31 December 2017 and 31 December 2016.

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

### 19. INTANGIBLE ASSETS

2017

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2017	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 31 December 2017	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Accumulated amortisation:					
At 1 January 2017	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 31 December 2017	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Impairment:					
At 1 January 2017 and at 31 December 2017	-	-	-	-	-
Net carrying amount:					
At 31 December 2017	<u>100,847,344</u>	<u>1,698,057,655</u>	<u>84,432,837</u>	<u>266,337</u>	<u>1,883,604,173</u>
At 1 January 2017	<u>106,760,785</u>	<u>1,624,559,549</u>	<u>90,067,744</u>	<u>380,849</u>	<u>1,821,768,927</u>

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

### 19. INTANGIBLE ASSETS (CONTINUED)

2016

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2016	136,979,410	2,296,421,463	137,120,350	587,217	2,571,108,440
Addition	-	1,567,188	-	87,682	1,654,870
Disposals	-	(9,200,000)	-	-	(9,200,000)
Exchange realignment	-	-	2,784,497	17,512	2,802,009
At 31 December 2016	<u>136,979,410</u>	<u>2,288,788,651</u>	<u>139,904,847</u>	<u>692,411</u>	<u>2,566,365,319</u>
Accumulated amortisation:					
At 1 January 2016	24,305,184	614,246,226	41,097,193	101,677	679,750,280
Provided	5,913,441	51,424,739	6,056,366	206,852	63,601,398
Disposals	-	(1,441,863)	-	-	(1,441,863)
Exchange realignment	-	-	2,683,544	3,033	2,686,577
At 31 December 2016	<u>30,218,625</u>	<u>664,229,102</u>	<u>49,837,103</u>	<u>311,562</u>	<u>744,596,392</u>
Impairment:					
At 1 January 2016 and at 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying amount:					
At 31 December 2016	<u>106,760,785</u>	<u>1,624,559,549</u>	<u>90,067,744</u>	<u>380,849</u>	<u>1,821,768,927</u>
At 1 January 2016	<u>112,674,226</u>	<u>1,682,175,237</u>	<u>96,023,157</u>	<u>485,540</u>	<u>1,891,358,160</u>

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 Economic Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economy Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive 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 recognised. According to the agreement, the payment for the project during the construction was recognised 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.

# Notes to Financial Statements (Continued)

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

### 20. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred liabilities before offset:

	31 December 2017		31 December 2016	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	445,798,480	111,449,620	251,160,664	62,790,166
Sales incentive	411,343,608	102,835,902	352,819,600	88,204,900
Payroll payable	195,634,400	48,908,600	30,313,204	7,578,301
Government grants	589,766,912	147,441,728	621,341,760	155,335,440
Deductible tax loss	157,786,860	39,446,715	-	-
Others	156,086,216	39,021,554	136,747,904	34,186,976
	<u>1,956,416,476</u>	<u>489,104,119</u>	<u>1,392,383,132</u>	<u>348,095,783</u>

	31 December 2017		31 December 2016	
	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	107,366,660	26,841,665	117,824,896	29,456,224
Changes in fair value of financial products	3,111,908	777,977	1,619,352	404,838
Changes in fair value of futures	23,203,200	5,800,800	-	-
Others	17,160,248	4,290,062	20,817,396	5,204,349
	<u>150,842,016</u>	<u>37,710,504</u>	<u>140,261,644</u>	<u>35,065,411</u>

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

### 20. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Net value of deferred tax assets/liabilities after offset:

	31 December 2017		31 December 2016	
	Offset amount	Net value	Offset amount	Net value
Deferred tax assets	<u>10,868,839</u>	<u>478,235,280</u>	-	<u>348,095,783</u>
Deferred tax liabilities	<u>10,868,839</u>	<u>26,841,665</u>	-	<u>35,065,411</u>

The Group's unrecognised deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	31 December 2017	31 December 2016
Deductible temporary differences	<u>1,373,832,413</u>	817,739,042
Deductible tax losses	<u>6,712,659,253</u>	<u>9,605,772,407</u>
	<u>8,086,491,666</u>	<u>10,423,511,449</u>

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

	31 December 2017	31 December 2016
To expire in 2017	-	3,171,336,504
To expire in 2018	<u>483,216,836</u>	483,216,836
To expire in 2019	<u>781,213,612</u>	781,213,612
To expire in 2020	<u>4,555,266,671</u>	4,555,266,671
To expire in 2021	<u>614,738,784</u>	614,738,784
To expire in 2022 and future years (Note)	<u>278,223,350</u>	-
Total	<u>6,712,659,253</u>	<u>9,605,772,407</u>

Note: An oversea subsidiary of the Company has deductible tax losses amounting to RMB136,707,408 without expiration date.

# Notes to Financial Statements (Continued)

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

### 20. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

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

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

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

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

### 21. ASSETS IMPAIRMENT PROVISIONS

31 December 2017

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back/ write-off	Other changes	
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 (i)	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 Machinery and equipment	6,514,174	101,594,293	-	(3,700,321)	-	104,408,146
Transportation equipment	32,093,290	487,885,152	-	(32,093,290)	-	487,885,152
	-	619,468	-	-	-	619,468
	<b>993,614,345</b>	<b>775,779,264</b>	<b>(29,404,270)</b>	<b>(274,611,460)</b>	<b>2,153,301</b>	<b>1,467,531,180</b>

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

### 21. ASSETS IMPAIRMENT PROVISIONS (CONTINUED)

31 December 2016

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back/ write-off	Other changes	
Provisions for bad debts	627,660,520	36,124,204	(927,877)	(355,967)	-	662,500,880
Including: Trade receivables	19,196,395	2,517,257	(927,877)	(55,967)	-	20,729,808
Other receivables	591,559,264	2,986,251	-	(300,000)	-	594,245,515
Loans and advances to customers	16,904,861	30,620,696	-	-	-	47,525,557
Inventory impairment provision (i)	1,004,097,488	990,453,845	-	(1,702,045,332)	-	292,506,001
Including: Raw materials	350,365,789	443,512,539	-	(710,132,253)	-	83,746,075
Work in progress	102,234,757	152,393,221	-	(236,968,308)	-	17,659,670
Finished goods	491,923,981	326,693,412	-	(754,429,304)	-	64,188,089
Spare parts	59,572,961	67,854,673	-	(515,467)	-	126,912,167
Property, plant and equipment impairment provision	-	38,607,464	-	-	-	38,607,464
Including: Buildings and plant Machinery and equipment	-	6,514,174	-	-	-	6,514,174
	-	32,093,290	-	-	-	32,093,290
	<u>1,631,758,008</u>	<u>1,065,185,513</u>	<u>(927,877)</u>	<u>(1,702,401,299)</u>	<u>-</u>	<u>993,614,345</u>

- (i) 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.

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

### 22. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<b>31 December 2017</b>	31 December 2016
Domestic bank deposits	<b><u>200,000,000</u></b>	<u>–</u>

### 23. CUSTOMER DEPOSITS

	<b>31 December 2017</b>	31 December 2016
Demand deposits	<b>2,365,945,211</b>	2,681,506,250
Notice deposits	<b>186,300,000</b>	285,300,000
Time deposits	<b><u>395,394,399</u></b>	<u>741,418,771</u>
	<b><u>2,947,639,610</u></b>	<u>3,708,225,021</u>

Details of customer deposits of Masteel Finance related to the related parties at 31 December 2017 and 31 December 2016 are disclosed in Note X.6.

### 24. REPURCHASE AGREEMENTS

	<b>31 December 2017</b>	31 December 2016
Bonds	<b>99,000,000</b>	397,900,000
Notes	<b><u>209,100,956</u></b>	<u>198,665,698</u>
	<b><u>308,100,956</u></b>	<u>596,565,698</u>

Repurchase agreements is the money arising from notes and bonds discounted by Masteel Finance to other financial institutions according to the repurchase agreements.

# Notes to Financial Statements (Continued)

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

### 25. SHORT TERM LOANS

	<b>31 December 2017</b>	31 December 2016
Unsecured loans	<b>4,062,713,077</b>	6,002,740,320
Inward documentary notes and usance letters of credit (Note)	<b>567,590,617</b>	940,212,100
	<b><u>4,630,303,694</u></b>	<b><u>6,942,952,420</u></b>

Note: As of 31 December 2017, the outstanding letters of credit of the Group amounted to RMB567,590,617 (31 December 2016: RMB940,212,100).

As of 31 December 2017, the interest rates of the above short-term loans ranged from 0.670% to 6.000% (31 December 2016: 1.628% to 6.000%).

As of 31 December 2017, the Group had overdue short term loans as follows:

	Amount	Overdue nature	Due date	Annual interest rate	Overdue interest rate	Purpose
China Everbright Bank Shanghai Baoshan Branch	48,500,000	Principal and interest overdue	2014.12.31	6.00%	9.00%	Business borrowing
Bank of Nanjing Shanghai Branch	29,757,036	Principal and interest overdue	2015.01.03	5.60%	8.40%	Business borrowing
Maanshan Rural Commercial Bank	22,000,000	Principal and interest overdue	2015.06.17	6.00%	9.00%	Business borrowing
	<u>100,257,036</u>					

As of 31 December 2017, the overdue amount of short-term loans was RMB100,257,036, which are unsecured loans borrowed by the Group's subsidiary, Masteel Shanghai Trading. Masteel Shanghai Trading was in the process of bankruptcy liquidation. The Group had recognised interests payable according to overdue rate.

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

### 26. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>31 December 2017</b>	31 December 2016
Derivative financial liabilities		
– Forward foreign exchange contracts	<b><u>10,498,810</u></b>	<u>–</u>

As of 31 December 2017, the fair value of forward foreign exchange contracts held by the Company was determined by the forward foreign exchange rate on the last trading date in 2017.

### 27. NOTES PAYABLE

	<b>31 December 2017</b>	31 December 2016
Bank acceptance notes	<b>4,724,648,470</b>	3,584,228,362
Commercial acceptance notes	<b><u>85,200,000</u></b>	<u>–</u>
	<b><u>4,809,848,470</u></b>	<u>3,584,228,362</u>

As of 31 December 2017 and 31 December 2016, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

### 28. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>6,681,492,997</b>	6,491,661,696
One to two years	<b>167,589,414</b>	62,554,813
Two to three years	<b>32,970,687</b>	52,430,647
Over three years	<b><u>86,481,262</u></b>	<u>62,160,767</u>
	<b><u>6,968,534,360</u></b>	<u>6,668,807,923</u>

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

# Notes to Financial Statements (Continued)

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

### 28. ACCOUNTS PAYABLE (CONTINUED)

The amounts due to related parties among the balances of accounts payable as of 31 December 2017 and 31 December 2016 are stated in Note X.6 to the financial statements.

As of 31 December 2017, the material accounts payable aged over one year were as follows:

	<b>Amount due</b>	<b>Reason for non-settlement</b>
Company 1	<b>106,394,900</b>	Note
Company 2	<b>19,000,000</b>	Note
Company 3	<b>16,614,066</b>	Note
Company 4	<b>9,008,751</b>	Note
Company 5	<b>6,539,353</b>	Note
	<b><u>157,557,070</u></b>	

Note: The Group's accounts payable aged over one year are mainly unsettled payables regarding to purchasing equipment and material.

### 29. ADVANCES FROM CUSTOMERS

	<b>31 December 2017</b>	31 December 2016
Advances from customers	<b><u>3,842,903,332</u></b>	<u>3,682,322,418</u>

As of 31 December 2017, the material advance received aged over one year were as follows:

	<b>Amount of advance received</b>	<b>Reason for outstanding</b>
Company 1	<b>20,908,895</b>	Note
Company 2	<b>6,340,000</b>	Note
Company 3	<b>6,250,000</b>	Note
Company 4	<b>5,560,000</b>	Note
Company 5	<b>5,240,000</b>	Note
	<b><u>44,298,895</u></b>	

Note: the Group's advances from customers aged over one year were mainly advances from customers relating to the contracts not fully executed.

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

### 30. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

#### 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.42)	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.42)	32,443,165	80,790,568	32,443,165	80,790,568
	<u>550,444,683</u>	<u>4,329,507,985</u>	<u>4,225,130,163</u>	<u>654,822,505</u>

#### 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	263,336,940	3,268,054,882	3,014,988,648	516,403,174
Post-employment benefits (defined contribution plans)	10,057,259	539,619,532	549,205,470	471,321
Supplementary retirement benefits within one year (i) (Note V.42)	1,220,524	1,477,159	1,570,660	1,127,023
One-off termination compensation (ii)	-	172,343,335	172,343,335	-
Early retirement benefits due within one year (Note V.42)	-	32,443,165	-	32,443,165
	<u>274,614,723</u>	<u>4,013,938,073</u>	<u>3,738,108,113</u>	<u>550,444,683</u>

- (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 recognised in long-term compensation.

# Notes to Financial Statements (Continued)

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

### 30. 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 optimisation.

Short-term employee benefits:

#### 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
Labour union fee and employee education fee	6,910,832	78,547,875	79,949,232	5,509,475
	<u>516,403,174</u>	<u>3,467,001,129</u>	<u>3,417,666,233</u>	<u>565,738,070</u>

#### 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	211,386,627	2,588,861,452	2,330,256,937	469,991,142
Welfare	21,019,222	119,535,313	121,362,477	19,192,058
Social insurance	15,911	220,098,717	220,114,628	–
Including: Medical insurance	(3,693)	183,533,733	183,530,040	–
Work-related injury insurance	13,004	29,378,746	29,391,750	–
Maternity insurance	6,600	7,186,238	7,192,838	–
Housing fund	25,661,454	272,985,670	278,337,982	20,309,142
Labour union fee and employee education fee	5,253,726	66,573,730	64,916,624	6,910,832
	<u>263,336,940</u>	<u>3,268,054,882</u>	<u>3,014,988,648</u>	<u>516,403,174</u>

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

### 30. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Defined contribution plans:

#### 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
	<u>471,321</u>	<u>673,267,980</u>	<u>666,606,855</u>	<u>7,132,446</u>

#### 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	365,178	493,460,702	493,825,880	-
Unemployment insurance	184,483	27,324,716	27,509,199	-
Supplementary pension scheme	9,507,598	18,834,114	27,870,391	471,321
	<u>10,057,259</u>	<u>539,619,532</u>	<u>549,205,470</u>	<u>471,321</u>

As of 31 December 2017 and 31 December 2016, 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.

# Notes to Financial Statements (Continued)

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

### 31. TAXES PAYABLE

	<b>31 December 2017</b>	31 December 2016
Value-added tax	<b>863,764,937</b>	112,249,203
Corporate income tax	<b>282,828,579</b>	48,757,600
City construction and maintenance tax	<b>54,922,631</b>	34,523,584
Other taxes	<b>141,320,450</b>	78,701,727
	<b><u>1,342,836,597</u></b>	<b><u>274,232,114</u></b>

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

### 32. INTEREST PAYABLES

	<b>31 December 2017</b>	31 December 2016
Interest payables for short-term loans	<b>24,498,349</b>	9,590,649
Instalment interest payables for long-term loans repayable on due date	<b>8,789,429</b>	10,280,475
Interest payables for medium term notes	<b>87,820,274</b>	87,820,274
	<b><u>121,108,052</u></b>	<b><u>107,691,398</u></b>

As of 31 December 2017, the Group had an overdue interest payable of RMB22,332,887 relating to Masteel Shanghai Trading, which was in the process of bankruptcy.

