2014 Annual Report

H Share Code: 323
A Share Code: 600808

MAANSHAN IRON & STEEL COMPANY LIMITED

Contents

IMPORTANT NOTICE

1. The board of directors, 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 severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

2. Details for director(s) failing to attend the meeting.

Position of Director not Attending	Name of Director Absent	Reasons for the Absence of Director	Name of Proxy
Director	Su Shihuai	Other business engagements	Ding Yi

3. Ernst & Young Hua Ming LLP has issued a standard unqualified opinion in its auditors' report on the Company's financial statements.

4. Mr. Ding Yi, legal representative of the Company, Mr. Qian Haifan, in charge of 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 converting reserves into share capital for the reporting period was approved by the Board of Directors
Given current economic situation and conditions of the iron & steel industry, the Company faces great challenge in production and operation and expects to face a shortage of funds. In order to maintain normal operation and sustainable development of the Company, and taking into consideration the long-term interest of shareholders, the Board of Directors suggested that no cash dividend was distributed for 2014, no capital reserve was converted into share capital, and the undistributed profit was carried forward to 2015.

6. Risk Warning for Forward-looking Statements
The report analyzes major risks faced by the Company. See "Potential risks" of "Discussion and Analysis on Future Development of the Company by Board of Directors" in Section 4 "Report of Directors" for details. Forward–Looking Statements contained in this report including statement about the Company's expected future events do not constitute substantive commitments to investors by the Company. Investors should be reminded of such investment risks.

7. No fund was misused by the controlling shareholder and its related party for non-operating purpose.

8. No guarantee was provided to any external party in violation of decision-making procedures.

9. Renminbi, in which the report are presented except when otherwise indicated.

I. Definitions and Warning of Significant Risks

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

2. WARNING OF SIGNIFICANT RISKS

The report analyzes major risks faced by the Company. See "Potential risks" of "Discussion and Analysis on Future Development of the Company by Board of Directors" in Section 4 "Report of Directors" for details.

II. Company Introduction

1. COMPANY PROFILE

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

2. CONTACT PERSONS

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

3. BASIC INFORMATION

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

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for annual report publication	www.sse.com.cn
Location for inspection of annual report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Brief information on the shares of the Company

Type of shares	Stock Exchange for listing of shares	Short name of stock	Stock code
A Shares	Shanghai Stock Exchange	馬鋼股份	600808
H Shares	The Stock Exchange of Hong Kong Limited	MAANSHAN IRON	00323

6. COMPANY'S REGISTRATION CHANGES DURING THE REPORTING PERIOD

6.1 Basic Information

No change in registration of the Company during the reporting period.

6.2 Index of First Registration Information

Further details of information of first registration are included in basic information of 2011 annual report.

6.3 Change of Principal Business since initial listing

➢ ISSUE AND LISTING

The Company was established on 1 September 1993 and was regarded by the PRC Government as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies. The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Hong Kong Stock Exchange on 3 November 1993. The Company issued RMB denominated ordinary shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the SSE in three batches on 6 January, 4 April and 6 September in the following year.

On 13 November 2006, the Company issued bonds with warrants on the SSE. On 29 November 2006, the Company's bonds and warrants were listed on the SSE. On 3 December 2008, the Company's warrants matured and were delisted from the SSE.

II. Company Introduction (continued)

➢ PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacturing and sale of iron and steel products. The manufacturing process primarily involves iron-making, steel-making and steel rolling projects. The Company's principal product is steel products which consists of five major categories, namely, steel plates, section steel, wire rods, train wheels and specialty steel.

Steel Plates: Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are widely used in the construction, automobile, bridgebuilding, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electric appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used in plates of automobile, home electric appliances, high-grade construction plates, and plates used in businesses such as 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, the national standard of China, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six countries including the PRC, the United Kingdom, Germany, the United States, France and Norway.

Section Steel: Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under Japan's JIS standard and accredited by European Union CE mark certification. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the "Golden Cup Prize of Quality Metal Products". The stable corten steel has passed the on-site review of China Railways Product Certification Center ("CRCC").

Wire Rods: Major products include high-speed wire rod materials and hot-rolled reinforcing steel used in armoured concrete. High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed "The First Lot of Quality Products Exempted from Inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong. Hot-rolled reinforcing steel and hot-rolled wire rods have been endorsed by the quality control system certification and product certification of the UK Certification Authority for Reinforcing Steels (CARES).

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

Specialty Steel: primarily includes alloy structural steel, bearing steel, spring steel, gear steel, tooling and die steel, wheel hub steel, alloy pipe blank steel, steel for high quality rings, high-grade cold heading steel, non-tempered steel, anchor chain steel, roll steel, steel for electromechanical rotors, steel for large forgings and other series and types, widely used in railway, energy, automotive, machinery, construction, petroleum, chemical engineering, metallurgy, electric power, aviation, shipbuilding, marine and other areas and national key projects.

6.4 Change in controlling shareholder of the Company since its listing

There has been no change in controlling shareholder since the Company's listing.

7. OTHER RELEVANT INFORMATION

Name of the auditors appointed by the Company (PRC)	Company name	Ernst & Young Hua Ming LLP
	Office address	Level 16, Ernst & Young Tower (E3), Oriental Plaza, No.1 East Chang An Avenue, Dong Cheng District, Beijing 100738, China
	Names of the auditors who signed the report	Zhong Li, Chen Yan

III. Summary of Accounting and Financial Data

1. THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS AT THE END OF THE REPORTING PERIOD FOR THE LAST THREE YEARS

1.1 Major Accounting Data

Unit: RMB'000

Major accounting data	2014	2013	Increase/ decrease compared to previous year (%)	2012 After restated	2012 Before restated
Revenue	**59,820,938**	73,848,883	–19.00	74,404,364	74,404,364
Net profit attributable to equity holders	**220,616**	157,220	40.32	–3,863,233	–3,863,233
Net profit excluding non-recurring gains or losses attributable to equity holders	**–154,967**	–445,730	–	–3,949,152	–3,949,152
Net cash flows from operating activities	**2,912,854**	5,091,359	–42.79	5,592,587	5,592,587

	As at the end of 2014	As at the end of 2013	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2012 After restated	As at the end of 2012 Before restated
Net assets attributable to equity holders	**23,295,566**	23,131,446	0.71	23,126,644	23,126,644
Total assets	**68,511,175**	71,821,618	–4.61	76,011,164	76,011,164

1.2 Major Financial Data

Major financial indicators	2014	2013	Increase/ decrease compared to previous year (%)	2012 After restated	2012 Before restated
Basic earnings per share (RMB/share)	**0.0286**	0.0204	40.2	–0.502	–0.502
Diluted earnings per share (RMB/share)	**0.0286**	0.0204	40.2	–0.502	–0.502
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	**–0.02**	–0.058	–	–0.513	–0.513
Return on net assets (weighted average) (%)	**0.95**	0.68	increased by 0.27 percentage point	–15.30	–15.30
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**–0.67**	–1.93	increased by 1.26 percentage point	–15.64	–15.64