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

### 33. DIVIDENDS PAYABLE

	<b>31 December 2017</b>	31 December 2016
Other shareholders	<b><u>9,050,620</u></b>	<b><u>8,713,584</u></b>

### 34. OTHER PAYABLES

	<b>31 December 2017</b>	31 December 2016
Payable for construction, maintenance and inspection fees	<b>294,339,562</b>	174,015,328
Sales incentives	<b>323,548,997</b>	106,499,407
Service fees payable	<b>36,033,091</b>	22,336,562
Technology project fund received	<b>52,457,161</b>	41,804,635
Withholding social welfare and housing fund payable	<b>36,507,942</b>	36,408,783
Accrued interest expense for letters of credit	<b>7,158,738</b>	72,642,916
Payable for forfeiting	<b>503,388,810</b>	954,411,901
Others	<b><u>970,734,893</u></b>	<u>504,455,546</u>
	<b><u>2,224,169,194</u></b>	<b><u>1,912,575,078</u></b>

At 31 December 2017, significant other payables aged over one year were as follows:

	<b>Amount payable</b>	<b>Reason for non-settlement</b>
Company 1	<b>152,568,484</b>	Note
Company 2	<b>2,990,281</b>	Note
Company 3	<b>2,000,000</b>	Note
Company 4	<b>1,371,600</b>	Note
Company 5	<b><u>998,495</u></b>	Note
	<b><u>159,928,860</u></b>	

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

# Notes to Financial Statements (Continued)

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

### 35. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	<b>31 December 2017</b>	31 December 2016
Long-term loans due within one year (Note V.38)	<b>933,091,711</b>	3,211,056,320
Bonds payable due within one year (Note V.39)	<b>3,995,666,667</b>	—
	<b><u>4,928,758,378</u></b>	<b><u>3,211,056,320</u></b>

### 36. ACCRUED LIABILITIES

#### 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
	<b><u>29,580,435</u></b>	<b><u>30,650,385</u></b>	<b><u>21,693,451</u></b>	<b><u>38,537,369</u></b>

#### 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	3,415,629	7,451,446	—	10,867,075
Pending onerous contract (Note)	18,601,341	14,354,836	18,671,330	14,284,847
Others	215,743	4,429,741	216,971	4,428,513
	<b><u>22,232,713</u></b>	<b><u>26,236,023</u></b>	<b><u>18,888,301</u></b>	<b><u>29,580,435</u></b>

Note: As of 31 December 2017, 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. Therefore, the accrued liabilities were estimated at RMB20,963,088 (2016: RMB14,284,847).

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

### 37. OTHER CURRENT LIABILITIES

	<b>31 December 2017</b>	31 December 2016
Short term financing bonds (Note)	<b>3,081,026,301</b>	2,046,438,356
Others	<u>—</u>	<u>226,620,000</u>
	<b><u>3,081,026,301</u></b>	<b><u>2,273,058,356</u></b>

Note: The Group issued the short-term-financing-bonds amounting to RMB3,000,000,000 and interests amounting to RMB81,026,301, of which RMB2,000,000,000 was issued on 18 April 2017 and RMB1,000,000,000 on 19 September 2017 respectively.

### 38. LONG-TERM LOANS

	<b>31 December 2017</b>	31 December 2016
Guaranteed loans	<b>1,178,983,424</b>	1,175,968,960
Unsecured loans	<b><u>5,796,975,210</u></b>	<u>3,987,200,000</u>
	<b><u>6,975,958,634</u></b>	<b><u>5,163,168,960</u></b>

As of 31 December 2017, the interest rates of the above long-term loans ranged from 1.20% to 4.75% (31 December 2016: from 1.20% to 4.75%).

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

### 38. LONG-TERM LOANS (CONTINUED)

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

	<b>31 December 2017</b>	31 December 2016
*Within one year or on demand (Note V. 35)	<b>933,091,711</b>	3,211,056,320
One to two years (inclusive)	<b>5,670,785,522</b>	4,255,056,320
Two to three years (inclusive)	<b>1,109,173,112</b>	761,056,320
Three to five years (inclusive)	<b>100,000,000</b>	51,056,320
Over five years	<b>96,000,000</b>	96,000,000
	<b><u>7,909,050,345</u></b>	<b><u>8,374,225,280</u></b>

Note: As of 31 December 2017, the Group had no long-term loan due within one year which was pledged with notes (31 December 2016: RMB600,000,000).

### 39. BONDS PAYABLE

	<b>31 December 2017</b>	31 December 2016
Medium-term note payable	<b>3,995,666,667</b>	3,987,666,667
Less : Bonds payable due within one year (Note V.35)	<b><u>3,995,666,667</u></b>	<u>—</u>
	<b><u>—</u></b>	<b><u>3,987,666,667</u></b>

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

### 39. BONDS PAYABLE (CONTINUED)

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
			<b>4,000,000,000</b>	<b>3,987,666,667</b>	<b>-</b>	<b>8,000,000</b>	<b>-</b>	<b>3,995,666,667</b>	<b>197,400,000</b>

As of 31 December 2016, 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	1,990,000,000	-	4,000,000	-	1,994,000,000	101,533,591
2015 second issue	2015/08	3 years	2,000,000,000	1,989,666,667	-	4,000,000	-	1,993,666,667	96,106,355
Corporate bonds – 5 years	2011/08	5 years	2,340,000,000	2,337,066,519	-	2,933,481	2,340,000,000	-	86,975,115
			<b>6,340,000,000</b>	<b>6,316,733,186</b>	<b>-</b>	<b>10,933,481</b>	<b>2,340,000,000</b>	<b>3,987,666,667</b>	<b>284,615,061</b>

#### 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, and has 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, and has a fixed rate of interest at 4.80% per annum.

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

### 39. BONDS PAYABLE (CONTINUED)

#### Corporate bonds

Upon the approval of the China Securities Supervision and Management Committee, [2011] no. 1177, the Company issued corporate bonds amounting to RMB5.5 billion with an issue price of RMB100/Note in August 2011, including RMB3.16 billion (abbreviated as 11 Magang 01) due within three years with an interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11 Magang 02) due within five years with an interest rate of 5.74%. These corporate bonds were secured by the Holding. The net amount the Company received from these corporate bonds was RMB5,453,788,000. The corporate bond “11 Magang 01” had been paid on the due date in 2014 and the corporate bond ‘11 Magang 02’ had been paid on 25 August 2016.

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

### 40. DEFERRED INCOME

#### 2017

	Opening balance	Increase	Decrease	Ending balance
Government grants	<u>1,269,496,538</u>	<u>251,905,601</u>	<u>58,911,606</u>	<u>1,462,490,533</u>

#### 2016

	Opening balance	Increase	Decrease	Ending balance
Government grants	<u>1,285,164,299</u>	<u>103,844,476</u>	<u>119,512,237</u>	<u>1,269,496,538</u>

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

### 40. DEFERRED INCOME (CONTINUED)

As of 31 December 2017, liabilities related to government grants were as follows:

	Opening balance	Increase during the current period	Included in other income	Closing balance	Related to assets/ income
Compensation of land purchasing and storage (Note)	652,138,319	-	-	652,138,319	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 CAPP					
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 desulfurisation 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 desulfurisation project of					
3rd iron plant's flue gas (BOT)	13,420,000	-	(541,273)	12,878,727	assets
Subsidy for material modification of					
high speed wheel and axle	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 utilisation 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
<b>Total</b>	<b>1,269,496,538</b>	<b>251,905,601</b>	<b>(58,911,606)</b>	<b>1,462,490,533</b>	

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

# Notes to Financial Statements (Continued)

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

### 40. DEFERRED INCOME (CONTINUED)

As of 31 December 2016, liabilities related to government grants were as follows:

	Opening balance	Increase during the current year	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage	652,138,319	-	-	-	652,138,319	income
Technological transformation fund for						
Phase II silicon steel	90,641,669	-	(4,400,000)	-	86,241,669	assets
Subsidy for hot-rolled 1580 project	40,788,750	-	(1,980,000)	-	38,808,750	assets
New-zone Thermal Power Plant CCGP						
system engineering	35,377,972	-	(4,312,000)	-	31,065,972	assets
EMU steel wheel production line project	37,174,990	-	(2,200,000)	-	34,974,990	assets
Environmental subsidy funds for						
flue gas desulfurisation and 135 MW thermal power	12,900,000	-	-	-	12,900,000	assets
Fixed assets subsidy for thin plate project	16,501,300	17,054,300	(2,106,927)	-	31,448,673	assets
Environmental funds for desulfurisation project of						
3rd iron plant's flue gas (BOT)	13,420,000	-	-	-	13,420,000	assets
Subsidy for material modification of						
high speed wheel and axle	33,720,000	-	-	-	33,720,000	assets
Development and reform subsidy	55,000,000	-	(55,000,000)	-	-	assets
Subsidy for Maanshan railway industry (Maanshan)	-	14,000,000	(839,900)	-	13,160,100	assets
Comprehensive utilisation of gas for power generation of						
a thermal power plant	-	24,790,000	(90,897)	-	24,699,103	assets
Others	297,501,299	48,000,176	(46,050,259)	(2,532,254)	296,918,962	assets
<b>Total</b>	<b>1,285,164,299</b>	<b>103,844,476</b>	<b>(116,979,983)</b>	<b>(2,532,254)</b>	<b>1,269,496,538</b>	

### 41. LONG-TERM PAYABLES

	<b>31 December 2017</b>	31 December 2016
Payables to a non-controlling interests of a subsidiary	<b>210,000,000</b>	-

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

### 42. LONG-TERM EMPLOYEE BENEFITS PAYABLE

	<b>31 December 2017</b>	31 December 2016
1. Post-employment benefits		
– net liability of defined benefit plans (Note 1)	<b>213,432,260</b>	159,868,285
Less : Early retirement benefits due within one year	<b>80,790,568</b>	32,443,165
2. Supplementary retirement benefit (Note 2)	<b>29,416,315</b>	32,875,106
Less: Supplementary retirement benefit due within one year	<b>1,161,421</b>	1,127,023
	<b><u>160,896,586</u></b>	<b><u>159,173,203</u></b>

Note 1: Post-employment benefits – net defined benefit liability

	Opening balance	Increase	Financial charges unrecognised	Decrease	Closing balance	Less: Due within one year	Closing balance
2017							
Internal retirement benefit	<b>159,868,285</b>	<b>108,837,607</b>	<b>4,368,034</b>	<b>(59,641,666)</b>	<b>213,432,260</b>	<b>80,790,568</b>	<b>132,641,692</b>

Note 2: Supplementary retirement benefit

	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
2017						
Supplementary retirement benefit	<b>32,875,106</b>	<b>1,161,421</b>	<b>(4,620,212)</b>	<b>29,416,315</b>	<b>1,161,421</b>	<b>28,254,894</b>

# Notes to Financial Statements (Continued)

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

### 42. LONG-TERM EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Early retirement benefits expected to be paid by the Group:

	<b>31 December 2017</b>	31 December 2016
Undiscounted value		
Within one year	<b>80,790,568</b>	32,443,165
One to two years	<b>43,752,545</b>	29,197,924
Two to three years	<b>31,489,509</b>	26,523,841
Over three years	<b>84,114,801</b>	90,136,936
	<b>240,147,423</b>	178,301,866
Financial charges unrecognised	<b>(26,715,163)</b>	(18,433,581)
	<b>213,432,260</b>	159,868,285
Less: Due within one year	<b>80,790,568</b>	32,443,165
	<b>132,641,692</b>	127,425,120

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 1.55% 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 2017 and accounted in general and administrative expenses. As of 31 December 2017, the current portion of the payment responsibility was accounted for in short-term employee benefits.

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

### 43. SHARE CAPITAL

#### 31 December 2017

Registered, issued and fully paid	At 1 January 2017		Increase/(decrease) during the year			At 31 December 2017	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

#### 31 December 2016

Registered, issued and fully paid	At 1 January 2016		Increase/(decrease) during the year			At 31 December 2016	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

\* Other than H share dividends, which are paid in Hong Kong dollars, all shares, including A shares and H shares, have the same right to the Company's operating results and voting rights. The par value for each A share or H share is RMB1.00.

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

### 44. CAPITAL RESERVE

31 December 2017

	Opening balance	Increase during the year (Note)	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	<u>8,348,726,741</u>	<u>3,560,451</u>	<u>-</u>	<u>8,352,287,192</u>

Note: The increase of share premium this year was caused by the Company's purchase of non-controlling interests of Ma Steel (HK) and Ma Steel (Hefei).

31 December 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,329,067,663	-	-	8,329,067,663
Others	-	19,659,078	-	19,659,078
Total	<u>8,329,067,663</u>	<u>19,659,078</u>	<u>-</u>	<u>8,348,726,741</u>

### 45. OTHER COMPREHENSIVE INCOME

Closing balance of other comprehensive income attributable to owners of the parent company in the statement of financial position:

	1 January 2016	Increase/ (decrease)	31 December 2016	Increase/ (decrease)	31 December 2017
Change in fair value of available-for-sale financial assets	-	(803,607)	(803,607)	(4,066,577)	(4,870,184)
Exchange differences arising from foreign currency translation	(165,450,551)	46,990,704	(118,459,847)	(826,029)	(119,285,876)
	<u>(165,450,551)</u>	<u>46,187,097</u>	<u>(119,263,454)</u>	<u>(4,892,606)</u>	<u>(124,156,060)</u>

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

### 45. OTHER COMPREHENSIVE INCOME (CONTINUED)

Amount of other comprehensive income attributable to owners of the parent company in the statement of profit or loss:

2017

	Amount before tax	Income tax	Amount after tax
Exchange differences arising from foreign currency translation	(826,029)	-	(826,029)
Changes in fair value of available-for-sale financial assets	(6,493,579)	1,623,395	(4,870,184)
Less: Recorded in other comprehensive income previously, and charged to profit or loss during the year	<u>1,071,476</u>	<u>(267,869)</u>	<u>803,607</u>
	<u><b>(6,248,132)</b></u>	<u><b>1,355,526</b></u>	<u><b>(4,892,606)</b></u>

2016

	Amount before tax	Income tax	Amount after tax
Exchange differences arising from foreign currency translation	46,990,704	-	46,990,704
Changes in fair value of available-for-sale financial assets	(1,071,476)	267,869	(803,607)
Less: Recorded in other comprehensive income previously, and charged to profit or loss during the year	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>45,919,228</b></u>	<u><b>267,869</b></u>	<u><b>46,187,097</b></u>

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

### 46. SPECIAL RESERVE

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	<u>27,969,571</u>	<u>104,685,476</u>	<u>(100,725,325)</u>	<u>31,929,722</u>

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	<u>14,374,213</u>	<u>98,487,391</u>	<u>(84,892,033)</u>	<u>27,969,571</u>

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.

### 47. SURPLUS RESERVES

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)	<u>65,510,919</u>	<u>-</u>	<u>-</u>	<u>65,510,919</u>
	<u>3,843,231,617</u>	<u>256,775,724</u>	<u>-</u>	<u>4,100,007,341</u>

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

### 47. SURPLUS RESERVES (CONTINUED)

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,152,880,381	-	-	3,152,880,381
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
	<u>3,843,231,617</u>	<u>-</u>	<u>-</u>	<u>3,843,231,617</u>

- (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 capitalised as these companies' share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of these companies.

In 2017, the Group accrued statutory reserve of RMB256,775,724 (2016: Nil).

- (ii) The Company is authorised 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.

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

### 48. GENERAL RESERVE

	<b>31 December 2017</b>	31 December 2016
General reserve (Note)	<b><u>191,546,668</u></b>	<u>153,394,916</u>

Note: According to the relevant policy of the MOF, Magang Group Finance Co. Ltd. ("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.

### 49. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	<b>2017</b>	2016
Accumulated losses	<b>(190,568,622)</b>	(1,368,605,137)
Add: Net profit attributable to owners of the parent company	<b>4,128,939,861</b>	1,228,892,407
Less: Transfer to surplus reserve	<b>256,775,724</b>	–
Transfer to general reserve	<b><u>38,151,752</u></b>	<u>50,855,892</u>
Retained earnings/(accumulated losses) at the end of year	<b><u>3,643,443,763</u></b>	<u>(190,568,622)</u>

### 50. REVENUE AND COST OF SALES

	<u>2017</u>		<u>2016</u>	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	<b>72,215,954,654</b>	<b>62,587,000,733</b>	47,323,785,914	41,607,003,797
Other operating income	<b><u>1,012,074,970</u></b>	<b><u>969,257,716</u></b>	<u>951,314,396</u>	<u>950,483,878</u>
	<b><u>73,228,029,624</u></b>	<b><u>63,556,258,449</u></b>	<u>48,275,100,310</u>	<u>42,557,487,675</u>

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

### 50. REVENUE AND COST OF SALES (CONTINUED)

Revenue is stated as follows:

	2017	2016
Sale of products	<b>72,877,928,972</b>	47,958,420,215
Rendering of services	<b>249,735,948</b>	245,269,164
Others	<b>100,364,704</b>	71,410,931
	<b><u>73,228,029,624</u></b>	<b><u>48,275,100,310</u></b>

### 51. TAXES AND SURCHARGES

	2017	2016
City construction and maintenance tax	<b>196,811,238</b>	127,680,294
Education surcharge	<b>150,930,816</b>	90,272,915
Land usage tax	<b>194,462,892</b>	121,610,785
Vehicle and vessel usage tax	<b>264,313</b>	128,034
Real estate tax	<b>105,271,504</b>	58,703,632
Stamp duty	<b>33,971,375</b>	20,585,286
Others taxes	<b>59,482,169</b>	13,115,462
	<b><u>741,194,307</u></b>	<b><u>432,096,408</u></b>

### 52. SELLING EXPENSES

	2017	2016
Transportation fees	<b>739,073,485</b>	584,756,840
Employee benefits	<b>63,116,713</b>	49,174,129
Insurance premium	<b>16,358,464</b>	14,999,545
Others	<b>46,847,789</b>	45,852,216
	<b><u>865,396,451</u></b>	<b><u>694,782,730</u></b>

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

### 53. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Employee benefits	<b>535,062,874</b>	526,947,185
Other taxes other than taxes and surcharges and income tax	–	129,161,233
Employee termination benefits	<b>216,124,494</b>	347,468,731
Office expenses	<b>218,694,498</b>	280,419,514
Rental fees	<b>52,910,978</b>	57,481,284
Amortisation of intangible assets	<b>31,088,264</b>	45,346,730
Research and development expenses	<b>255,023,306</b>	57,374,638
Depreciation of property, plant and equipment	<b>38,545,487</b>	136,541,889
Travel and entertainment expenses	<b>25,913,018</b>	23,535,483
Maintenance expenses	<b>37,688,292</b>	36,822,717
Auditors' remuneration	<b>6,585,018</b>	5,907,723
Others	<b>1,499,178</b>	133,274,357
	<b><u>1,419,135,407</u></b>	<b><u>1,780,281,484</u></b>

### 54. FINANCIAL EXPENSES

	2017	2016
Interest expenses (Note)	<b>920,767,866</b>	896,088,299
Less: Interest income	<b>34,412,987</b>	42,161,978
Less: Capitalised interest	<b>1,775,312</b>	7,177,259
Exchange loss/(gain)	<b>78,865,050</b>	(100,247,410)
Others	<b>35,335,642</b>	47,149,324
	<b><u>998,780,259</u></b>	<b><u>793,650,976</u></b>

Note: The Group's interest expenses included interest on bank loans, other loans, corporate bonds, MTN (medium-term note) and short-term financing bonds. The capitalised amount of borrowing costs had been recorded in construction in progress.

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

### 55. IMPAIRMENT LOSSES

	2017	2016
Provision for bad debts	<b>14,627,444</b>	35,196,327
Including: trade receivables	<b>26,836,561</b>	1,589,380
other receivables	<b>1,167,321</b>	2,986,251
loans and advances to customers	<b>(13,376,438)</b>	30,620,696
Provision for inventories	<b>141,648,637</b>	990,453,845
Provision for fixed assets	<b>590,098,913</b>	38,607,464
	<b><u>746,374,994</u></b>	<b><u>1,064,257,636</u></b>

### 56. GAIN ON CHANGES IN FAIR VALUE

	2017	2016
Financial assets measured at fair value through profit and loss	<b>20,644,566</b>	4,051,190
Including: derivative financial assets	<b>19,413,654</b>	3,789,546
Financial liabilities measured at fair value through profit and loss	<b>(10,498,810)</b>	-
	<b><u>10,145,756</u></b>	<b><u>4,051,190</u></b>

# Notes to Financial Statements (Continued)

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

### 57. INVESTMENT INCOME

	2017	2016
Investment income from long-term equity investments under the equity method	<b>490,410,552</b>	232,820,475
Investment income from disposal of a subsidiary	<b>736,943</b>	–
Investment income from the revaluation of a subsidiary's interests held before	<b>390,855</b>	–
Investment loss from equity dilution in associate	<b>(22,335,060)</b>	–
Investment income from available-for-sale financial assets during holding period	<b>1,570,000</b>	40,000
Investment income from disposal of available-for-sale financial assets	<b>41,277,167</b>	11,635,767
Investment income from disposal of financial assets measured at fair value through profit or loss	<b>158,331,954</b>	46,900,221
Investment income from held-to-maturity investment during holding period	<b>6,133,938</b>	–
	<b><u>676,516,349</u></b>	<b><u>291,396,463</u></b>

### 58. GAIN/(LOSS) FROM DISPOSAL OF ASSETS

	2017	2016
Gain on disposal of non-current assets	<b>2,232,866</b>	7,187,676
Including: Gain on disposal of fixed assets	<b>2,232,866</b>	272,493
Gain on disposal of intangible assets	–	6,915,183
Loss on disposal of non-current assets	<b>(179,185,234)</b>	(58,376,872)
Including: Loss on disposal of fixed assets	<b>(179,185,234)</b>	(58,376,872)
	<b><u>(176,952,368)</u></b>	<b><u>(51,189,196)</u></b>

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

### 59. OTHER INCOME

Details of government grants relating to daily operation:

	2017	2016
Government grants related to assets (Note V.40)	58,911,606	—
Government grants related to income:		
– Tax refund	91,003,594	—
– Government support fund	52,335,171	—
– Others	36,617,877	—
	<u>238,868,248</u>	<u>—</u>

### 60. NON-OPERATING INCOME

	2017	2016	Included in non-recurring gains and losses of 2017
Government grants	170,645,383	191,502,761	170,645,383
Others	5,478,595	6,512,465	5,478,595
	<u>176,123,978</u>	<u>198,015,226</u>	<u>176,123,978</u>

### 61. NON-OPERATING EXPENSES

	2017	2016	Included in non-recurring gains and losses of 2017
Public relief donation	596,400	726,550	596,400
Penalty expenditure	631,235	1,466,061	631,235
Compensation for trade	9,131,792	22,880,000	9,131,792
Others	6,265,730	1,168,933	6,265,730
	<u>16,625,157</u>	<u>26,241,544</u>	<u>16,625,157</u>

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

### 62. EXPENSES CLASSIFIED BY NATURE

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

	2017	2016
Raw materials and consumables used	<b>53,257,679,464</b>	37,253,413,632
Changes in inventories of finished goods and work in progress	<b>(1,051,764,777)</b>	(3,176,701,503)
Employee benefits	<b>4,357,555,024</b>	4,160,324,147
Depreciation and amortisation	<b>3,609,289,117</b>	3,443,075,985
Transport and inspection fees	<b>1,677,841,265</b>	1,429,431,321
Repair and maintenance expenses	<b>2,701,881,855</b>	966,185,799
Research and development expenses	<b>255,023,306</b>	57,374,638
Office expenses	<b>218,694,498</b>	280,419,514
Rental	<b>52,910,978</b>	57,481,284
Others	<b>761,679,577</b>	561,547,072
	<b><u>65,840,790,307</u></b>	<b><u>45,032,551,889</u></b>

### 63. INCOME TAX EXPENSE

	2017	2016
Mainland China:		
Current income tax expense*	<b>860,352,278</b>	115,687,036
Hong Kong current income tax expense*	<b>2,265,713</b>	2,945,143
Overseas current income tax expense*	<b>13,963,275</b>	8,869,975
Deferred tax income	<b>(139,852,832)</b>	(15,621,920)
	<b><u>736,728,434</u></b>	<b><u>111,880,234</u></b>

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

### 63. INCOME TAX EXPENSE (CONTINUED)

Relationship between income tax and profit before tax:

	2017	2016
Profit before tax	<u>5,808,966,563</u>	<u>1,368,575,540</u>
Tax at the applicable tax rate of 25% (Note)	<b>1,452,241,641</b>	342,143,885
Effect of different tax rates of subsidiaries	<b>(10,931,869)</b>	(11,296,146)
Non-deductible expenses	<b>42,408,877</b>	23,615,578
Other tax preference	<b>(26,710,447)</b>	(79,926,635)
Income not subject to tax	<b>(5,358,145)</b>	(2,652,988)
Unrecognised deductible temporary difference and tax losses	<b>95,388,262</b>	174,600,917
Tax losses utilized	<b>(648,260,532)</b>	(276,399,258)
Recognised deferred tax assets for which tax loss was not recognised in previous years	<b>(39,446,715)</b>	–
Share of profits and losses of joint ventures and associates	<u><b>(122,602,638)</b></u>	<u>(58,205,119)</u>
Income tax charge at the Group's effective rate	<u><b>736,728,434</b></u>	<u>111,880,234</u>
Effective tax rate	<b>13%</b>	8%

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.

# Notes to Financial Statements (Continued)

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

### 64. EARNINGS PER SHARE

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

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

	2017	2016
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic earnings per share calculations	<u>4,128,939,861</u>	<u>1,228,892,407</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculations	<u>7,700,681,186</u>	<u>7,700,681,186</u>

During 2017 and 2016, there was no diluted item to adjust the Company's basic earnings per share.

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

### 65. NOTES TO THE STATEMENT OF CASH FLOWS

	2017	2016
Cash received relating to other operating activities:		
Government grants	<b>88,953,048</b>	257,811,042
Interest income	<b>34,412,987</b>	42,161,978
Government-allocated employee relocation compensation	<b>170,645,383</b>	152,568,484
Deposit for notes, credit and guarantee	–	712,232,872
Others	<b>16,893,247</b>	6,512,465
	<b><u>310,904,665</u></b>	<b><u>1,171,286,841</u></b>
Cash paid relating to other operating activities:		
Deposit for notes, credit and guarantee	<b>457,045,035</b>	–
Logistics expense	<b>215,008,822</b>	183,963,715
Insurance expenses	<b>30,940,154</b>	30,893,025
Packing fees	<b>26,751,078</b>	21,193,416
Flood prevention fund	<b>31,657,207</b>	17,491,568
Environmental improvement fee	<b>46,165,788</b>	48,778,900
Bank charges	<b>29,773,508</b>	47,149,324
Others	<b>116,591,797</b>	65,947,967
	<b><u>953,933,389</u></b>	<b><u>415,417,915</u></b>
Cash received relating to other investing activities:		
Government funding for particular projects	<b>109,905,601</b>	103,844,476
Cash paid relating to other investing activities:		
Steel futures deposits	<b>103,420,899</b>	–
Cash received from other financing activities:		
Borrowings from non-controlling shareholders of a subsidiary	<b>210,000,000</b>	–

# Notes to Financial Statements (Continued)

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

### 66. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

(1) Reconciliation of net profit to cash flows from operating activities

	2017	2016
Net profit	<b>5,072,238,129</b>	1,256,695,306
Add: Provisions for bad debts	<b>14,627,444</b>	35,196,327
Provision for inventories	<b>141,648,637</b>	990,453,845
Provision for impairment of fixed assets	<b>590,098,913</b>	38,607,464
Depreciation of fixed assets	<b>3,559,891,499</b>	3,377,766,117
Depreciation of investment properties	<b>1,325,314</b>	1,708,470
Amortisation of intangible assets	<b>48,072,304</b>	63,601,398
Amortisation of deferred income	<b>(58,911,606)</b>	(116,979,983)
Loss on disposal of non-current assets	<b>176,952,368</b>	51,189,196
Increase in special reserves	<b>5,276,831</b>	13,595,358
Financial expenses	<b>942,073,572</b>	662,543,109
Investment income	<b>(676,516,349)</b>	(291,396,463)
Gain on fair value changes	<b>(10,145,756)</b>	(4,051,190)
Increase in deferred tax assets	<b>(128,355,546)</b>	(17,688,238)
(Decrease)/increase in deferred tax liabilities	<b>(8,223,746)</b>	2,360,679
Increase in inventories	<b>(897,685,976)</b>	(5,520,020,172)
Increase in receivables from operating activities	<b>(6,473,510,574)</b>	(7,629,297,320)
Increase in payables from operating activities	<b>2,191,060,945</b>	11,705,577,111
Net cash flows from operating activities	<b><u>4,489,916,403</u></b>	<b><u>4,619,861,014</u></b>
Endorsements of bank acceptance notes received from sales of goods or rendering of services	<b><u>7,622,409,222</u></b>	<b><u>8,112,736,826</u></b>

## 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

	2017	2016
Acquisition price of a subsidiary and other business units	-	-
Cash and cash equivalents on acquisition of a subsidiary and other units	<b>115,777,566</b>	-
Less: Cash and cash equivalents held by Acquired a subsidiary and other Operation units	<u>-</u>	<u>-</u>
Net cash paid on acquisition of a subsidiary and other operating units	<b><u>115,777,566</u></b>	<b><u>-</u></b>

(3) Disposal of subsidiaries and other business units

	2017	2016
Disposal price of a subsidiary and other business units	-	-
Cash and cash equivalents on disposal of a subsidiary and other units	<b>8,696,084</b>	-
Less: Cash and cash equivalents held by disposed a subsidiary and other operation units	<u>3,841,633</u>	<u>-</u>
Net cash paid on disposal of a subsidiary and other operating units	<b><u>4,854,451</u></b>	<b><u>-</u></b>



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

### 67. RESTRICTED ASSETS

	<b>31 December 2017</b>	31 December 2016	
Cash and bank balances (Note V.1)	<b>1,660,989,926</b>	987,969,354	(i)
Notes receivable (Note V.3)	<u>–</u>	<u>738,206,842</u>	(ii)
	<b><u>1,660,989,926</u></b>	<b><u>1,726,176,196</u></b>	

(i) As of 31 December 2017, the Group's restricted cash and bank balances amounting to RMB1,660,989,926 (31 December 2016: RMB987,969,354) had been pledged to banks, including cash deposits as collateral amounting to RMB950,166,471 (31 December 2016: RMB493,121,436) pledged as security for trade facilities and performance, and mandatory reserves with the central bank of RMB710,823,455 (31 December 2016: RMB494,847,918).

(ii) As of 31 December 2017, the Company had no pledged notes (31 December 2016: RMB738,206,842).

### 68. DIVIDENDS\*

	<b>31 December 2017</b>	31 December 2016
Annual dividends – RMB0.165 per share	<b><u>1,270,612,396</u></b>	<u>–</u>

The annual dividends for 2017 will be submitted to shareholders' meeting for approval.