2. ITEMS OF NON-RECURRING GAINS OR LOSSES

Unit: RMB'000

Items of non-recurring gains or losses	2014	2013	2012
Gains or losses from disposal of non-current assets	**-82,180**	433,638	9,839
Government subsidies recognized in current gains	**438,440**	359,275	47,578
Fair value gains or losses of financial assets measured at fair value through profit or loss	**564**	–78	–21
Non-operating income and expenses other than the above items	**–2,407**	–5,894	1,182
Amortisation of deferred income	**100,182**	93,436	90,746
Other investment income	**–810**	17	137
Effects of minority interests	**–869**	–206	–255
Effects of income tax	**–77,337**	–277,237	–63,287
Total	**375,583**	602,951	85,919

3. ITEMS MEASURED UNDER THE FAIR VALUE METHOD

Unit: RMB

Item	Balance at the beginning of the reporting period	Balance at the end of the reporting period	Changes during the reporting period	Effects on the profit for the reporting period
Financial assets measured at fair value through profit or loss	509,330	1,073,490	564,160	564,160
Total	509,330	1,073,490	564,160	564,160

IV. Report of The Board

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

1.1 Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2014.

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

In 2014, China's economic growth slowed down, and GDP grew 7.4% YoY, down 0.3 percentage points. In the meantime, steel demand from economic growth continued to weaken. According to the China Iron and Steel Association, in 2014, crude steel consumption dropped by 3.4% YoY, strongly indicating that steel consumption had entered a platform zone. On the other hand, the iron and steel industry did not improve the basic structure of overcapacity and oversupply and saw low profitability. According to the Ministry of Industry and Information Technology, in 2014, key iron and steel companies recorded sales profit margin of merely 0.9%, the lowest among all industrial sectors.

Amid challenging and complicated market situation, the Company focused on improving profitability, comprehensively deepened reform and innovation, and paid close attention to systematic economic operation and operating efficiency improvement, in an effort to create a new situation for transformation and development. In 2014, despite difficulties at the beginning of the year, the Company practically maintained stable production, optimized divided and combined production model for production lines, efficiently allocated resources, rapidly proceeded with structural adjustment and continued to improve operating performance. In 2014, the Company developed 1.5 million tons of new products, among which the high-power locomotive wheels have been certified by CRCC (China Railway Test & Certification Centre) and are being used on a large scale, the wheels for 250km/h multiple units have been installed for commissioning, the pilot production of wheels for 350km/h high-speed multiple units has reached technological standards, and HRB500DW low-temperature steel bar has filled a domestic gap. In 2014, the Group produced 17.97 million tons of pig iron, down 0.83% YoY, and 18.87 million tons of crude steel and 18.38 million tons of steel products, up 0.43% and 1.38% YoY respectively (Specifically, the Company produced 13.08 million tons of pig iron and 13.97 million tons of crude steel, down 2.75% and 0.5% YoY respectively, and 13.50 million tons of steel products, up 1.05% YoY).

Under the PRC Accounting Standards, the Group's operating revenue for 2014 amounted to RMB59,821 million representing a decrease of 19% over the previous year, net profit attributable to shareholders of the Company in 2014 amounted to RMB221 million, representing a year-on-year increase of 40.32%. while basic earnings per share amounted to RMB0.029, representing a year-on-year increase of 40.2%. As at the end of the reporting period, the Group's total assets amounted to RMB68,511 million, representing a year-on-year decrease of 4.61%; and net assets attributable to shareholders of the Company amounted to RMB23,296 million, representing a slight increase of 0.71% year-on-year. As at the end of the reporting period, the Group's gearing ratio was 62.21%, with a decrease of 2.01 percentage points compared to last year.

Taking into full consideration of the industry conditions, company profitability, future development needs and shareholders' interests, the Board recommended not to pay any cash dividend for 2014 and no capital reserve fund will be transferred to share capital. Undistributed profits will be transferred to 2015. This distribution scheme is subject to the consideration at the annual general meeting.

Pursuant to the approval by the shareholders' general meeting, the Company issued short-term financing bonds of RMB5 billion on 22 August 2014 at a coupon rate of 5.56% for replenishing working capital.

For a long time, the Company has been committed to promoting comprehensive and cohesive development between its business, society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". In 2014, with reference to the new emission standards in the iron and steel industry, the Company investigated almost every source of pollution and pollution control equipment, and analysed and developed rectification plans in all aspects including the pollutant generation, collection, and handling. Focusing on the major problems, the Company increased investment on the pollution-treatment projects. With nearly RMB220 million, investments in the year, the Company now can reduce 7,000 tons of sulfur dioxide emissions and 5,000 tons of particulate emissions annually. During the reporting period, the Company continued to work hard on the energy resources utilization, energy conservation and emission reduction. The Company's consumption of new water per tonne of steel was 3.98m^3 and the comprehensive utilization rate of solid waste was 99.93% for the year.

Looking forward to 2015, China's economy is experiencing "Three Superposed Periods" with adjustment to growth rate, pains associated with restructuring and digestion of earlier stimulus policies, and shows a state of new normal moving from high-speed growth to middle-to-high-speed growth, continuous optimization and upgrading of economic structure, and shifting from factor-driven to innovation-driven development. Amid overcapacity and stable yet decreasing demand, companies still face difficult situation.

In 2015, the Group plans to produce 18.63 million tonnes of pig iron, 19.71 million tonnes of crude steel and 19.57 million tonnes of steel products (of which the Company plans to produce 13.68 million tonnes of pig iron, 14.76 million tonnes of crude steel and 14.47 million tonnes of steel products). Themed on comprehensively proceeding with lean operation and stimulating people's enthusiasm, the Company will focus on competitiveness improvement and profitability maximization, deepen its reform and innovation, pursue excellence in proactively adapting to the New Normal, and build a better Ma Steel:

➢ Continue to focus on clients to ensure timely delivery, accurately identify client demand, optimize order scheduling, and reinforce the linkage between production and sales, so as to make production professional individualized and efficient. Make use of integration advantage of the manufacturing system and optimize division of work to maximum efficiency in allocating limited resources.

➢ Reinforce the fundamental role of blast furnace in iron and steel production, put in place the examination system and external assurance alert mechanism for operation of blast furnace, improve control of operation technologies, and ensure long life-cycle stable and smooth operation of blast furnace. Focusing on improve order delivery, improve basic management of planned production goals, reinforce assessment of production and operation plans, improve compliance with process and implement plans rigidly.

- Focus marketing efforts on discovering demand, increasing direct supply, expanding channels, raising sales price and tracking relevant services to build a new service-based marketing mode. Make use of synergies of sales units, and through combination of direct supply, distribution, processing and dispatching and e-commerce, increase the number of end clients and improve the percentage of direct supply.

- Create quality culture, maintain effective operation of quality management system, vigorously proceed with standardization efforts, reinforce control of processes, increase efforts to solve difficult quality problems, continue to reinforce examination of compliance with process rules and apply accountability system for quality problems.