# Notes to Financial Statements (Continued)

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

### 69. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	31 December 2017			31 December 2016		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
<b>Cash and bank balances</b>						
HKD	2,603,128	0.8359	2,175,955	2,584,446	0.8945	2,311,787
USD	198,986,821	6.5342	1,300,219,686	249,525,036	6.9370	1,730,955,175
EUR	9,252,617	7.8023	72,191,694	17,340,991	7.3068	126,707,153
JPY	12,735	0.0579	737	3,311	0.0596	197
AUD	22,040,249	5.0928	112,246,580	15,816,608	5.0157	79,331,361
CAD	24,470	5.2009	127,266	1,226,862	5.1406	6,306,807
GBP	573	8.7792	5,030	1,389	8.5094	11,820
ZAR	34,445	0.5277	18,177	-	-	-
			<b>1,486,985,125</b>			<b>1,945,624,300</b>
<b>Trade receivables</b>						
USD	27,250,591	6.5342	178,060,812	23,181,111	6.9370	160,807,367
EUR	12,705,085	7.8023	99,128,885	9,366,726	7.3068	68,440,794
CAD	375,360	5.2009	1,952,210	172,568	5.1406	887,103
AUD	4,670,512	5.0928	23,785,984	5,535,040	5.0157	27,762,100
HKD	2,736,720	0.8359	2,287,624	5,306,863	0.8945	4,746,989
ZAR	62,466,250	0.5277	32,963,440	15,097,946	0.5083	7,674,286
			<b>338,178,955</b>			<b>270,318,639</b>
<b>Other receivables</b>						
HKD	8,449,639	0.8359	7,063,053	7,265,781	0.8945	6,499,241
EUR	1,610,104	7.8023	12,562,514	1,165,632	7.3068	8,517,040
AUD	38	5.0928	194	4,019	5.0157	20,158
USD	6,761	6.5342	44,178	-	-	-
			<b>19,669,939</b>			<b>15,036,439</b>
<b>Account payables</b>						
AUD	49,103	5.0928	250,072	60,135	5.0157	301,619
USD	393,840	6.5342	2,573,429	7,012	6.9370	48,642
EUR	14,518,502	7.8023	113,277,708	12,798,731	7.3068	93,517,768
HKD	1,273,231	0.8359	1,064,294	47,251,614	0.8945	42,266,569
			<b>117,165,503</b>			<b>136,134,598</b>

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

### 69. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES (CONTINUED)

	31 December 2017			31 December 2016		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
<b>Other payables</b>						
AUD	969,070	5.0928	4,935,280	208,721	5.0157	1,046,882
HKD	8,564,108	0.8359	7,158,738	81,210,639	0.8945	72,642,917
EUR	1,693,432	7.8023	13,212,664	1,862,155	7.3068	13,606,394
USD	924	6.5342	6,038	-	-	-
			<b>25,312,720</b>			<b>87,296,193</b>
<b>Short term loan</b>						
USD	285,496,405	6.5342	1,865,490,610	219,672,148	6.9370	1,523,865,691
EUR	10,000,000	7.8023	78,023,000	29,868,315	7.3068	218,241,804
			<b>1,943,513,610</b>			<b>1,742,107,495</b>
<b>Long-term loan due in 1 year</b>						
USD	7,360,000	6.5342	48,091,712	7,360,000	6.9370	51,056,320
<b>Long-term loan</b>						
USD	31,720,000	6.5342	207,264,824	22,080,000	6.9370	153,168,960
EUR	14,700,000	7.8023	114,693,810	-	-	-
			<b>321,958,634</b>			<b>153,168,960</b>

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## VI. CHANGE IN THE SCOPE OF CONSOLIDATION

### 1. NEWLY ESTABLISHED SUBSIDIARY

As of 31 December 2017, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the year end
Anhui Ma Steel Antirust Materials Technology Co., Ltd ("Ma Steel Antirust")	April 2017	RMB10,000,000	51%	Cash	RMB3,060,000

### 2. BUSINESS COMBINATION

Business combination during the year:

Name of acquiree	Time point at which the acquirer obtains control	Consideration of equity interest	Ratio of equity interest	Method of obtaining equity interest	Acquisition date	Basis for acquisition date	Acquiree's revenue from acquisition date to the end of the year	Acquiree's net profit from acquisition date to the end of the year
Mascometal	5 June 2017	127,759,486	66%	Non-cash	5 June 2017	The board of directors' approval for revising the Articles of Association	10,833,871	(2,731,868)

Mascometal, in which the Company held 66% equity interests, was originally a joint venture of the Company. On 5 June 2017, Mascometal held the board meeting, and approved the revised Article of Association which changed the approval criteria from unanimous approval of all the directors to more than 50% of the directors' approval in respect of some key board of directors' resolution matters. According to the revised Article of Association, as the directors of the Company represented that the Company holds more than 50% of voting rights in the board of directors of Mascometal, and are able to exercise control over Mascometal, Mascometal has been accounted for as a subsidiary and included in the scope of consolidation of the Group.

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

### 2. BUSINESS COMBINATION (CONTINUED)

Identifiable assets and liabilities of acquiree on the acquisition date are disclosed as follows:

	<b>Fair value on the acquisition date</b>	<b>Carrying amount on the acquisition date</b>
	(Note 1)	
<b>Assets</b>		
Cash and bank balances	115,777,566	115,777,566
Trade receivables	281,580	281,580
Inventories	383,854	507,360
Other receivables	1,691,964	1,691,964
Prepayments	13,794,701	13,794,701
Other current assets	7,237,420	7,237,420
Property, plant and equipment	297,565	184,852
Construction in progress	57,634,890	56,834,490
<b>Liabilities</b>		
Account payables	2,055,346	2,055,346
Payroll and employee benefits payable	968,659	968,659
Taxes payable	6,964	6,964
Other payables	296,190	296,190
Deferred tax liabilities	197,402	-
Net assets	193,574,979	192,982,774
Less : Non-controlling interests	65,815,493	65,614,143
Net assets acquired	<u>127,759,486</u>	<u>127,368,631</u>
66% equity interest's fair value (Note 2)	127,759,486	
Effect of gains or losses during the current period	-	
Acquisition consideration (Note 3)	<u>127,759,486</u>	

Note 1: The fair value of identifiable assets and liabilities of Mascometal on the date of acquisition are determined based on Anhui China United-Guoxin Assets Appraisal Report (2017) No.223 issued by Anhui China United-Guoxin Assets Appraisal Co., Ltd.

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

### 2. BUSINESS COMBINATION (CONTINUED)

Note 2: As the valuation of the equity interests of Mascometal has not yet been completed, the Company recorded the fair value of 66% equity interests as same as its fair value of net assets.

Note 3: The Company's acquisition consideration is the long-term equity investment in Mascometal at its fair value. Before the date of acquisition, the Company held 66% equity interests in Mascometal accounted as a joint venture. The carrying amount of the long-term equity investment in Mascometal amounted to RMB127,368,631 on the acquisition date. As the valuation of the equity interests of Mascometal has not yet been completed, the Company recorded the fair value of 66% equity interest as same as the fair value of net assets, which amounted to RMB127,759,486. The revaluation of the 66% equity interest held has generated a gain of RMB390,855 and was accounted as investment income (Note V. 57).

The financial performance and cash flows of Mascometal from the date of acquisition to the year end are disclosed as follows:

	<b>Acquisition date to 31 December 2017</b>
Revenue	10,833,871
Net profit	(2,731,868)
Net cash inflows	22,358,926

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

### 3. DISPOSAL OF A SUBSIDIARY

	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
Huayang Equipment	Anhui province, PRC	Manufacturing	90%	90%	Note

Note: The Company signed an equity interest transfer agreement with Xinchuang Environmental Protection on 1 January 2017 to transfer 90% equity interests of Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd. ("Huayang Equipment") held by the Company at a consideration of RMB8,696,084, which was determined based on the results of an independent third-party valuation agency. The disposal date was 1 January 2017. Therefore, Huayang Equipment has no longer been included in the scope of consolidation of the Group since 1 January 2017.

The related financial information of Huayang Equipment is as follows:

	Carrying amount as at 1 January 2017
Current assets	9,903,072
Non-current assets	2,112,160
Current liabilities	3,171,742
Non-current liabilities	—
	<u>8,843,490</u>
Non-controlling interests	<u>884,349</u>
Disposal gains or losses	<u>736,943</u>
Disposal consideration	<u><u>8,696,084</u></u>

# Notes to Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES

### 1. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Subsidiaries acquired by establishment or investment	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Anhui Masteel K.Wah New Building Materials Co., Ltd. (New Building Masteel K. Wah)	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	-
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) (Note 1)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	100	-
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	and 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") (Note 2)	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 Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	Anhui, PRC	Anhui, PRC	Trading	RMB100,000,000	100	-
Shanghai Trading (Note 3)	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	-
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	-
Hefei Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	-	100
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	-	100
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	-
Maanshan (Guangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	-
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd. ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	-

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

Subsidiaries acquired by establishment or investment	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
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 4)	France	France	Manufacturing	EUR80,200,000	100	-
Ma' anshan Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	-
Masteel America	USA	USA	Service industry	USD500,000	100	-
Ma Steel Antitrust (Note 5)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	-

Subsidiaries acquired not under common control	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
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	Anhui, PRC	Anhui, PRC	Manufacturing	RMB360,000,000	100	-
Mascometal (Note 6)	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	-

Subsidiary acquired under common control	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Masteel Finance (Note 7)	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	-

Note 1: In August 2017, the Company acquired 9% equity interest in Ma Steel (HK) previously held by Ma Steel International Trade and Economic Co., Ltd. at the consideration of RMB31,440,129, which was determined based on external valuation result and thus Ma Steel (HK) became a wholly-owned subsidiary of the Group.

Note 2: In October 2017, the Company acquired 6% equity interest in Ma Steel (Hefei) Processing previously held by Anhui Jiangqi Logistic Co., Ltd. at the consideration of RMB12,396,489, which was determined based on external valuation result. After the acquisition, the Company's direct equity interest in Ma Steel (Hefei) Processing increased from 61% to 67%.

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Note 3: On 7 September 2017, the People's Court of Baoshan District, Shanghai ruled to accept Masteel Shanghai Trading's application for bankruptcy liquidation. As of 31 December 2017, the appointed liquidation trustee had not yet completed the takeover of Masteel Shanghai Trading.

Note 4: In 2017, the Company injected capital amounting to EUR40,000,000, equivalent to RMB309,309,687, to MG-VALDUNES.

Note 5: For the information of the newly established subsidiary, please refer to Note VI.1.

Note 6: In 2017, the Company obtained control of Mascometal and included it in the scope of consolidation, please refer to Note VI.2.

Note 7: In January 2017, the Company injected capital of RMB910,000,000 to Masteel Finance.

Subsidiaries which had material non-controlling interests are as follows:

	<b>31 December 2017</b>	31 December 2016
The proportion of equity held by non-controlling interests:		
Ma Steel (Hefei)	<b>29%</b>	29%
Anhui Chang Jiang Iron and Steel	<b>45%</b>	45%
Masteel Finance	<b>9%</b>	9%

Profit or loss attributable to non-controlling interests:

	<b>2017</b>	2016
Ma Steel (Hefei)	<b>(34,228,291)</b>	(157,681,514)
Anhui Chang Jiang Iron and Steel	<b>899,060,582</b>	133,019,817
Masteel Finance	<b>17,992,902</b>	9,765,701

Dividends paid to non-controlling interests:

	<b>2017</b>	2016
Ma Steel (Hefei)	-	-
Anhui Chang Jiang Iron and Steel	<b>20,670,280</b>	-
Masteel Finance	<b>1,127,828</b>	-

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Cumulative balances of non-controlling interests at the end of the reporting period :

	<b>31 December 2017</b>	31 December 2016
Ma Steel (Hefei)	<b>584,355,788</b>	619,631,673
Anhui Chang Jiang Iron and Steel	<b>2,009,269,170</b>	1,128,514,595
Masteel Finance	<b>249,192,105</b>	142,729,220

The summarised financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before the group intra-elimination.

	<b>Ma Steel (Hefei)</b>	<b>Anhui Chang Jiang Iron and Steel</b>	<b>Masteel Finance</b>
2017			
Current assets	<b>1,116,606,101</b>	<b>4,556,775,162</b>	<b>5,265,573,414</b>
Non-current assets	<b>3,567,650,505</b>	<b>4,340,023,298</b>	<b>7,032,740,451</b>
Total assets	<b>4,684,256,606</b>	<b>8,896,798,460</b>	<b>12,298,313,865</b>
Current liabilities	<b>(1,775,526,986)</b>	<b>(4,286,186,339)</b>	<b>(9,528,658,823)</b>
Non-current liabilities	<b>(893,709,661)</b>	<b>(145,569,521)</b>	<b>(853,875)</b>
Total liabilities	<b>(2,669,236,647)</b>	<b>(4,431,755,860)</b>	<b>(9,529,512,698)</b>
Revenue	<b>3,825,818,450</b>	<b>14,857,543,510</b>	<b>238,857,965</b>
Net (loss)/profit	<b>(118,028,591)</b>	<b>1,997,912,405</b>	<b>199,921,130</b>
Total comprehensive income	<b>(118,028,591)</b>	<b>1,997,912,405</b>	<b>199,921,130</b>
Net cash flows from operating activities	<b>17,275,937</b>	<b>2,866,062,421</b>	<b>399,926,884</b>

# Notes to Financial Statements (Continued)

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. INTERESTS IN SUBSIDIARIES (CONTINUED)

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
2016			
Current assets	781,451,671	2,015,885,136	3,190,666,377
Non-current assets	<u>3,952,650,687</u>	<u>4,314,065,378</u>	<u>5,833,102,023</u>
Total assets	<u><u>4,734,102,358</u></u>	<u><u>6,329,950,514</u></u>	<u><u>9,023,768,400</u></u>
Current liabilities	(1,912,013,349)	(3,794,758,309)	(7,437,233,334)
Non-current liabilities	<u>(685,428,067)</u>	<u>(27,381,995)</u>	<u>(654,837)</u>
Total liabilities	<u><u>(2,597,441,416)</u></u>	<u><u>(3,822,140,304)</u></u>	<u><u>(7,437,888,171)</u></u>
Revenue	2,967,652,002	8,131,356,505	183,656,551
Net (loss)/profit	(543,729,359)	295,599,594	108,507,791
Total comprehensive income	<u><u>(543,729,359)</u></u>	<u><u>295,599,594</u></u>	<u><u>108,507,791</u></u>
Net cash flows from operating activities	<u><u>273,032,455</u></u>	<u><u>317,460,887</u></u>	<u><u>148,934,820</u></u>

## 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 (%)		Accounting method
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	-	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	-	Equity method
Associates							
Henan JinMa Energy (Note 1)	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	-	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	32	-	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	-	Equity method
Xinchuang Environmental Protection (Note 2)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	-	Equity method
Anhui Linhuan Chemical (Note 3)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	-	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	-	Equity method

Note 1: On 10 October 2017, Henan JinMa Energy, the Company's associate had been listed on the Hong Kong Stock Exchange and issued 135,421,000 shares of common share. The Company's equity interest in Henan JinMa Energy was decreased from 36% to 26.89%. According to the Articles of Association of Henan JinMa Energy, the Company could still exercise significant influence over Henan JinMa Energy and thus continued to account the equity investment in it as an associate.

Note 2: As of 31 December 2017, 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 3: As of 31 December 2017, the Group held 12% equity interests of Anhui Linhuan Chemical. The directors believed that the Company was able to exercise significant influence over Anhui Linhuan Chemical through one director designated by the Company in Anhui Linhuan Chemical although the equity interests in it was less than 20%. Thus, the equity investment in Anhui Linhuan Chemical was accounted as an associate.

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## 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.

	2017	2016
Current assets	<b>497,193,002</b>	428,661,283
Non-current assets	<b>254,130,647</b>	299,955,412
Total assets	<b>751,323,649</b>	728,616,695
Current liabilities	<b>82,408,257</b>	90,580,560
Non-current liabilities	-	-
Total liabilities	<b>82,408,257</b>	90,580,560
Non-controlling interests	-	-
Equity attributable to the parent company	<b>668,915,392</b>	638,036,135
The Group's share of net assets	<b>334,457,696</b>	319,018,068
Adjustment	-	-
The carrying value of the investment	<b>334,457,696</b>	319,018,068
Revenue	<b>571,397,606</b>	559,537,585
Income tax expense	<b>59,871,539</b>	54,639,719
Net profit	<b>180,879,255</b>	166,383,868
Other comprehensive income	-	-
Total comprehensive income	<b>180,879,255</b>	166,383,868
Dividends received	<b>75,000,000</b>	79,000,000

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

Henan 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:

<b>Henan JinMa Energy</b>	<b>2017</b>	<b>2016</b>
Current assets	<b>1,557,276,000</b>	1,177,771,242
Non-current assets	<b>1,405,050,000</b>	1,101,444,297
Total assets	<b>2,962,326,000</b>	2,279,215,539
Current liabilities	<b>894,491,000</b>	868,068,750
Non-current liabilities	<b>339,509,000</b>	557,179,565
Total liabilities	<b>1,234,000,000</b>	1,425,248,315
Non-controlling interests	<b>94,210,000</b>	31,199,473
Equity attributable to the parent company	<b>1,634,116,000</b>	822,767,751
The Group's share of net assets	<b>441,184,749</b>	296,196,390
Adjustment	<b>-</b>	-
The carrying value of the investment	<b>441,184,749</b>	296,196,390
Revenue	<b>5,137,652,000</b>	3,411,084,023
Income tax expenses	<b>191,011,000</b>	68,616,802
Net profit	<b>547,836,000</b>	207,108,797
Other comprehensive income	<b>-</b>	-
Total comprehensive income	<b>547,836,000</b>	207,108,797
Dividends received	<b>36,000,000</b>	25,560,000

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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

<b>Shenglong Chemical</b>	<b>2017</b>	2016
Current assets	<b>1,565,609,058</b>	1,201,094,921
Non-current assets	<b>1,500,566,720</b>	1,569,224,908
Total assets	<b>3,066,175,778</b>	2,770,319,829
Current liabilities	<b>1,598,531,277</b>	1,803,456,004
Non-current liabilities	-	-
Total liabilities	<b>1,598,531,277</b>	1,803,456,004
Non-controlling interests	-	-
Equity attributable to the parent company	<b>1,467,644,501</b>	966,863,825
The Group's share of net assets	<b>469,646,241</b>	309,396,424
Adjustment	-	-
The carrying value of the investment	<b>469,646,241</b>	309,396,424
Revenue	<b>5,255,672,121</b>	2,715,372,259
Income tax expense	<b>184,665,595</b>	60,307,248
Net profit	<b>560,761,930</b>	214,207,608
Other comprehensive income	-	-
Total comprehensive income	<b>560,761,930</b>	214,207,608
Dividends received	<b>19,194,000</b>	-

## 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:

	2017	2016
Joint ventures		
The carrying value of the Group's investments	<b>546,153</b>	53,825,470
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit/(loss)	<b>4,720</b>	(5,335)
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income	<b><u>4,720</u></b>	<b><u>(5,335)</u></b>
	2017	2016
Associates		
The carrying value of the Group's investments	<b>279,390,363</b>	261,339,961
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	<b>22,477,055</b>	7,861,488
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income	<b><u>22,477,055</u></b>	<b><u>7,861,488</u></b>

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## 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:

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#### Financial assets

	Financial assets measured at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity investment	Total
	Initial recognition	Held for trading				
Cash and balances	-	-	4,978,352,093	-	-	4,978,352,093
Financial assets measured 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 receivables	-	-	966,447,592	-	-	966,447,592
Other receivables	-	-	240,934,412	-	-	240,934,412
Interest receivable	-	-	6,390,787	-	-	6,390,787
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 investment	-	-	-	-	406,082,606	406,082,606
Available-for-sale financial assets	-	-	-	1,111,168,160	-	1,111,168,160
	<b>1,546,139,404</b>	<b>-</b>	<b>17,023,209,820</b>	<b>1,111,168,160</b>	<b>406,082,606</b>	<b>20,086,599,990</b>

## 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** (continued)

#### Financial liabilities

	Financial liabilities measured 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 from banks and other financial institutions	-	-	200,000,000	200,000,000
Financial liabilities measured at fair value through profit or loss	<b>10,498,810</b>	-	-	<b>10,498,810</b>
Customer deposits	-	-	2,947,639,610	2,947,639,610
Repurchase agreements	-	-	308,100,956	308,100,956
Notes payable	-	-	4,809,848,470	4,809,848,470
Account payables	-	-	6,968,534,360	6,968,534,360
Interest payable	-	-	121,108,052	121,108,052
Dividend payable	-	-	9,050,620	9,050,620
Other payables	-	-	1,681,319,344	1,681,319,344
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
	<b>10,498,810</b>	-	<b>36,871,648,419</b>	<b>36,882,147,229</b>

# Notes to Financial Statements (Continued)

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Renminbi Yuan

## 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 2016

#### Financial assets

	Financial assets measured at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Total
	Initial recognition	Held for trading			
Cash and balances	-	-	5,312,101,041	-	5,312,101,041
Financial assets measured at fair value through profit or loss	555,322,261	-	-	-	555,322,261
Notes receivable	-	-	3,608,459,121	-	3,608,459,121
Trade receivables	-	-	859,929,107	-	859,929,107
Other receivables	-	-	98,676,949	-	98,676,949
Interest receivable	-	-	4,044,939	-	4,044,939
Financial assets purchased under agreements to resell	-	-	230,047,000	-	230,047,000
Loans and advances to customers	-	-	1,555,212,556	-	1,555,212,556
Available-for-sale financial assets	-	-	-	577,947,698	577,947,698
	<u>555,322,261</u>	<u>-</u>	<u>11,668,470,713</u>	<u>577,947,698</u>	<u>12,801,740,672</u>

#### Financial liabilities

	Financial liabilities measured at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short-term loans	-	-	6,942,952,420	6,942,952,420
Customer deposits	-	-	3,708,225,021	3,708,225,021
Repurchase agreements	-	-	596,565,698	596,565,698
Notes payable	-	-	3,584,228,362	3,584,228,362
Account payables	-	-	6,668,807,923	6,668,807,923
Interest payable	-	-	107,691,398	107,691,398
Dividend payable	-	-	8,713,584	8,713,584
Other payables	-	-	1,785,430,167	1,785,430,167
Other current liabilities	-	-	2,046,438,356	2,046,438,356
Non-current liabilities due within one year	-	-	3,211,056,320	3,211,056,320
Long-term loans	-	-	5,163,168,960	5,163,168,960
Bonds payable	-	-	3,987,666,667	3,987,666,667
	<u>-</u>	<u>-</u>	<u>37,810,944,876</u>	<u>37,810,944,876</u>

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

### 2. OFFSETTING OF FINANCIAL INSTRUMENTS

In 2017, there were no offsetting arrangements for account receivables (2016: Nil).

### 3. TRANSFER OF FINANCIAL ASSETS

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

As of 31 December 2017, the Group endorsed (but not yet fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB53,676,353 for settlement of account payables (31 December 2016: RMB156,827,864), and there was no bank acceptance notes discounted to banks which was not derecognised. As of 31 December 2017, 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 recognise 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 2017, the carrying amount of accounts payable settled by the Group through them amounted to RMB53,676,353 (31 December 2016: RMB156,827,864).

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

As of 31 December 2017, the Group endorsed (and fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB4,778,024,515 (31 December 2016: RMB5,196,770,076) for settlement of account payables, and there was no bank acceptance notes discounted to banks which was fully derecognised (31 December 2016: Nil). As of 31 December 2017, 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 derecognised them and then settled account payables associated therewith.

During the year of 2017, no gain or loss was recognised in the date of transfer. No income or expense was recognised for the current year or on an accumulative basis as a result of the Group’s Continuing Involvement in derecognised financial assets. Endorsements were incurred basically evenly during the year.

# Notes to Financial Statements (Continued)

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

### 4. FINANCIAL INSTRUMENTS RISK

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

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

#### Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. 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 7% (2016: 13%) and 23% (2016: 29%) 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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.4 and Note V.6 to the financial statements.

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

### 4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

#### Credit risk (continued)

As of 31 December 2017 and 2016, the aging analysis of the Group's financial assets not impaired is as follows:

#### 31 December 2017

	Total	Neither overdue nor impaired	Overdue	
			Less than six months	Over six months
Cash and bank balances	4,978,352,093	4,978,352,093	-	-
Trade receivables	8,375,166,683	8,375,166,683	-	-
Notes receivable	911,939,548	790,286,407	91,185,153	30,467,988
Other receivables	206,680,424	196,624,399	3,679,964	6,376,061
Available-for-sale financial assets	1,111,168,160	1,111,168,160	-	-
Interest receivable	6,390,787	6,390,787	-	-
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 investment	406,082,606	406,082,606	-	-

#### 31 December 2016

	Total	Neither overdue nor impaired	Overdue	
			Less than six months	Over six months
Cash and bank balances	5,312,101,041	5,312,101,041	-	-
Trade receivables	859,929,107	675,367,022	84,033,404	100,528,681
Notes receivable	3,608,459,121	3,608,459,121	-	-
Other receivables	98,676,949	88,771,552	921,610	8,983,787
Available-for-sale financial assets	577,947,698	577,947,698	-	-
Interest receivable	4,044,939	4,044,939	-	-
Loans and advances to customers	1,555,212,556	1,555,212,556	-	-
Financial assets purchased under agreements to resell	230,047,000	230,047,000	-	-

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.

# Notes to Financial Statements (Continued)

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

### 4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

#### Credit risk (continued)

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. The Group's policy is that no more than 80% of the borrowings should be due within 12 months according to the book value in the financial statements. As of 31 December 2017, 80% of the Group's debts were due within 12 months (31 December 2016: 76%).

The maturity profile of the Group's financial liabilities as of the end of reporting period is shown in the table below. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### 31 December 2017

	Within 1 year	1 to 2 years	2 to 3 years	3 to 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 payable	4,809,848,470	-	-	-	-	4,809,848,470
Trade payables	6,681,492,997	167,589,414	32,970,687	86,481,262	-	6,968,534,360
Dividends payable	9,050,620	-	-	-	-	9,050,620
Other payables	1,681,319,344	-	-	-	-	1,681,319,344
Long-term loans 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	<u>29,672,123,035</u>	<u>6,115,154,349</u>	<u>1,165,793,172</u>	<u>191,272,169</u>	<u>101,169,444</u>	<u>37,245,512,169</u>

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

### 4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

#### Liquidity risk (continued)

31 December 2016

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short-term loans	6,942,952,420	-	-	-	-	6,942,952,420
Customer deposits	3,708,225,021	-	-	-	-	3,708,225,021
Repurchase agreements	596,565,698	-	-	-	-	596,565,698
Notes payable	3,584,228,362	-	-	-	-	3,584,228,362
Trade payables	6,668,807,923	-	-	-	-	6,668,807,923
Dividends payable	8,713,584	-	-	-	-	8,713,584
Other payables	1,785,430,167	-	-	-	-	1,785,430,167
Long-term loans due within one year	3,211,056,320	-	-	-	-	3,211,056,320
Long-term loans	-	4,255,056,320	761,056,320	51,056,320	96,000,000	5,163,168,960
Bonds payable	-	4,000,000,000	-	-	-	4,000,000,000
Other current liabilities	2,046,438,356	-	-	-	-	2,046,438,356
Interest payable for interest- bearing liabilities	708,657,506	265,441,922	11,595,323	1,633,260	4,807,920	992,135,931
<b>Total</b>	<b>29,261,075,357</b>	<b>8,520,498,242</b>	<b>772,651,643</b>	<b>52,689,580</b>	<b>100,807,920</b>	<b>38,707,722,742</b>

# Notes to Financial Statements (Continued)

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

### 4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

#### Market risk

##### *Interest rate risk*

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

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

	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in net profit</b>
<b>2017</b>		
RMB	<b>50</b>	<b>(16,349,323)</b>
USD	<b>50</b>	<b>(582,361)</b>
EUR	<b>50</b>	<b>(216,626)</b>
RMB	<b>(50)</b>	<b>16,349,323</b>
USD	<b>(50)</b>	<b>582,361</b>
EUR	<b>(50)</b>	<b>216,626</b>
<b>2016</b>		
RMB	50	(37,553,708)
USD	50	(965,033)
EUR	50	(358,115)
RMB	(50)	37,553,708
USD	(50)	965,033
EUR	(50)	358,115

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

### 4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

#### **Market risk** *(continued)*

##### *Exchange rate risk*

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

The businesses of the Group are principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings 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, trade receivables, other receivables, short term loans, account payables, other payables and long-term loans are stated in Notes V.1, 4, 6, 25, 28, 34, and 38 to the financial statements, respectively.

# Notes to Financial Statements (Continued)

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

### 4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

#### Market risk (continued)

#### Exchange rate risk (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).

<b>2017</b>	<b>Increase/ (decrease) in exchange rate</b>	<b>Increase/ (decrease) in net profit</b>	<b>Increase/ (decrease) in equity (Note)</b>
Depreciation of RMB to USD	1%	(4,888,660)	(26,383)
Depreciation of RMB to EUR	1%	132,297	(3,784,268)
Depreciation of RMB to AUD	1%	(76,466)	(2,108,277)
Depreciation of RMB to HKD	1%	402	(1,802,170)
Appreciation of RMB to USD	(1%)	4,888,660	26,383
Appreciation of RMB to EUR	(1%)	(132,297)	3,784,268
Appreciation of RMB to AUD	(1%)	76,466	2,108,277
Appreciation of RMB to HKD	(1%)	(402)	1,802,170
<b>2016</b>	<b>Increase/ (decrease) in exchange rate</b>	<b>Increase/ (decrease) in net profit</b>	<b>Increase/ (decrease) in equity (Note)</b>
Depreciation of RMB to USD	1%	(1,209,031)	(29,008)
Depreciation of RMB to EUR	1%	(341,902)	(1,340,107)
Depreciation of RMB to AUD	1%	-	(1,870,414)
Depreciation of RMB to HKD	1%	(99)	(1,752,142)
Appreciation of RMB to USD	(1%)	1,209,031	29,008
Appreciation of RMB to EUR	(1%)	341,902	1,340,107
Appreciation of RMB to AUD	(1%)	-	1,870,414
Appreciation of RMB to HKD	(1%)	99	1,752,142

Note: Retained earnings is not included.

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

### 5. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years ended 31 December 2017 and 2016, the capital management objectives, policies or procedures of the Group did not change.

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 payable, bonds payable, account payables, payroll and employee benefits payable, interest payable, dividend payable and other payables, minus cash. Capital refers to total capital attributable to owners of the parent company. The Group's gearing ratio at the end of the reporting period was as follows:

# Notes to Financial Statements (Continued)

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

### 5. CAPITAL MANAGEMENT (CONTINUED)

	31 December 2017	31 December 2016
Deposits and balances from banks and other institutions	<b>200,000,000</b>	–
Customer deposits	<b>2,947,639,610</b>	3,708,225,021
Repurchase agreements of financial assets	<b>308,100,956</b>	596,565,698
Short-term loans	<b>4,630,303,694</b>	6,942,952,420
Financial liabilities measured at fair value through profit and loss	<b>10,498,810</b>	–
Notes payable	<b>4,809,848,470</b>	3,584,228,362
Account payables	<b>6,968,534,360</b>	6,668,807,923
Payroll and benefits payable	<b>654,822,505</b>	550,444,683
Interest payable	<b>121,108,052</b>	107,691,398
Dividend payable	<b>9,050,620</b>	8,713,584
Other payables	<b>2,224,169,194</b>	1,912,575,078
Other current liabilities	<b>3,081,026,301</b>	2,273,058,356
Non-current liabilities due within one year	<b>4,928,758,378</b>	3,211,056,320
Long-term loans	<b>6,975,958,634</b>	5,163,168,960
Bonds payable	–	3,987,666,667
Long-term payable	<b>210,000,000</b>	–
Long-term employee benefits payable	<b>160,896,586</b>	159,173,203
Less: Cash and bank balances	<b>4,978,352,093</b>	5,312,101,041
Net liabilities	<b>33,262,364,077</b>	33,562,226,632
Capital attributable to owners of the parent	<b>23,895,739,812</b>	19,764,171,955
Adjusted capital	<b>23,895,739,812</b>	19,764,171,955
Capital and net liabilities	<b>57,158,103,889</b>	53,326,398,587
Gearing ratio	<b>58%</b>	63%

## IX. DISCLOSURE OF FAIR VALUE

### 1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

31 December 2017

	Inputs used by fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
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 investment in debt instrument	984,446,000	-	-	984,446,000
	<u>2,530,585,404</u>	<u>-</u>	<u>-</u>	<u>2,530,585,404</u>
Non-recurring fair value measurement for:				
Assets held for sale	-	-	73,454,334	73,454,334
	<u>2,530,585,404</u>	<u>-</u>	<u>73,454,334</u>	<u>2,604,039,738</u>
Financial liabilities				
Recurring fair value measurement for:				
Financial liabilities measured at fair value through profit or loss	-	10,498,810	-	10,498,810
	<u>-</u>	<u>10,498,810</u>	<u>-</u>	<u>10,498,810</u>

The Group determined the fair value of assets held for sale by the consideration agreed in the reserve agreement with Hefei Municipal Land Reserve, see Note V.10.