- Focus on supporting smooth production, product quality improvement and systemic economic operation, reinforce equipment condition control and "zero-breakdown" management, make scientific and efficient overhaul and ensure equipment accuracy.

- Start to set up an energy management system which is based on high-efficiency operation status, oriented by value flow and able to promote matter flow and energy flow. Give play to the functions of the energy optimization and management system, actively enhance energy conservation throughout operational procedures, and propel the efficient operation of the energy system.

- Propel the development of pollution control projects, improve the capabilities of environmental risk management, reinforce the control of pollutant emission, and ensure the effective operation of ISO1400 environmental management system.

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

Ding Yi
Chairman

25 March 2015
Maanshan City, Anhui Province, the PRC

1.2 Management Discussion and Analysis

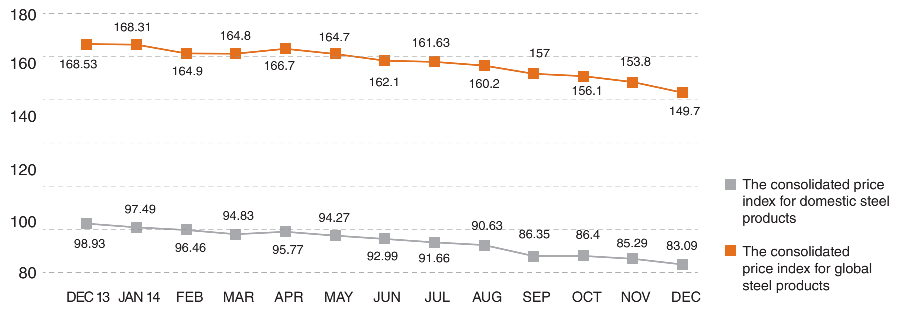
➢ Business Environment

- **The steel product market**

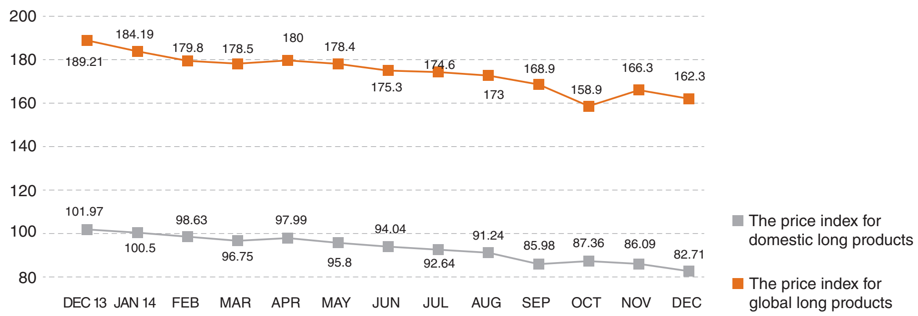
In 2014, the steel price generally moved lower in volatility and fluctuated more violently than last year in both international and domestic markets.

The average consolidated price index for global steel products was 160.83, down 10.37 year-on-year, representing a decrease of approximately 6.1%. In particular, the average price index for long products was 173.35, down 16.82 year-on-year, representing a decrease of approximately 8.8%. The average price index for steel plates was 155.02, down 7.08 year-on-year, representing a decrease of 4.4%. The biggest difference in consolidated price index for steel products was 18.6, an increase of 6.3% over the previous year.

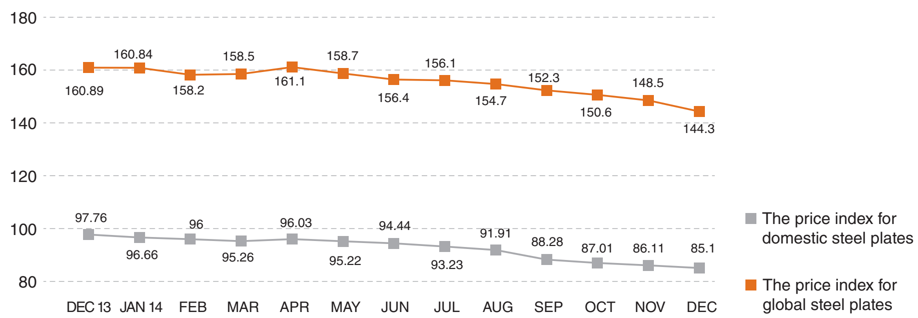
The average consolidated price index for domestic steel products was 91.27, down 11.34 year-on-year, representing a decrease of 11.05%. In particular, the average price index for long products was 92.48, down 12.39 year-on-year, representing a decrease of approximately 11.81%; and the average price index for steel plates was 92.10, down 10.06 year-on-year, representing a decrease of approximately 9.85%. The biggest difference in consolidated price index for steel products was 14.4, an increase of 25.5% over the previous year.



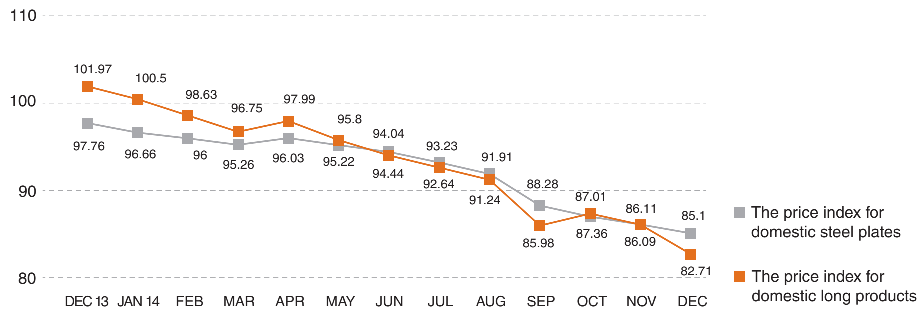
Trend of consolidated price index for global and domestic steel products in 2014



Trend of global and domestic price index for long products in 2014



Trend of global and domestic price index for steel plates in 2014



Trend of price index of long products and steel plates in the domestic market in 2014

Net exports of steel products in the PRC continued to pick up in 2014. According to the Customs statistics, exported steel products in aggregate during the year amounted to 93.78 million tonnes, a year-on-year increase of 50.5%; imported steel products in aggregate during the year amounted to 14.43 million tonnes, a year-on-year increase of 2.5%. Net exports of equivalent crude steel were 84.41 million tonnes, up by 33.08 million tonnes year-on-year, representing an increase of approximately 64.4%.

Generally speaking, in 2014, the prices of steel products in the international and domestic markets trended in a similar way, with annual averages both lower than those in the previous year. In the domesic market, the prices of both long products and steel plates dropped significantly, with long products seeing greater price fluctuations and being more vulnerable to price declines than steel plates.

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

In 2014, the prices of iron ore and scrap steel generally kept falling down, and coking coal prices dropped significantly in the first quarter of the year and experienced a further downturn afterwards. According to statistics from the MIIT, the average CIF price of imported iron ores in China was US$100.42/t, representing a decrease of 22.5% year-on-year.

➢ **Major work**

During the reporting period, the Company implemented all-rounded measures to cut costs and enhance efficiency, established long-term benchmarking mechanism on work processes and production lines, and proceeded with systematic economical operation.

The Company continued to re-built its manufacturing system in an orderly manner, integrated and set up an energy plant, and established the manufacturing department and the cold rolling plant. The Company also established the ironmaking technology department, and built the examination system and external assurance alert mechanism for blast furnace operation, as a result of which production of the blast furnace gradually became stable and smooth. For the steel rolling system, the Company implemented the principle of "stabilizing production, reducing inventory and ensuring order delivery", optimized the work production division and combination mode for production lines, and improved resource allocation by marginal profit and accelerated utilization of production capacity of plate and strip products, significantly increasing the percentage of plate and strip products.

In terms of purchases, the Company optimized its purchasing strategy, reinforced benchmarking and bidding for procurement, and greatly reduced purchasing cost. In terms of sales, the Company established the commodity stock center and seven regional sales companies, optimized allocation of sales efforts, accelerated transformation of marketing mode, further increased the percentage of directly supplied steel products, and also vigorously explored the overseas market with 790,000 tons of steel products exported in 2014.

The Company improved the equipment management mode of "economical investment and controllable risk", reinforced equipment precision management, and continued to improve stability and economy of equipment operation.

Efforts were put in reinforcement of quality management and generating solution for problems related to product quality. The Company was awarded the "Golden Cup" for three products including cold heading hot rolled wire rods, and was awarded the "Super Quality" for its integral rolled steel wheels used on high-speed railway passenger carriages.

➢ **Operating results during the reporting period under PRC Accounting Standards**

Operating income decreased by 19% over the previous year mainly due to the decline in the selling prices of steel products for the year. Operating costs decreased by 20.67% over the previous year mainly due to the drop in the purchase prices of raw materials and fuels. Operating profit, profit before tax and net profit attributable to the owners of the parent company increased during the reporting period by 110.40%, 58.97% and 40.32%, respectively, over the previous year, mainly due to the Company's successful cost reduction and efficiency enhancement during the reporting period.

1.3 Analysis of Principal Operation

➢ **Analysis of the change in items of the statements of profit or loss and cash flows**

Unit: RMB'000

Items	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	59,820,938	73,848,883	-19.00
Cost of sales	55,840,223	70,393,963	-20.67
Selling expenses	512,506	423,074	21.14
Administrative expenses	1,310,839	1,333,992	-1.74
Financial expenses	1,243,663	1,154,160	7.75
Net cash flows from operating activities	2,912,854	5,091,359	-42.79
Net cash flows from/(used in) investing activities	1,326,247	-4,542,699	–
Net cash flows used in financing activities	-3,344,296	-5,300,587	–
Research and development expenditure	822,563	785,623	4.7

The net cash flow from operating activities dropped by 43% year-on-year, mainly resulting from the decrease in the cash received from the sale of goods during the reporting period.

The other items experiencing year-on-year changes of over 30% and the reasons for such changes are as follows:

- The asset impairment loss in 2014 was RMB770 million, down by RMB390 million year-on-year, which was mainly because the reduction of ending inventory resulted in the decrease in the impairment provision against inventory, and the impairment provision last year against inventory had been all written off this year.

- The investment income in 2014 was RMB150 million, decreasing by RMB140 million year-on-year, which was mainly because the disposal of associated companies, joint ventures and some subsidiaries whose primary business was not iron & steel (hereinafter "non-steel subsidiaries") resulted in an investment income of RMB80.21 million in 2013, while there was no such disposal and thus no such income in 2014.

- The non-operating income in 2014 was RMB540 million, dropping by RMB350 million year-on-year, which was mainly because the non-operating income in 2013 included RMB430 million from the disposal of non-current assets of the non-steel subsidiaries and the government subsidy of RMB280 million; while the non-operating income in 2014 included the government compensation for land repurchase of RMB308 million and other government subsidy of RMB230 million.

- The non-operating expenses in 2014 were RMB86.87 million, increasing by RMB 79.18 million year-on-year, which was mainly because of the loss of RMB83.00 million from the disposal of non-current assets (including land use rights and fixed assets) by Hefei Co. in 2014.

- The income tax expense was RMB248 million in 2014, up by RMB134 million year-on-year, which was mainly because the decrease of temporary differences arising from the asset impairment provisions and other items resulted in the increase of RMB97.34 million in deferred income tax expense, and the decrease in the tax loss carryforwards expected to be available for use in future resulted in the increase of RMB44.83 million in deferred income tax expense.

➢ **Revenue**

- ***Analysis of sales of goods by product***

Unit: 10,000 tonnes

Product category	Production volume during the year	Sales volume during the year	Inventory the end of the year
Steel plates	878.6	880.4	2.5
Section steels	207.7	208.7	0.7
Wire rods	724.8	725.4	7.3
Train wheels	18.8	18.8	0.7
Specialty Steel	7.6	7.3	1.0

During the reporting period, the Company vigorously adjusted its product structure, optimized resource allocation according to marginal profit and accelerated utilization of production capacity of steel plates and strip products, as a result of which production and sales volume of steel plates significantly increased, with production and sales volume of section steels and wire rods decreased accordingly. Production and sales volume and ending stock level of train wheels did not change significantly on a year-on-year basis.

- *Major customers*

The Group's sales to the top five customers totaled RMB6,228 million in 2014, representing 10% of the total sales revenue of the Group for the year.

➢ Cost of sales

- ***Analysis of cost***

By industry Unit: RMB Million

By industry	Cost components	Amount in 2014	% of total cost in 2014	Amount in 2013	% of total cost in 2013	Change in amount (%)
Iron and Steel	Raw materials	40,006	75.0	51,434	80.0	-22.2
	Salary	3,888	7.3	4,023	6.3	-3.4
	Depreciation	3,551	6.7	3,733	5.8	-4.9
	Fuels	4,006	7.5	3,463	5.4	15.7
	Others	1,913	3.5	1,645	2.5	16.3

- ***Major suppliers***

  In 2014, the Group's purchase from the top five suppliers totaled RMB8,329 million, accounting for 22% of the Group's total purchase amount for the year. Among the above suppliers, the Group Company is the Company's controlling shareholder. Other than that, in 2014, none of the Directors, Supervisors, their connected parties and other shareholders (to the knowledge of the Board, holding 5% or more of the Company's share) held any beneficial interest in the Group's five largest suppliers or customers.