# Notes to Financial Statements (Continued)

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## IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

### 1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

31 December 2016

	Inputs used by fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for:				
Financial assets measured at fair value				
through profit or loss	555,322,261	-	-	555,322,261
Available-for-sale financial				
assets investments in				
debt instruments	451,225,538	-	-	451,225,538
	<u>1,006,547,799</u>	<u>-</u>	<u>-</u>	<u>1,006,547,799</u>

### 2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

31 December 2017

	Inputs used by fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Held-to-maturity investment	<u>98,896,400</u>	<u>-</u>	<u>-</u>	<u>98,896,400</u>
Financial liabilities				
Long-term loans	-	7,206,511,864	-	7,206,511,864
Long-term payable	-	195,879,166	-	195,879,166
	<u>-</u>	<u>7,402,391,030</u>	<u>-</u>	<u>7,402,391,030</u>

## IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

### 2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE (CONTINUED)

31 December 2016

	Inputs used by fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans	–	5,490,140,427	–	5,490,140,427
Bonds payable	–	4,086,113,423	–	4,086,113,423
	–	9,576,253,850	–	9,576,253,850

### 3. VALUATION OF FAIR VALUE

#### Fair value of financial instruments

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

	Carrying amounts		Fair values	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Held-to-maturity investment	100,854,230	–	98,896,400	–
Financial liabilities				
Long-term loans	6,975,958,634	5,163,168,960	7,206,511,864	5,490,140,427
Bonds payable	–	3,987,666,667	–	4,086,113,423
Long-term payable	210,000,000	–	195,879,166	–

# Notes to Financial Statements (Continued)

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## IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

### 3. VALUATION OF FAIR VALUE (CONTINUED)

#### Fair value of financial instruments (continued)

Management had assessed the fair value of cash, notes receivable, account receivables, interest receivable, other receivables, financial assets purchased under agreements to resell, the non-current part of held-to-maturity investment, notes payable, account payables, interest payable, dividend payable, 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. Since the residual terms of the above-mentioned items were not long, the fair values were similar to the book values.

The policies and procedures for accounting financial instruments at fair value are developed by the Group's finance team led by the finance manager. The Group's finance team reports directly to the financial officer and the Audit Committee. At each balance sheet date, the finance team 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.

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 investment, long-term loans, long-term payables medium-term note payable and bonds payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 31 December 2017, the default risk for the long-term loans was evaluated as not significant.

## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. PARENT COMPANY

Name of parent	Place of registration	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)
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.

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

### 3. ASSOCIATES AND JOINT VENTURES

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

### 4. OTHER RELATED PARTIES

<b>Name</b>	<b>Relationship with the Company</b>
Magang (Group) Holding Company Limited	Controlled by the Holding
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) Logistics 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
Masteel Automation and 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

# Notes to Financial Statements (Continued)

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

### 4. OTHER RELATED PARTIES (CONTINUED)

Name	Relationship with the Company
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding
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
Xinchuang Environmental Protection	Controlled by the Holding
Xinchuang Environmental Protection (Hefei)	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd	Controlled by the Holding
Huayang Equipment	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.	Joint venture of the Holding

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

### 4. OTHER RELATED PARTIES (CONTINUED)

<b>Name</b>	<b>Relationship with the Company</b>
Ma Steel Gongchang United Roller Co., Ltd.	Joint venture of the Holding
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

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES

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

	Note	2017	2016
The Holding	(i)	<b>3,669,058,939</b>	2,562,984,067
Ma Steel International Trade and Economic Co., Ltd.	(i)	–	43,628,143
Tongling Yuanda Co., Ltd.	(i)	<b>14,571,347</b>	16,723,217
Anhui Masteel Luo He Mining Co., Ltd.	(i)	–	1,815,419
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	<b>51,621,848</b>	87,370,671
Maanshan Iron & Steel Group Mining Co., Ltd.	(i)	–	171,444,673
		<b><u>3,735,252,134</u></b>	<b><u>2,883,966,190</u></b>

- (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 Platts Index. The Group purchased ore from Tongling Yuanda Co., Ltd., Ma Steel International Trade and Economic Co., Ltd., and Anhui Masteel Luo He Mining Co., Ltd., and the price was subject to negotiation according to market prices.

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (2) Fees paid for labour, logistics and other services

	Note	2017	2016
The Holding	(ii)	<b>9,156,013</b>	91,109,831
Masteel Refractory Materials Co., Ltd.	(ii)	<b>747,873,976</b>	673,010,112
Xinchuang Environmental Protection Masteel Automobile Transportation Service Co., Ltd.	(ii)	<b>484,691,572</b>	394,361,735
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	<b>213,090,574</b>	215,856,439
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	<b>320,682,126</b>	267,864,102
Masteel Automation and Information Technology Co., Ltd.	(ii)	<b>177,388,340</b>	170,311,795
Ma Steel International Trade and Economic Co., Ltd.	(ii)	<b>253,474,791</b>	92,120,193
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	<b>51,661,229</b>	36,686,520
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	<b>102,325,393</b>	75,670,153
Anhui Masteel Equipment Maintenance Co., Ltd	(ii)	<b>588,849,676</b>	398,832,280
Magang (Group) logistics Co., Ltd.	(ii)	<b>187,583,416</b>	–
Others	(ii)	<b>167,533,869</b>	–
		<b>576,607,543</b>	252,989,983
		<b>3,880,918,518</b>	2,668,813,143

- (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.

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

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

	Note	2017	2016
Ma Steel International Trade and Economic Co., Ltd.	(iii)	<b>8,258,092</b>	46,972
Shanghai Masteel International Trade and Economic Co., Ltd.	(iii)	-	94,058
Maanshan Gang Chen Industry Co., Ltd.	(iii)	-	2,005,176
Others	(iii)	-	2,321
		<b><u>8,258,092</u></b>	<b><u>2,148,527</u></b>

(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	2017	2016
The Holding	(iv)	<b><u>40,833,603</u></b>	<b><u>41,599,065</u></b>

(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 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	2017	2016
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	<b>658,179,029</b>	354,895,467
Xinchuang Environmental Protection	(iii)	<b>46,169,680</b>	69,867,835
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	<b>8,000,000</b>	9,180,268
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	–	5,946,815
Masteel Automation and Information Technology Co., Ltd.	(iii)	<b>2,971,128</b>	51,137,271
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	–	1,125,003
Maanshan Masteel Electric Repair Co., Ltd.	(iii)	<b>255,045</b>	607,479
Maanshan Iron Construction Group Co., Ltd.	(iii)	<b>79,387,696</b>	–
Others	(iii)	<b>1,002,549</b>	24,270
		<b><u>795,965,127</u></b>	<b><u>492,784,408</u></b>

(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.

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

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

	Note	2017	2016
The Holding	(iii)	<b>294,193</b>	6,921,945
Xinchuang Environmental Protection	(iii)	<b>21,593,561</b>	137,550,678
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	<b>1,115,866</b>	485,730
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	<b>21,647,430</b>	18,789,192
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	<b>66,401,584</b>	12,980,730
Masteel Refractory Materials Co., Ltd.	(iii)	<b>8,649,987</b>	7,541,308
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	<b>4,922,558</b>	4,877,772
Masteel Automation and Information Technology Co., Ltd.	(iii)	<b>4,995,766</b>	4,434,826
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	<b>1,828,417</b>	2,100,497
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	<b>145,393</b>	6,436
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	<b>25,570,973</b>	24,825,875
Maanshan Gang Chen Industry Co., Ltd.	(iii)	<b>1,931,482</b>	824,932
Shanghai Masteel International Trade and Economic Co., Ltd.	(iii)	<b>10,625,390</b>	—
Others	(iii)	<b>59,377,323</b>	36,870,657
		<b><u>229,099,923</u></b>	<b><u>258,210,578</u></b>

(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 AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (7) Sales of steel products

	Note	2017	2016
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	<b>220,416,363</b>	115,086,118
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	<b>49,811,149</b>	597,979
Ma Steel International Trade and Economic Co., Ltd.	(iii)	<b>13,906,618</b>	2,837,657
Others	(iii)	<b>17,619,473</b>	50,589,905
		<b><u>301,753,603</u></b>	<b><u>169,111,659</u></b>

(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 interest cost paid to related parties

	Note	2017	2016
The Holding	(v)	<b>18,851,865</b>	9,384,146
Masteel Engineering Technology (Group) Co., Ltd.	(v)	<b>2,954,683</b>	2,536,206
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	<b>2,583,362</b>	1,732,811
Ma Steel International Trade and Economic Co., Ltd.	(v)	–	553,390
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	<b>482,842</b>	501,628
Xinchuang Environmental Protection	(v)	<b>911,970</b>	513,327
Others	(v)	<b>9,165,281</b>	5,092,419
		<b><u>34,950,003</u></b>	<b><u>20,313,927</u></b>

(v) Masteel Finance absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranging from 0.42% to 2.18% in 2017 (2016: 0.385% to 3.25%).

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

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

	Note	2017	2016
The Holding	(vi)	<b>32,023,619</b>	13,622,321
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	<b>17,375,814</b>	13,085,118
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	<b>5,752,783</b>	4,552,536
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	<b>2,020,301</b>	622,781
Xinchuang Environmental Protection	(vi)	<b>601,802</b>	157,368
Others	(vi)	<b>430,531</b>	3,876,953
		<b><u>58,204,850</u></b>	<b><u>35,917,077</u></b>

(vi) Masteel Finance, a subsidiary of the Group, obtained 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) Acquisition of non-controlling interests from related party

	Note	2017	2016
Ma Steel International Trade and Economic Co., Ltd.	(vii)	<b><u>31,440,129</u></b>	<b><u>—</u></b>

(vii) The Company acquired the 9% equity interest in Ma Steel (HK) held by Ma Steel International Trade and Economic Co., Ltd. at the consideration of RMB31,440,129 according to the fair value assessed by valuation agency.

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (11) Sales of products and provision of services to joint ventures and associates

	Note	2017	2016
Ma-Steel OCI Chemical	(viii)	<b>479,192,593</b>	–
BOC-Ma Steel	(viii)	<b>252,659,187</b>	254,520,025
		<b>731,851,780</b>	<b>254,520,025</b>

#### (12) Purchase of products from joint ventures and associates

	Note	2017	2016
Henan JinMa Energy	(viii)	<b>1,225,802,669</b>	–
BOC-Ma Steel	(viii)	<b>565,828,668</b>	548,384,100
Ma-Steel OCI Chemical	(viii)	<b>4,947,125</b>	–
		<b>1,796,578,462</b>	<b>548,384,100</b>

(viii) 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.

#### (13) Rental income from a joint venture

	Note	2017	2016
BOC-Ma Steel	(ix)	<b>1,250,000</b>	1,250,000

#### (14) Interest fee paid to a joint venture for financial services

	Note	2017	2016
BOC-Ma Steel	(ix)	<b>1,710,724</b>	–

(ix) The transactions with a joint ventures were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (15) Guarantee provided by a related party

##### 2017

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End date	Has guarantee expired or not
The Holding	(x)	The Company	1.927 billion	2014.7	2025.10	Not yet as of the approval date of the report

##### 2016

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End date	Has guarantee expired or not
The Holding	(x)	The Company	2.487 billion	2014.7	2025.10	Not yet as of the approval date of the report

- (x) In 2017, the Holding had guaranteed additional certain bank loans of the Group amounting to approximately RMB1.7 billion (2016: approximately RMB0.94 billion) without attached conditions. The Holding had guaranteed part of bank loans without attached conditions amounting to approximately RMB1.927 billion as of 31 December 2017 (31 December 2016: approximately RMB2.487 billion).

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (16) Borrowings from related parties

##### 2017

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xi)	30,000,000	2017/5/4	2017/7/25
The Holding	(xi)	40,000,000	2017/8/30	2018/8/29
Anhui Zhonglian Shipping Co., Ltd.	(xi)	70,000,000	2017/9/26	2018/9/25

##### 2016

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xi)	70,000,000	2016/09/27	2017/09/26
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	20,000,000	2016/07/29	2017/07/28
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	20,000,000	2016/11/18	2017/11/17
The Holding	(xi)	40,000,000	2016/08/30	2017/08/29

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (16) Borrowings from related parties (continued)

- (xi) On 27 September 2016, Anhui Zhonglian Shipping Co. Ltd. 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 interest on the expiration date. The Company accrued interest of RMB723,188, which was paid on 26 September 2017.

On 29 July 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Finance to provide the Company with a short-term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB337,125, which was paid on 28 July 2017.

On 18 November 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Finance to provide the Company with a short-term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB93,525, which was paid on 17 November 2017.

On 30 August 2016, the Holding entrusted Masteel Finance to provide the Company with a short-term loan of RMB40,000,000 with the annual interest rate of 4.35%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB594,500, which was paid on 29 August 2017.

On 4 May 2017, Anhui Zhonglian Shipping Co., Ltd. entrusted Masteel Finance to provide the Company with a short-term loan of RMB30,000,000, with the annual interest of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB270,788, which was paid on 25 July 2017.

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 RMB599,333 in 2017.

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 RMB738,413 in 2017.

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (17) Remuneration of key management

The total amount of key management remuneration (including forms of cash, benefits in kind and others) totally amounted to RMB3,780,143 during the current year (2016: RMB2,641,209), which excluded the remuneration paid to independent directors and independent supervisors.

#### (18) Directors' and supervisors' emoluments\*

	2017	2016
Fee	<u>447,368</u>	<u>447,368</u>
Other emoluments:		
Salaries, allowances and benefits in kind	735,333	572,000
Performance-related bonuses	1,231,495	813,206
Pension scheme contributions	<u>34,767</u>	<u>3,930</u>
	<u>2,001,595</u>	<u>1,389,136</u>
	<u><u>2,448,963</u></u>	<u><u>1,836,504</u></u>

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (18) Directors' and supervisors' emoluments\* (continued)

##### (i) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2017	2016
<i>Independent directors</i>		
Ms. Zhang Chunxia (Note 1)	8,333	–
Ms. Zhu Shaofang (Note 1)	8,333	–
Mr. Wang Xianzhu (Note 1)	8,333	–
Mr. Qin Tongzhou (Note 2)	91,667	100,000
Ms. Yang Yada (Note 2)	91,667	100,000
Mr. Liu Fangduan (Note 3)	91,667	100,000
	<u>300,000</u>	<u>300,000</u>
<i>Independent supervisors</i>		
Ms. Yang Yada (Note 2)	6,140	–
Mr. Qin Tongzhou (Note 2)	6,140	–
Mr. Wong Chun wa (Note 4)	67,544	73,684
Mr. Su Yong (Note 4)	67,544	73,684
	<u>147,368</u>	<u>147,368</u>
	<u><u>447,368</u></u>	<u><u>447,368</u></u>

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

#### (18) 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 9th board 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 9<sup>th</sup> board of supervisors of the Company 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 (2016: Nil).

# Notes to Financial Statements (Continued)

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

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (18) 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
<b>2017</b>					
<b>Executive directors</b>					
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
<b>Non-executive directors</b>					
Mr. Ren Tianbao (Note 1)	-	-	-	-	-
Mr. Su Shihuai (Note 1 & Note 2)	-	-	-	-	-
	-	-	-	-	-
<b>Supervisors</b>					
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 AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (18) 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 9<sup>th</sup> board of directors 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 9<sup>th</sup> board of supervisors 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 (2016: Nil).