➢ **Research and development (R&D) expenditure**

- ***Analysis of R&D expenditure***

Unit: RMB'000

Expensed R&D expenditure in 2014	822,563
Capitalized R&D expenditure in 2014	-
Total R&D expenditure	822,563
Total R&D expenditure as a share of net asset value (%)	3.18
Total R&D expenditure as a share of operating revenue (%)	1.38

➢ **Cash flows**

In 2014, the Group recorded a net profit of RMB221 million attributable to the equity holders of the Company. Compared with the increase of RMB2,980 million in net cash flows generated from operating activities, the difference of RMB2,759 million was mainly due to a decrease in cash received from sales of goods during the reporting period. Net cash flows from operating activities decreased by 43% year-on-year mainly due to a decrease in cash received from sales of goods during the reporting period, the cash flows from investment activities turned from net outflow into net inflow, which was mainly because the recovery of the outstanding consideration in the reporting period from the disposal of the assets in non-steel business last year, the decrease in the deposit of the processing center for bank acceptance bills that resulted in reduced restricted cash and the decrease in the cash expenditure on construction projects. The net cash outflows from financing activities decreased by 37% year-on-year, mainly resulting from the issuance of short-term financing bonds.

1.4 Analysis of Operations by Industry, Product or Region

➢ Principal operation by industry and product

Unit: RMB million

Principal operation by industry						
Industry	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/ (decrease) of gross profit margin (%)
Iron and Steel	56,445	53,364	5.46	-10.47	-12.73	Increase by 2.45 percentage point

Principal operation by product						
Product category	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/ (decrease) of gross profit margin (%)
Steel plates	26,108	23,799	8.84%	-5.04%	-8.66%	Increase by 3.61 percentage point
Section steels	5,595	5,592	0.05%	-29.11%	-29.18%	Increase by 0.09 percentage point
Wire rods	19,579	19,241	1.73%	-17.62%	-17.96%	Increase by 0.41 percentage point
Train wheels	1,393	1,154	17.16%	4.82%	2.40%	Increase by 1.96 percentage point

During the reporting period, revenue from principal operation was RMB58,268 million, among which revenue from iron and steel operation was RMB56,445 million, accounting for 97% of revenue from principal operation.

➢ **Principal operation by region**

Unit: RMB million

Region	Revenue	Year-on-year increase/ (decrease) of revenue (%)
Anhui	25,431	67.55
Jiangsu	9,044	-24.32
Shanghai	7,401	5.47
Zhejiang	3,901	73.22
Guangdong	761	-72.79
Other domestic regions	10,505	-65.38
Hong Kong and overseas regions	2,778	-35.52

1.5 Analysis of Assets and Liabilities

➢ **Analysis of Assets and Liabilities**

Unit: RMB'000

Item	Closing balance of 2014	Percentage of closing balance of 2014 in total assets (%)	Closing balance of 2013	Percentage of closing balance of 2013 in total assets(%)	Year-on-year change(%)
Prepayments	648,963	0.95	1,022,395	1.42	-36.53
Other receivables	255,578	0.37	1,948,145	2.71	-86.88
Loans and advances to customers	633,203	0.92	486,512	0.68	30.15
Construction in progress	2,831,050	4.13	8,729,815	12.15	-67.57
Deposits and balances from banks and other financial institutions	500,000	0.73	–	–	100.00
Short-term loans	12,058,395	17.60	8,553,510	11.91	40.98
Payroll and employee benefits payable	299,077	0.44	208,891	0.29	43.17
Non-current liabilities due within one year	2,231,683	3.26	7,951,718	11.07	-71.93
Deferred income	1,186,359	1.73	609,638	0.85	94.60

- The prepayment was RMB650 million at the end of 2014, decreasing by RMB370 million year-on-year, which was mainly because: first, the continuous downturn of the steel market this year resulted in the decrease in the prices of raw materials, especially iron ores; second, the Company and its subsidiaries was required to operate with low inventory levels in 2014 and to control the ending stock levels of materials and fuels such as iron ores so as to enhance turnover, reduce costs and improve efficiency. Thus the prepayment was accordingly reduced.

- Other receivables totaled RMB256 million at the end of 2014, down by RMB1,690 million year-on-year, which was mainly because the outstanding consideration of RMB1,570 million at the end of prior year was recovered in 2014 relating to the sale of equity interests and some assets of non-steel subsidiaries by the Company to the Group Company in October 2013.

- Loans and advances to customers totaled RMB630 million at the end of 2014, increasing by RMB150 million year-on-year, which mainly resulted from the increase in the loans held by Masteel Financial.

- Construction in progress totaled RMB2.8 billion at the end of 2014, decreasing by RMB5.9 billion year-on-year, which was mainly because the No. 4 Steel Rolling 1580 mm hot rolling project, the converter and continuous casting project, and Phase-II technological transformation project for silicon steel were transferred from construction in progress to fixed assets this year.

- The Deposits and balances from banks and other financial institutions was RMB500 million at the end of 2014, up by RMB500 million from nil at the end of last year, which was mainly because Masteel Financial borrowed RMB500 million on the interbank lending market to make up for the insufficient short-term liquidity.

- The short-term borrowing was RMB12.1 billion at the end of 2014, increasing by RMB3.5 billion year-on-year, which was mainly because the Company issued the short-term financing bonds of RMB5 billion and repaid the short-term financing bonds of RMB1.5 billion issued last year.

- The payroll and employee benefits payable was RMB299 million at the end of 2014, up by RMB90 million year-on-year, mainly resulting from the increase in accrued payroll, bonuses and allowances.

- Non-current liabilities due within one year totaled RMB2.23 billion at the end of 2014, down by RMB5.7 billion year-on-year, which was mainly because: first, in 2014, the Company repaid the long-term borrowings of RMB2 billion due within one year, medium-term notes of RMB2.8 billion and bonds payable of RMB3.15 billion; second, the long-term borrowings of RMB2.23 billion was reclassified at the end of 2014 into non-current liabilities due within one year.

- Deferred income was RMB1,190 million at the end of 2014, increasing by RMB580 million year-on-year, which was mainly because RMB652 million of the government compensation for land repurchase received by Hefei Co. is yet to be recognized as income until the disposal of relevant assets in 2016.

➢ **Notes on the assets measured at fair value and changes to the measurement of primary assets**

In the reporting period, the Group's financial assets measured at fair value through profit or loss were accounted for under the fair value method, using the market stock prices as basis of fair value. For details, please refer to "Securities Investment". In the reporting period, there were no significant changes to the measurement of primary assets.

1.6 Analysis of core competitiveness

As at 31 December 2014, the Company had 632 valid patents, 8 concessions and 513 valid technical secrets. The patented technologies, technical secrets and technical know-how constitute the Company's core technology system. The Company creates its own core technologies in various key products such as wheels (especially high-speed CRH Wheels), high-power locomotive wheels, high-strength automobile plates, efficient and resource-conserving construction steel, H-shaped steel for marine engineering, hot rolled high-grade pipeline steel and efficient electrical steel. Compared with other similar enterprises, the Company has a competitive advantage. In particular, the Company assumes a dominant position in terms of technology in efficient and resource-conserving construction steel, wheels, high-speed CRH and high-power locomotive wheels in China.

1.7 Investment Analysis

➢ **General analysis of external equity investments**

Unit: RMB10,000

Investment amount as at the end of the reporting period of the Company	666,902
Increase/(decrease) of investment amount	63,490
Investment amount as at the end of previous year of the Company	603,412
Increase/(decrease) in investment amount (%)	10.52

Investees newly established or with changes in investment during the reporting period

Name of investees	Principal business	Percentage of equity interest
Maanshan Iron & Steel Wuxi Sales Co., Ltd.	Sales of steel products and metallurgical products	100%
Masteel (Wuhan) Steel Sales Co., Ltd.	Sales of steel products and metal minerals	100%
Nanjing Masteel Steel Sales Co., Ltd.	Sales of steel products and metallurgical byproducts	100%
Masteel (Chongqing) Steel Sales Co., Ltd.	Sales of steel products and building materials (excluding hazards)	100%
Masteel (Shanghai) Steel Sales Co., Ltd.	Sales of steel products and metallurgical byproducts	100%
Masteel (Hangzhou) Steel Sales Co., Ltd.	Wholesales of steel products and metallurgical byproducts	100%
Guangzhou Masteel Steel Sales Co., Ltd.	Steel wholesales (restricted to branches); steel sales (restricted to branches); other storage services (excluding storage of crude oil, refined oil, gas and hazards)	100%
MG-Valdunes S.A.S.	Design, manufacturing, processing, sales, maintenance and repairing of all products and equipment used for railway transportation, urban transportation and machinery manufacturing; sales, import & export of steel products; financing, commerce, industry, securities and real estate business beneficial to development of the Company	100%

Name of investees	Principal business	Percentage of equity interest
Anhui Linhuan Chemical Co., Ltd.	Production and sales of coke and chemical products and development of relevant products, sales of coal, metal materials and products, iron ore, fertilizers, Machinery & Electronics equipment and accessories	12%
Masteel (Hong Kong) Co., Ltd.	Trading in steel and pig iron	91%
Masteel (Hefei) Advanced Materials Technology Co.,Ltd.	Material technology research for automobile, household appliance and machinery related industries; R&D, production and sales of laser tailor-welded blanks and stamped parts; processing, warehousing and services of iron & steel and extended products.	70%
Maanshan Masteel Jinxi Rail Traffic Equipment Co., Ltd.	R&D, manufacturing, repair and sales of axles for railway cargo vehicles and passenger vehicles and universal axles for urban rail traffic and R&D, manufacturing and sales of bogies	50%

Securities investment

Item no.	Type of securities	Securities code	Abbreviation	Initial investment amount (RMB)	Number of shares held	Book value at of the end of the reporting period (RMB)	Proportion of securities investment at the end of the reporting period (%)	Gains/loss in the reporting period (RMB)
1	Stock	601857	PetroChina	584,500	35,000	378,350	35.24	108,500
2	Stock	601390	China Railway Group	158,400	33,000	306,900	28.59	218,460
3	Stock	601186	China Railway Construction	181,600	20,000	305,200	28.43	211,400
4	Stock	601898	China Coal Energy	201,960	12,000	83,040	7.74	25,800
Total				1,126,460	/	1,073,490	100	564,160

Analysis of securities investment

At the end of the reporting period, the Company held no stock holdings in other listed companies or equity holdings in non-listed financial institutions except for those listed above. In the reporting period, the Company did not trade in the stocks of other listed companies.

➢ **Proceeds raised**

- **Proceeds raised**

  √ Not applicable

- **Information on projects undertaken to be financed by the proceeds**

  √ Not applicable

- **Change in projects to be financed by the proceeds**

  √ Not applicable

➢ **Analysis of the Group's major subsidiaries and investees**

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB1.19 million. As at the end of the reporting period, it had total assets amounting to RMB5,562 million and net assets of RMB3,313 million.

- Anhui Chang Jiang Iron and Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. Net profit for the reporting period amounted to RMB7.2 million. As at the end of the reporting period, it recorded total assets of RMB6,266 million and net assets of RMB2,361 million.

- Magang Group Finance Co., Ltd. has a registered capital of RMB1,000 million and 91% of its equity is directly owned by the Company. It is primarily responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB118.8 million. At the end of the reporting period, its total asset value was RMB7,759 million and net asset value RMB1,371 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net loss for the reporting period was RMB6.9 million. As at the end of the reporting period, it had total assets amounting to RMB177 million and net assets of RMB122 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 27.3%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB7.1 million. As at the end of the reporting period, it had total assets amounting to RMB617 million and net assets of RMB114 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net loss for the reporting period amounted to RMB12.5 million. As at the end of the reporting period, it had total assets amounting to RMB344 million and net assets of RMB121 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB3.2 million. As at the end of the reporting period, it had total assets amounting to RMB702 million and net assets of RMB178 million.

- Anhui Masteel Holly Industries Co., Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 71% and an indirect stake of 26.39%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of onsite packaging services. Net profit for the reporting period amounted to RMB3.2 million. As at the end of the reporting period, it had total assets amounting to RMB292 million and net assets of RMB172 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary of the Company, 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 RMB60.9 million. As at the end of the reporting period, it had total assets amounting to RMB280 million and net assets of RMB259 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB148.3 million. As at the end of the reporting period, it had total assets amounting to RMB690.8 million and net assets of RMB622.8 million.

- Ma Steel (Hefei) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 25.48%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB2.2 million. As at the end of the reporting period, it had total assets amounting to RMB472 million and net assets of RMB155 million.

➢ **Projects financed by other than fundraising proceeds**

√ Applicable

Unit: RMB million

Project name	Project amount	Project progress
4# Blast Furnace Project of No. 2 Iron-making Factory	1,149.9	Foundation Construction
3# Sintering Machine Project of No. 2 Iron-making Factory	499.8	Foundation Construction
Public and Auxiliary Supporting Project	411.2	Advance-phrase preparation
Port Raw Material Plant Adaptability Renovation Project	253.5	Foundation Construction
Rolled Rebar Finishing Project of Special Steel Company	224.8	Equipment debugging
Coking Company New District Full CDQ Project	150.0	Equipment assembling
4th Steel Rolling Plant New Reroll Inspection Line Project	100.0	Foundation Construction
Total	2,789.2	/

2. THE BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT

2.1 Industry Competition and Development Strategy

The details are stated in the Management Discussion and Analysis in Report of the Directors.

2.2 Business Plan

The details are stated in the Management Discussion and Analysis in Report of the Directors.

2.3 Operating Plan

The details are stated in the Management Discussion and Analysis in Report of the Directors.

2.4 Capital Requirements needed by the Company for Maintaining Current Businesses and Completing Investment Projects under Construction

In 2015, the Company requires a total of RMB2.6 billion to maintain current businesses and to complete investment projects under construction, which is within the annual depreciation limits and is planned to be covered solely by owned capital.

In 2015, the Company's total planned financing amount is on par with that in the previous year, which mainly includes debt financing. Specifically, the Company will 1) try to roll over existing bank loans upon maturity and obtain additional RMB1-2 billion bank loans; 2) maintain the cross-border financing at the previous-year level; 3) issue mid-term notes of RMB2-4 billion, and 4) issue short-term financing bills or other financing of RMB1-2 billion.