	Fee	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2016					
<i>Executive directors</i>					
Mr. Ding Yi	-	-	-	-	-
Mr. Qian Haifan	-	240,000	320,000	1,310	561,310
	-	240,000	320,000	1,310	561,310
<i>Non-executive directors</i>					
Mr. Su Shihuai	-	-	-	-	-
Mr. Ren Tianbao	-	-	-	-	-
	-	-	-	-	-
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	240,000	320,000	1,310	561,310
Mr. Fang Jinrong	-	-	-	-	-
Mr. Yan Kailong	-	92,000	173,206	1,310	266,516
	-	332,000	493,206	2,620	827,826
	-	572,000	813,206	3,930	1,389,136

# Notes to Financial Statements (Continued)

31 December 2017  
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## X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)

#### (19) Five highest paid individuals\*

Three of the highest paid employees during the year were directors or supervisors (2016: two), details of whose remuneration are stated in Note X.5 (18) above. Details of the remuneration of the other two highest paid employees (non-director, non-supervisor) in 2017 (2016: three) are as follows:

	2017	2016
Salaries, allowances and benefits in kind	440,000	535,000
Performance-related bonuses	685,699	713,144
Pension scheme contributions	17,739	3,930
	<u>1,143,438</u>	<u>1,252,074</u>

In 2017, the remuneration of the remaining two non-director and non-supervisor (2016: three), as the highest paid employees, fell within the band of nil to HKD1,000,000.

- (20) According to the financial service agreement signed by Masteel Finance and the Holding on 30 December 2016, Masteel Finance provided financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2017 to 31 December 2017, the highest daily outstanding loan should be less than RMB500 million, other financial service charge should be less than RMB60 million. The annual cap was the highest demand for daily deposits, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement. In 2017, the highest daily deposit balance was RMB4.69 billion (2016: RMB4.35 billion); the highest average daily deposit balance on a monthly basis was RMB4.17 billion (2016: RMB3.63 billion); the highest daily loan balance was RMB0.498 billion (2016: RMB0.498 billion); and the highest average daily loan balance on a monthly basis was RMB0.497 billion (2016: RMB0.496 billion).

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

### 6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES

	<b>31 December 2017</b>	31 December 2016
<b>Trade receivables</b>		
The Holding and its subsidiaries		
Maanshan Jiahua Commodity Concrete Co., Ltd.	–	5,212,842
Masteel Heavy Machinery Manufacturing Co., Ltd.	<b>16,008,365</b>	8,234,542
Ma Steel Powder Metallurgy Co., Ltd.	<b>33,333,133</b>	10,355,549
Anhui Masteel Luo He Mining Co., Ltd.	–	3,458,390
Masteel Engineering Technology (Group) Co., Ltd.	<b>5,608,594</b>	12,304,092
Masteel Automobile Transportation Service Co., Ltd.	<b>243,971</b>	–
Xinchuang Environmental Protection	<b>15,933,746</b>	516,550
Anhui Masteel Equipment Maintenance Co., Ltd.	<b>1,374,641</b>	–
Others entities controlled by the Holding	<b>1,980,926</b>	2,469,568
	<b><u>74,483,376</u></b>	<b><u>42,551,533</u></b>
Joint venture of the Group		
BOC-Ma Steel	–	24,738,742
	<b><u>–</u></b>	<b><u>24,738,742</u></b>

The Company had no provision for bad debts for trade receivables with related parties (2016: Nil).

	<b>31 December 2017</b>	31 December 2016
<b>Prepayments</b>		
The Holding and its subsidiaries		
The Holding	<b>2,328,164</b>	28,164
Ma Steel International Trade and Economic Co., Ltd.	<b>14,894,591</b>	25,316,196
Masteel Engineering Technology (Group) Co., Ltd.	<b>23,887,100</b>	–
Others entities controlled by the Holding	<b>763,431</b>	313,060
	<b><u>41,873,286</u></b>	<b><u>25,657,420</u></b>
Associate of the Group		
Henan JinMa Energy	<b>103,217,438</b>	100,000,000
	<b><u>103,217,438</u></b>	<b><u>100,000,000</u></b>

# Notes to Financial Statements (Continued)

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

### 6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	<b>31 December 2017</b>	31 December 2016
<b>Other receivables</b>		
The Holding and its subsidiaries		
The Holding	<b>350,000</b>	–
Masteel Engineering Technology (Group) Co., Ltd.	–	4,000
Masteel Automobile Transportation Service Co., Ltd.	<b>3,672</b>	323
	<b>353,672</b>	4,323

The Company had no provision for bad debts for other receivables with related parties (2016: Nil).

	<b>31 December 2017</b>	31 December 2016
<b>Notes receivable</b>		
The Holding and its subsidiaries		
Masteel Heavy Machinery Manufacturing Co., Ltd.	–	100,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	<b>526,093</b>	1,965,529
Anhui Masteel Luo He Mining Co., Ltd.	<b>4,000,000</b>	–
Others entities controlled by the Holding	–	897,719
	<b>4,526,093</b>	2,963,248
Associate of the Group		
Ma-Steel OCI Chemical	<b>13,620,000</b>	–

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

### 6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	<b>31 December 2017</b>	31 December 2016
<b>Account payables</b>		
The Holding and its subsidiaries		
The Holding	<b>35,001,304</b>	988,765
Masteel Engineering Technology (Group) Co., Ltd.	<b>198,725,638</b>	150,278,616
Xinchuang Environmental Protection	<b>60,687,857</b>	54,584,324
Masteel Automation and Information Technology Co., Ltd.	<b>32,336,697</b>	19,950,761
Anhui Masteel Equipment Maintenance Co., Ltd.	<b>59,108,818</b>	–
Masteel Automobile Transportation Service Co., Ltd.	<b>17,833,612</b>	21,490,195
Maanshan Masteel Surface Engineering Technology Co., Ltd.	<b>78,591,810</b>	47,203,701
Masteel Heavy Machinery Manufacturing Co., Ltd.	<b>65,521,140</b>	44,360,504
Others entities controlled by the Holding	<b>80,014,666</b>	80,316,940
	<b><u>627,821,542</u></b>	<b><u>419,173,806</u></b>
Joint ventures and associates of the Group		
BOC-Ma Steel	<b>78,529,423</b>	55,481,931
Ma-Steel OCI Chemical	–	159,811
Shenglong Chemical	<b>366,902</b>	366,902
	<b><u>78,896,325</u></b>	<b><u>56,008,644</u></b>

# Notes to Financial Statements (Continued)

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

### 6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	<b>31 December 2017</b>	31 December 2016
<b>Advances from customers</b>		
The Holding and its subsidiaries		
The Holding	<b>178,121</b>	190,788
Anhui BRC & Masteel Weldmesh Co., Ltd.	<b>177,975</b>	5,283,354
Maanshan Iron Construction Group Co., Ltd.	<b>2,208,396</b>	–
Others entities controlled by Holding	<b>16,761,377</b>	44,639,516
	<b>19,325,869</b>	50,113,658
Associates of the Group		
Ma-Steel OCI Chemical	<b>7,606,264</b>	7,078,117
Shenglong Chemical	<b>11</b>	11
	<b>7,606,275</b>	7,078,128
<b>Other payables</b>		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	<b>6,598,827</b>	6,295,101
Xinchuang Environmental Protection	<b>6,257,260</b>	22,495,594
Masteel Engineering Technology (Group) Co., Ltd.	<b>19,908,392</b>	13,720,456
Anhui Masteel Equipment Maintenance Co., Ltd.	<b>6,584,855</b>	–
Maanshan Masteel Electric Repair Co., Ltd.	<b>1,477,621</b>	963,873
Maanshan Port (Group) Co., Ltd.	<b>15,470,463</b>	–
Other entities controlled by the Holding	<b>14,412,949</b>	3,343,795
	<b>70,710,367</b>	46,818,819
Joint venture of the Group		
BOC-Ma Steel	<b>70,000</b>	70,000

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

### 6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2017	31 December 2016
<b>Short-term loans</b>		
The Holding and its subsidiaries		
The Holding	40,000,000	40,000,000
Anhui Zhonglian Shipping Co., Ltd.	100,000,000	70,000,000
Maanshan Masteel Surface Engineering Technology Co., Ltd.	—	40,000,000
	<u>140,000,000</u>	<u>150,000,000</u>
<b>Loans and advances to customers</b>		
The Holding and its subsidiaries		
The Holding	—	16,698,711
Anhui Masteel Luo He Mining Co., Ltd.	48,517,364	112,224,379
Anhui BRC & Masteel Weldmesh Co., Ltd.	60,057,628	31,811,230
Ma Steel International Trade and Economic Co., Ltd.	—	50,982,046
Maanshan Iron & Steel Group Mining Co., Ltd.	737,990,218	1,193,527,145
Other entities controlled by the Holding	961,320	136,864,275
	<u>847,526,530</u>	<u>1,542,107,786</u>
<b>Customer deposits</b>		
The Holding and its subsidiaries		
The Holding	893,256,203	1,830,191,701
Masteel Engineering Technology (Group) Co., Ltd.	279,389,411	273,754,756
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	412,747,007	252,042,388
Ma Steel International Trade and Economic Co., Ltd.	97,179,819	304,878,663
Masteel Group Kang Tai Land Development Co., Ltd.	33,005,890	49,183,147
Masteel Heavy Machinery Manufacturing Co., Ltd.	88,350,190	94,000,665
Xinchuang Environmental Protection	118,673,055	—
Maanshan Iron & Steel Group Mining Co., Ltd.	152,763,055	—
Other entities controlled by the Holding	395,573,023	640,243,852
	<u>2,470,937,653</u>	<u>3,444,295,172</u>
Joint venture of the Group		
BOC-Ma Steel	<u>182,254,044</u>	—

# Notes to Financial Statements (Continued)

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

### 6. RECEIVABLES FROM/PAYABLES 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 2017, 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. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 31 December 2017, the Company had no commitment with related parties.

## XI. COMMITMENTS AND CONTINGENCIES

### 1. SIGNIFICANT COMMITMENTS

	<b>31 December 2017</b>	31 December 2016
Contracted, but not provided for		
Capital commitments	<b>1,130,565,007</b>	2,419,658,635
Investment commitments	<b>15,000,000</b>	155,870,276
	<b><u>1,145,565,007</u></b>	<b><u>2,575,528,911</u></b>

Unrecognised commitments related to investments in joint ventures and associates are included in Note X.7.

## XI. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

### 2. CONTINGENCIES

#### **Difference of corporate income tax**

The State Administration of Taxation issued “The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other nine companies listed overseas corporation” (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. 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 preparation or adjustments related to additional tax, tax credits, deferred tax, penalties and interest.

#### **Pending litigation**

As of 31 December 2017, the Group and the Company did not have significant pending litigation.

## XII. EVENTS AFTER THE BALANCE SHEET DATE

On 20 March 2018, an annual cash dividend of RMB0.165 (tax included) per share to shareholders approved by the 5<sup>th</sup> meeting of the 9<sup>th</sup> board. This profit distribution plan will be submitted for approval in the annual shareholders’ meeting of the Company.

Apart from above, as of the date of approval of the financial statements, the Group had no other significant events after the balance sheet date that needs to be disclosed.

# Notes to Financial Statements (Continued)

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## 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.

	<b>31 December 2017</b>	31 December 2016
Remaining lease period		
Within 1 year, inclusive	<b>1,558,490</b>	1,301,120
1 to 2 years, inclusive	<b>1,558,490</b>	1,250,000
2 to 3 years, inclusive	<b>1,250,000</b>	1,250,000
Over 3 years	<b>2,657,534</b>	3,907,534
	<b><u>7,024,514</u></b>	<b><u>7,708,654</u></b>

### 2. OPERATING SEGMENT INFORMATION

#### Operating segments

The Group divides the operation services into two operating segments which are determined based on the internal organisation 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.

### XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

#### 2. OPERATING SEGMENT INFORMATION (CONTINUED)

##### Other information

##### *Product and service information*

##### External principal operating income

	2017	2016
Sale of steel products	<b>67,328,791,716</b>	45,084,086,119
Sale of steel billets and pig iron	<b>2,031,982,992</b>	1,011,424,422
Sale of coke by-products	<b>824,520,152</b>	276,107,588
Others	<b>2,030,659,794</b>	952,167,785
	<b><u>72,215,954,654</u></b>	<b><u>47,323,785,914</u></b>

##### *Geographical information*

##### External principal operating income

	2017	2016
The PRC	<b>67,815,626,883</b>	43,649,644,385
Overseas	<b>4,400,327,771</b>	3,674,141,529
	<b><u>72,215,954,654</u></b>	<b><u>47,323,785,914</u></b>

##### Non-current assets

	31 December 2017	31 December 2016
The PRC	<b>38,072,610,336</b>	40,595,765,043
Overseas	<b>330,183,194</b>	305,407,308
	<b><u>38,402,793,530</u></b>	<b><u>40,901,172,351</u></b>

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

# Notes to Financial Statements (Continued)

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## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. OPERATING SEGMENT INFORMATION (CONTINUED)

#### Other information (continued)

##### Major customer information

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

### 3. OTHER FINANCIAL INFORMATION\*

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Current assets	32,098,538,779	24,418,315,198	23,227,123,182	17,688,470,337
Less: Current liabilities	36,118,138,248	33,550,453,810	28,093,364,985	24,425,328,412
Net current liabilities	<u>(4,019,599,469)</u>	<u>(9,132,138,612)</u>	<u>(4,866,241,803)</u>	<u>(6,736,858,075)</u>
	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Total assets	72,191,589,979	66,245,531,030	60,044,692,283	55,139,219,589
Less: Current liabilities	36,118,138,248	33,550,453,810	28,093,364,985	24,425,328,412
Total assets less current liabilities	<u>36,073,451,731</u>	<u>32,695,077,220</u>	<u>31,951,327,298</u>	<u>30,713,891,177</u>

### XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

#### 4. EMPLOYEE COSTS (EXCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (NOTE X.5 (18))\*

	2017	2016
Wages and salaries	<b>2,781,927,679</b>	2,587,028,878
Welfare	<b>682,659,254</b>	679,193,430
Pension scheme contributions (i)	<b>674,394,634</b>	544,796,605
Employee termination benefits	<b>216,124,494</b>	347,468,731
	<b><u>4,355,106,061</u></b>	<b><u>4,158,487,644</u></b>

(i) As of 31 December 2017 and 31 December 2016, no contribution was capitalised or waived to reduce the Group's liability to pay pension scheme contributions in the future.

#### 5. COMPARATIVE AMOUNTS

As stated in Note III. 32, owing to the change of presentation of gain or loss from disposal of assets, the accounting and disclosure of gain or loss from disposal of assets, non-operating income and non-operating expenses in the financial statements had also changed to meet the new requirements. Correspondingly, the comparative amounts of gain or loss from disposal of assets, non-operating income and expenses in the previous year were also reclassified to meet this year's requirement of presentation and accounting policies.

# Notes to Financial Statements (Continued)

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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

### 1. TRADE RECEIVABLES

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

An ageing analysis of trade receivables is as follows:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>1,964,496,309</b>	1,782,014,214
One to two years	<b>74,975,028</b>	125,625,110
Two to three years	<b>69,673,222</b>	27,273,361
Over three years	<b>43,317,628</b>	31,693,096
	<b>2,152,462,187</b>	1,966,605,781
Less: Provisions for bad debts	<b>47,921,020</b>	13,382,203
	<b>2,104,541,167</b>	1,953,223,578

The trade receivable balances are analysed as follows:

	31 December 2017				31 December 2016			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	40,137,408	2	(40,137,408)	100	6,927,040	-	(6,927,040)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	1,925,329,597	89	(5,354,261)	-	1,740,004,984	88	(5,354,262)	-
Individually insignificant but assessed for bad debt provision individually	186,995,182	9	(2,429,351)	1	219,673,757	12	(1,100,901)	1
	<b>2,152,462,187</b>	<b>100</b>	<b>(47,921,020)</b>		<b>1,966,605,781</b>	<b>100</b>	<b>(13,382,203)</b>	

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

##### 1. TRADE RECEIVABLES (CONTINUED)

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

	Book value	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
	<u>40,137,408</u>	<u>(40,137,408)</u>	<u>100</u>	

As of 31 December 2016, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio (%)	Reason
Company1	<u>6,927,040</u>	<u>(6,927,040)</u>	<u>100</u>	Note
	<u>6,927,040</u>	<u>(6,927,040)</u>	<u>100</u>	

Note: The Company has confirmed trade receivables to these companies were uncollectible. Therefore provisions for bad debts was fully recognised.