2.5 Possible Risks

➢ **Risk of trade frictions on steel exports**

As China's steel export is approaching 100 million tons, an increasing number of countries start to adopt anti-dumping and trade protection policies for steels imported from China. Particularly, South Korea recently started an anti-dumping investigation on H sections exported from China, which involves a large portion of our exports.

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

➢ **Risk of significant fluctuations in RMB exchange rate**

As the USD index approaches the level of 100 refreshing the 11.5-year high, RMB once depreciated against USD by more than 3%, while appreciates against Euro continuously. Significant fluctuations in exchange rate pose certain price risks to iron ore purchases and steel exports, and may also bring some risks to USD-denominated liabilities of the Company.

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

➢ **Environmental protection risk**

2015 is the first year that China adopts the new environmental protection law. The iron & steel industry, as an intensive energy-consuming and high-polluting industry, will inevitably come under tremendous pressure of energy conservation and environmental protection. Iron & steel companies situated in and around large cities will be subject to greater public scrutiny.

Countermeasures: build large blast furnaces meeting environmental protection requirements, and gradually close blast furnaces under 1,000 m^3; put more efforts to adjust product structure, increase production of high added value products including steels for automobiles, household appliances and railways, and appropriately reduce production and sales of steels for building purpose. Hefei Co. will transform its business to plate and strip processing and iron and steel logistics.

3. THE BOARD'S EXPLANATION FOR THE ACCOUNTING FIRM'S "NON-STANDARD AUDIT REPORT"

3.1 The Board and the Supervisory Committee's Explanation for the Accounting Firm's "NonStandard Audit Report"

√ Not applicable

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

The resolution on the "Adjustment of useful lives of certain fixed assets" was passed at the 2013 Annual General Meeting on 27 June 2014.

➢ **Summary of the changes of accounting estimates**

According to the Accounting Standards for Business Enterprises, the Company reviewed the actual useful lives of all fixed assets, and determined to adjust the useful lives of certain fixed assets starting from 1 July 2014, the details of which are as follows:

Type of fixed assets	Useful lives before adjustment (number of years)	Useful lives after adjustment (number of years)
Buildings and fixtures	20	30
Equipment	13	15

➢ **Explanation on changes of accounting estimates**

The original cost of the Company's existing fixed assets is RMB61 billion, including RMB41.2 billion for equipment-type fixed assets, RMB15.5 billion for buildings & fixtures-type fixed assets and RMB4.3 billion for other-type fixed assets. The original cost of fixed assets still in use after the due dates of their useful lives is RMB7.3 billion, which are basically online equipment-type assets and buildings and fixtures still in use, with their asset status and production capacity remaining at a normal level. The RMB22.6 billion capital expenditures already made and to be made by the Company during the "Twelfth Five Year Plan" period has boosted the overall technology advance of the Company's fixed assets. Meanwhile, by intensive investments on maintenance and relevant technological transformation programs in recent years, the Company has relatively restored the equipment specification, improved equipment performance and extended the actual useful lives of equipment, buildings & fixtures. From the perspective of the re-verified actual service life of the Company's fixed assets, their actual service lives are generally longer than the previously designated accounting estimates. According to the provisions of Accounting Standards for Business Enterprises, the Company shall at least review the expected useful lives, expected residual value and depreciation method of fixed assets by the end of each year, and if there is a difference between the expected useful lives and the previously estimated useful lives of fixed assets, the useful lives of fixed assets shall be adjusted. In consideration of the overall status of the Company's fixed assets and the common practice within the industry, the Company believes that, by adjusting the useful lives of equipment-type assets from 13 years to 15 years and adjusting the useful lives of buildings & fixture-type assets from 20 years to 30 years, the Company's financial information will be presented on a more objective basis.

➢ **Impact on the Company from changes of accounting estimates**

With the new useful lives being effective since July 2014, the depreciation expenses of fixed assets for 2014 was reduced by RMB450.29 million, while owners' equities and net profits increased by RMB337.72 million.

3.3 The Board's Analysis and Explanation on the Reasons for and the Impact of Corrections to Major Errors of Previous Periods

√ Not applicable

4. THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

4.1 Formulation, Implementation and Adjustment of a Cash Dividend Policy

According to the Article 191 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.

4.2 The Dividend Distribution or Capital Reserves Capitalisation and Bonus Sharing Declared by the Company in the Last Three Years (Reporting Period Inclusive)

Unit: RMB1,000,000

Year of dividend	Bonus shared for each 10 shares (share)	Dividend distributed for each 10 shares (RMB) (tax inclusive)	Transfer of capital reserve to shares for each 10 shares (share)	Total amount of cash dividends (tax inclusive)	Net profits/(loss) attributed to the shareholders of the Company shown in the consolidated statement for the dividend year	Ratio between the dividends and the net profit/(loss) attributed to the shareholders of the Company in the consolidated statement (%)
2014	0	0	0	0	220.6	0
2013	0	0	0	0	157.2	0
2012	0	0	0	0	–3,863.2	0

5 ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

5.1 Social Responsibility Work

Further details are stated in "Maanshan Iron & Steel Company Limited Social Responsibility Report 2014". Information source: www.sse.com.cn, www.hkexnews.hk.

5.2 Statement on the Environmental Protection of the Listed Company and its Subsidiaries in the Highly Polluting Industries Deemed by Environmental Authorities

The Company, Hefei Co. and Anhui Chang Jiang Iron & Steel are in the highly polluting industries deemed by environmental authorities.

In the reporting period, the Company, Hefei Co. and Anhui Chang Jiang Iron & Steel did not experience severe environmental issues, their environmental facilities were built and run simultaneously with main works, the emergency plan for environmental pollution incidents was revised and rehearsed on a regular basis, major pollutants were released in line with state standards, the discharge amount met the requirements by the state level, provincial level and city level authorities on pollutant discharge reduction.

6 OTHER MATTERS

6.1 During the reporting period, the Company did not redeem any of its listed securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

6.2 Under the PRC laws and the Articles of Association, the Company is not required to allow existing shareholders to buy new shares first in proportion to their shareholding during the issue of new shares by the Company.

6.3 The directors of the Company have not entered into any service contract with the Company, which is not terminable within one year without the payment of compensation (other than statutory compensation) by the Company.

6.4 During the reporting period, neither the directors nor the supervisors of the Company had any direct or indirect material interest in any contract concluded by the Company, the subsidiaries of the Company, the Group Company or any service company of the Group.

V. Significant Matters

1. MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

√ Applicable

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

Summary of the case and type of controversy	Information source
Adjudication of Bankruptcy of Logistics Co.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-08-01/600808_20140802_1.pdf

2. OCCUPATION OF FUNDS AND REPAYMENT PROGRESS IN THE REPORTING PERIOD

√ Not applicable

3. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Other than the event aforementioned, no insolvency or restructuring related matters occurred during the reporting period.