# Notes to Financial Statements (Continued)

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

### 1. TRADE RECEIVABLES (CONTINUED)

The Company's provision for bad debts of trade receivables analysed by aging is disclosed as follows:

	31 December 2017			31 December 2016		
	Book value		Provision for bad debts Amount	Book value		Provision for bad debts Amount
	Amount	Ratio (%)		Amount	Ratio (%)	
Within one year	1,911,419,009	99	-	1,725,554,060	99	-
One to two years	3,708,544	-	(370,854)	3,252,219	-	(325,222)
Two to three years	392,049	-	(78,410)	1,901,041	-	(380,208)
Over three years	9,809,995	1	(4,904,997)	9,297,664	1	(4,648,832)
	<u>1,925,329,597</u>	<u>100</u>	<u>(5,354,261)</u>	<u>1,740,004,984</u>	<u>100</u>	<u>(5,354,262)</u>

In 2017, The Company's provision for bad debts was RMB34,538,817 (2016: Nil), and there was no recovery or reversal of provision for bad debts (2016: Nil).

In 2017, there was no trade receivables that had been written off (2016: Nil).

The top five trade receivables classified by debtor:

#### 31 December 2017

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of 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%	-
		<u>1,454,621,904</u>		<u>67%</u>	

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

### 1. TRADE RECEIVABLES (CONTINUED)

The top five trade receivables classified by debtor: (continued)

31 December 2016

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	694,446,823	Within one year	36%	-
Company 2	Subsidiary	214,069,244	Within one year	11%	-
Company 3	Third party	117,299,709	Within one year	6%	-
Company 4	Subsidiary	92,487,872	One to two years	5%	-
Company 5	Subsidiary	90,266,047	Within one year	5%	-
		<u>1,208,569,695</u>		<u>63%</u>	

### 2. OTHER RECEIVABLES

An ageing analysis of the other receivables is as follows:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>187,226,756</b>	39,486,862
One to two years	<b>1,181,088</b>	615,777
Two to three years	<b>304,865</b>	1,093,937
Over three years	<b>423,726,846</b>	422,691,173
	<b>612,439,555</b>	463,887,749
Less: Provision for bad debts	<b>423,714,537</b>	422,847,240
	<b>188,725,018</b>	41,040,509

# Notes to Financial Statements (Continued)

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

### 2. OTHER RECEIVABLES (CONTINUED)

The other receivable balances are analysed as follows:

	31 December 2017				31 December 2016			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	418,316,326	68	(418,316,326)	100	418,316,326	90	(418,316,326)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	181,292,054	30	(2,607,132)	1	39,282,953	9	(3,242,646)	8
Individually insignificant but assessed for bad debt provision individually	12,831,175	2	(2,791,079)	22	6,288,470	1	(1,288,268)	20
	<b>612,439,555</b>	<b>100</b>	<b>(423,714,537)</b>		<b>463,887,749</b>	<b>100</b>	<b>(422,847,240)</b>	

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

	Book value	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
	<b>418,316,326</b>	<b>(418,316,326)</b>	<b>100</b>	

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

##### 2. OTHER RECEIVABLES (CONTINUED)

As of 31 December 2016, those individually significant and assessed for impairment individually were as follows:

	Book value	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
	<u>418,316,326</u>	<u>(418,316,326)</u>	<u>100</u>	

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 analysed by aging is disclosed as follows:

	31 December 2017			31 December 2016		
	Book value Amount	Ratio (%)	Provision for bad debts Amount	Book value Amount	Ratio (%)	Provision for bad debts Amount
Within one year	174,950,001	96	-	31,648,678	80	-
One to two years	1,181,088	1	(118,109)	615,777	2	(61,578)
Two to three years	304,865	0	(60,973)	1,093,937	3	(218,787)
Over three years	4,856,100	3	(2,428,050)	5,924,561	15	(2,962,281)
	<u>181,292,054</u>	<u>100</u>	<u>(2,607,132)</u>	<u>39,282,953</u>	<u>100</u>	<u>(3,242,646)</u>

# Notes to Financial Statements (Continued)

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

### 2. OTHER RECEIVABLES (CONTINUED)

At the end of 2017, provision for bad debts of expected uncollected other receivables was RMB867,297 (2016: RMB2,686,251), and there was no recovery or reversal of provision for bad debts (2016: Nil).

In 2017, there was no other receivables that had been written off (2016: Nil).

Other receivables classified by nature:

	<b>31 December 2017</b>	31 December 2016
Prepayment for trading	<b>415,916,327</b>	415,916,327
Deposits for steel futures	<b>131,482,895</b>	28,061,996
Prepayment of custom duties and VAT	<b>39,396,766</b>	11,167,848
Others	<b>25,643,567</b>	8,741,578
Provision for bad debts	<b>(423,714,537)</b>	(422,847,240)
	<b><u>188,725,018</u></b>	<u>41,040,509</u>

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	i	More than 3 years	132,058,434
Company 2	127,685,367	21	i	More than 3 years	127,685,367
Company 3	73,560,769	12	ii	Within 1 year	-
Company 4	60,939,960	10	i	More than 3 years	60,939,960
Company 5	57,988,833	9	i	More than 3 years	57,988,833
	<b><u>452,233,363</u></b>	<b><u>74</u></b>			<b><u>378,672,594</u></b>

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

##### 2. OTHER RECEIVABLES (CONTINUED)

As of 31 December 2016, 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	28	i	More than 3 years	132,058,434
Company 2	127,685,367	28	i	More than 3 years	127,685,367
Company 3	60,939,960	13	i	More than 3 years	60,939,960
Company 4	57,988,833	13	i	More than 3 years	57,988,833
Company 5	<u>37,243,732</u>	<u>8</u>	i	More than 3 years	<u>37,243,732</u>
	<u>415,916,326</u>	<u>90</u>			<u>415,916,326</u>

i: The nature of the other receivables was prepayment for trading.

ii: The nature of the other receivables was deposits.

# Notes to Financial Statements (Continued)

31 December 2017  
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## XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. LONG-TERM EQUITY INVESTMENTS

	<b>31 December 2017</b>	31 December 2016
Long-term investments under the equity method		
Joint ventures (i)	<b>335,003,849</b>	372,843,538
Associates (i)	<b><u>1,190,221,353</u></b>	<u>866,932,775</u>
Long-term investments under the cost method		
Subsidiaries (ii)	<b><u>7,365,064,910</u></b>	<u>5,972,389,974</u>
Subtotal	<b>8,890,290,112</b>	7,212,166,287
Less: Provision for impairment	<b><u>60,000,000</u></b>	<u>60,000,000</u>
Total	<b><u><u>8,830,290,112</u></u></b>	<u><u>7,152,166,287</u></u>

In the opinion of the directors, there was no material restriction on the realisation of investments as of the balance sheet date.

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

### 3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

#### (i) Joint ventures and associates

2017

	Movements during the year								Closing balance	Impairment at the end of the year
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment		
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 (Note)	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
Associates										
Henan JinMa Energy (Note)	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	-
Xinhuang Environmental Protection (Note)	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 OCl Chemical (Note)	118,438,408	-	-	8,154,347	-	1,199,488	-	-	127,792,243	-
	<u>1,239,776,313</u>	<u>78,431,997</u>	<u>(149,703,691)</u>	<u>490,410,552</u>	<u>-</u>	<u>3,810,422</u>	<u>(137,500,391)</u>	<u>-</u>	<u>1,525,225,202</u>	<u>-</u>

Note: Please refer to Note V.15 for details.

2016

	Movements during the year								Closing balance	Impairment at the end of the year
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment		
Joint ventures										
BOC-Ma Steel	316,030,791	-	-	80,857,392	-	1,129,885	(79,000,000)	-	319,018,068	-
MASTEEL-CMI	539,342	-	-	2,091	-	-	-	-	541,433	-
Mascometal	-	58,171,378	(4,879,915)	(7,426)	-	-	-	-	53,284,037	-
Associates										
Henan JinMa Energy	241,098,393	-	-	77,296,589	-	3,361,408	(25,560,000)	-	296,196,390	-
Shenglong Chemical	242,402,338	-	-	66,810,341	-	183,745	-	-	309,396,424	-
Shanghai Iron and Steel Electronic	26,604,521	-	-	4,516,071	-	-	(4,000,000)	-	27,120,592	-
Xinhuang Environmental Protection	35,539,691	-	-	3,059,233	-	5,182,037	-	-	43,780,961	-
Anhui Linhuan Chemical	72,000,000	-	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCl Chemical	95,638,431	22,513,793	-	286,184	-	-	-	-	118,438,408	-
	<u>1,029,853,507</u>	<u>80,685,171</u>	<u>(4,879,915)</u>	<u>232,820,475</u>	<u>-</u>	<u>9,857,075</u>	<u>(108,560,000)</u>	<u>-</u>	<u>1,239,776,313</u>	<u>-</u>

# Notes to Financial Statements (Continued)

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

### 3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

#### (ii) Subsidiaries

2017

	Movements during the year					Closing balance	Impairment at the end of the year	Cash dividends declared
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment			
New Building 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) (Note 1)	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 (Note 2)	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 (Note 3)	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 (Note 4)	-	-	-	-	-	-	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 (Note 5)	933,172,609	910,000,000	-	-	-	1,843,172,609	-	12,531,425
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES (Note 6)	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 Antitrust (Note 7)	-	3,060,000	-	-	-	3,060,000	-	-
Mascomental (Note 8)	-	127,368,631	-	-	-	127,368,631	-	-
	<b>5,912,389,974</b>	<b>1,393,574,936</b>	<b>(900,000)</b>	<b>-</b>	<b>-</b>	<b>7,305,064,910</b>	<b>60,000,000</b>	<b>88,204,609</b>

Note 1: In August 2017, the Company acquired 9% equity interest in Ma Steel (HK) previously held by Ma Steel International Trade and Economic Co., Ltd. at the consideration of RMB31,440,129, which was determined based on external valuation result, and thus Ma Steel (HK) had become a wholly-owned subsidiary of the Group.

Note 2: In January 2017, the Company sold 90% equity of Huayang Equipment to Xinchuang Environmental Protection.

Note 3: In October 2017, the Company acquired 6% equity interest in Ma Steel (Hefei) Processing previously held by Anhui Jiangqi Logistic Co., Ltd. at the consideration of RMB12,396,489, which was determined based on external valuation result. After the acquisition, the Company's direct equity interest in Ma Steel (Hefei) Processing increased from 61% to 67%.

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

### 3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

#### (ii) Subsidiaries (continued)

##### 2017 (continued)

Note 4: On 7 September 2017, the People's Court of Baoshan District, Shanghai ruled to accept Masteel Shanghai Trading's application for bankruptcy liquidation. As of 31 December 2017, the appointed liquidation trustee had not yet completed the takeover of Masteel Shanghai Trading.

Note 5: In January 2017, the Company injected capital of RMB910,000,000 to Masteel Finance.

Note 6: In 2017, the Company injected capital amounting to EUR40,000,000, equivalent to RMB309,309,687, to MG-VALDUNES.

Note 7: For the information of the newly established subsidiary, please refer to Note VI.1.

Note 8: On 5 June 2017, the Company obtained control of Mascometal and included it in the scope of consolidation, please refer to Note VI.2.

# Notes to Financial Statements (Continued)

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

### 3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

#### (ii) Subsidiaries (continued)

2016

	Opening balance	Movements during the year			Closing balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement			
New Building Masteel							
K. Wah	44,443,067	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	8,225,885	-	-
Ma Steel (Guangzhou)	80,000,000	-	-	-	80,000,000	-	-
Ma Steel (HK)	21,146,421	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	900,000	-	-
Ma Steel (Jinhua)	90,000,000	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei)							
Processing	73,200,000	-	-	-	73,200,000	-	-
Ma Steel (Yangzhou)							
Processing	116,462,300	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	100,000,000	-	-
Masteel Shanghai Trading	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	1,234,444,444	-	-
Masteel Finance	933,172,609	-	-	-	933,172,609	-	-
Hefei Materials	140,000,000	-	-	-	140,000,000	-	-
MG-VALDUNES	336,695,298	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Nanjing 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	336,021,369	60,000,000	-	-	396,021,369	-	-
Masteel Oubang							
Color-coated	10,050,000	-	-	-	10,050,000	-	-
Masteel America	-	3,298,375	-	-	3,298,375	-	-
Ma Steel (Cihu)	-	48,465,709	-	-	48,465,709	-	-
	5,800,625,890	111,764,084	-	-	5,912,389,974	60,000,000	-

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

##### 4. REVENUE AND COST OF SALES

	2017		2016	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	<b>59,025,299,464</b>	<b>53,732,913,491</b>	40,943,233,778	36,523,573,581
Other operating income	<b>857,141,051</b>	<b>874,173,074</b>	583,380,986	571,864,795
	<b><u>59,882,440,515</u></b>	<b><u>54,607,086,565</u></b>	<b><u>41,526,614,764</u></b>	<b><u>37,095,438,376</u></b>

Principal operating income is stated as follows:

	2017	2016
Sale of products	<b>59,855,497,254</b>	41,485,223,868
Rendering of services	<b>26,943,261</b>	41,390,896
	<b><u>59,882,440,515</u></b>	<b><u>41,526,614,764</u></b>

##### 5. INVESTMENT INCOME

	2017	2016
Long-term equity investment income under the equity method	<b>490,410,552</b>	232,820,475
Long-term equity investment income under the cost method	<b>58,533,389</b>	5,888,730
Investment income from disposal of a subsidiary	<b>7,796,084</b>	–
Investment loss from equity dilution in associate	<b>(22,335,060)</b>	–
Investment income from available-for-sale financial assets during the holding period	<b>1,570,000</b>	40,000
Investment income from disposal of financial assets measured at fair value through profit or loss	<b>69,277,395</b>	14,685,855
	<b><u>605,252,360</u></b>	<b><u>253,435,060</u></b>

As of the end of the reporting period, there was no significant restriction imposed upon the remittance of the Company's investment income.

# Supplementary Information

## 1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” (No.43 [2008]) issued by the CSRC.

2017

### Items of non-recurring gains or losses

Gain on disposal of non-current assets	2,232,866
Loss on disposal of non-current assets	(179,185,234)
Government grant unrelated to operating activities	170,645,383
Government grant related to operating activities	238,868,248
Other net non-operating loss, excluding items above	(11,146,562)
Employee termination compensation	(216,124,494)
Reversal of provision for receivables assessed for impairment individually	3,632,383
Gain on fair value changes of financial assets measured at fair value through profit or loss	10,145,756
Investment income from disposal of a subsidiary’s equity	736,943
Investment income from revaluation of the purchase of a subsidiary’s interests held before	390,855
Investment loss from equity dilution in associate	(22,335,060)
Investment income from available-for-sale financial assets during the holding period	1,570,000
Investment income from disposal of available-for-sale financial assets	41,277,167
Investment income from disposal of financial assets measured at fair value through profit or loss	158,331,954
Investment income from held to maturity investment during the holding period	6,133,938
	<hr/>
Less: Income tax effect of non-recurring gains or losses	33,633,919
Non-recurring gains or losses attributable to minority shareholders	11,689,059
	<hr/>
Net effect of non-recurring gains or losses	<u>159,851,165</u>
	<hr/>
<b>Net profit attributable to owners of the parent excluding non-recurring gains or losses</b>	
Net profit attributable to owners of the parent	4,128,939,861
Less: net effect of non-recurring gains or losses	159,851,165
	<hr/>
Net profit attributable to owners of the parent excluding non-recurring gains or losses	<u>3,969,088,696</u>

## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2017

	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owners of the parent	18.92	0.536	0.536
Net profit attributable to owners of the parent excluding non-recurring gains or losses	<u>18.18</u>	<u>0.515</u>	<u>0.515</u>

2016

	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owners of the parent	6.43	0.160	0.160
Net profit attributable to owners of the parent excluding non-recurring gains or losses	<u>7.38</u>	<u>0.183</u>	<u>0.183</u>

Return on net assets and earnings per share are calculated based on the formula stipulated in the “Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share” (2010 revised) issued by the CSRC.

## 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 : 20 March 2018



馬 鞍 山 鋼 鐵 股 份 有 限 公 司  
Maanshan Iron & Steel Company Limited