4. ASSET TRANSACTIONS AND MERGER OF COMPANIES

√ Applicable

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

Brief description and nature of the matter	Information source
Acquisition of Valdunes' Assets	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-06-09/600808_20140610_1.pdf

5. THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

√ Not applicable

6. MATERIAL CONNECTED TRANSACTIONS

√ Applicable

6.1 Connected Transactions related to Normal Operations

Normal businesses between the Company and Holding

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

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

The payment made by the Company to Holding in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2012, from 1 January 2014 to 31 December 2014 was as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	3,489,875	25

The price of iron ore, limestone and dolomite per tonne purchased every year by the Company from Holding shall be determined between the two parties during the term of the agreement. The price per tonne for a particular year shall first be arrived at, through arm's length negotiations, with reference to the market price and shall not be higher than the three largest independent suppliers' weighted average price per tonne and delivered to the Company's vicinity at Maanshan City of Anhui Province in the PRC.

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. During the reporting period, such transactions were conducted pursuant to the terms as set out in the "Sale and Purchase of Ore Agreement" with effect from 2013 to 2015. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB6,607.76 million.

➢ Businesses between Masteel-Financial and Holding

Business nature		Amount of loan or deposit RMB'000	Interest incomes/ expenses RMB'000
Deposit	Maximum daily deposit	1,528,631	15,848
	Monthly average maximum daily deposit	1,311,447	
Loan	Maximum daily loan	574,900	25,816
	Monthly average maximum daily loan	559,248	
Other income			
Net income from handling fee and commission (RMB'000)			1,897
Income from discount interest (RMB'000)			18,329

The continuing connected transactions arising under the Finance Services Agreement between Masteel Financial and Holding in 2014 were approved by the Board. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out on normal commercial terms and were in the overall interests of the Company and its shareholders. Such transactions did not exceed the stated cap amounts, i.e. the maximum daily deposit balance should be no more than RMB600 million, and the interest, handling fees and service charges should be no more than RMB60 million.

➢ Business transactions between the Group and environmental protection companies:

The transactions took place between 1 January and 31 December 2014 for the Group under the Energy Saving and Environmental Protection Agreement signed in 2013 (in RMB'000):

	Amount	Proportion of transaction of the same category (%)
Purchase of energy saving and environmental protection engineering and other services by the Group from Environmental Protection Company	408,691	5
Purchase of wastes and other services by Environmental Protection Company from the Group	5,788	–
Total	414,479	–

In 2014, the Company entered into the Energy Saving and Environmental Protection Agreement with Environmental Protection Company, with both approved at the extraordinary general meeting. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out on normal commercial terms and were in the overall interests of the Company and its shareholders. Such transactions did not exceed the stated cap amounts, i.e. RMB480 million.

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

	Amount paid	Proportion of transaction of the same category (%)
Steel products and other products purchased by Holding from the Company	420,971	1
Water, electricity, telephone and other services acquired by Holding from the Company	304,326	23
Purchase by the Company for fixed assets and construction services	376,279	7
Purchase by the Company to Holding for other services and products	2,597,536	100
Total	3,699,112	–

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

Such transactions have been approved by the Board of Directors of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated have not been exceeded, i.e. RMB5,646.7 million.

- As at 31 December 2014, except for receivables and payables generated in ordinary business and the dividend payable to Holding, there was no amount due to or from the Company's connected parties.

- Material contracts with the controlling shareholder
  On 16 December 2014, the Company and the Group signed the Financial Services Agreement and the Integrated Support Services Agreement, both of which have been reviewed and approved by the board of directors. No other agreements have been signed between the Company or its subsidiaries and substantial shareholders.

Ernst & Young Hua Ming, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

7. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

7.1 Entrustment, Contracting and Leasing

√ Not applicable

7.2 Guarantees

√ Not applicable

8. PERFORMANCE OF UNDERTAKINGS

√ Not applicable

9. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Unit: RMB'000

Whether change of accounting firm:	**No**
Current Appointment	
Name of accounting firm	Ernst & Young Hua Ming
Remuneration of accounting firm	4,985 (including an internal control audit fee of RMB600,000)
Term of auditing of accounting firm	21

	Name	Remuneration
Internal control auditing accounting firm	Ernst & Young Hua Ming	600

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

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

11. OTHER SIGNIFICANT EVENTS

√ Not applicable

VI. Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

Table on Share Movements

During the reporting period, the total number of issued shares and the share capital structure of the Company had not changed.

2. SHAREHOLDER AND ACTUAL HOLDERS

2.1 Total number of shareholders:

Total number of shareholders as at the end of the reporting period (account)	339,091
Total number of shareholders as at the fifth trading day before publication of the annual report (account)	318,341

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

Unit: Share

Shareholding of the top ten shareholders						
				Pledged or frozen shares		
Name of shareholder (Full name)	Number of Shareholding at the end of the reporting period	As a Percentage to number of shares held (%)	Total number of shares held at the end of the reporting period	Share status	Number	Type of shareholders
Magang (Group) Holding Company Limited	3,886,423,927	50.47	0	nil	0	State-owned shareholder
HKSCC (Nominees) Limite	1,708,420,898	22.19	0	Unknown	Unknown	Foreign shareholder
GF SECURITIES CO., LTD.	14,000,000	0.18	0	Unknown	Unknown	Unknown
GUOSEN SECURITIES CO., LTD.	10,000,000	0.13	0	Unknown	Unknown	Unknown
Zhang Junying	7,520,000	0.10	0	Unknown	Unknown	Unknown
Hu Lixin	6,698,900	0.09	0	Unknown	Unknown	Unknown
Chen Daxin	5,000,002	0.06	0	Unknown	Unknown	Unknown
Yinfeng Security Investment Fund	4,999,945	0.06	0	Unknown	Unknown	Unknown
Che Ruiming	4,097,952	0.05	0	Unknown	Unknown	Unknown
Wang Diansheng	3,868,388	0.05	0	Unknown	Unknown	Unknown

Shareholding of top ten shareholders without selling restrictions			
Name	Number of shares held without selling restrictions	Type and number of shares: Type	Number
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares	3,886,423,927
HKSCC (Nominees) Limited	1,708,420,898	Overseas-listed foreign shares	1,708,420,898
GF SECURITIES CO., LTD.	14,000,000	RMB-denominated ordinary shares	14,000,000
GUOSEN SECURITIES CO., LTD.	10,000,000	RMB-denominated ordinary shares	10,000,000
Zhang Junying	7,520,000	RMB-denominated ordinary shares	7,520,000
Hu Lixin	6,698,900	RMB-denominated ordinary shares	6,698,900
Chen Daxin	5,000,002	RMB-denominated ordinary shares	5,000,002
Yinfeng Security Investment Fund	4,999,945	RMB-denominated ordinary shares	4,999,945
Chen Ruiming	4,097,952	RMB-denominated ordinary shares	4,097,952
Wang Diansheng	3,868,388	RMB-denominated ordinary shares	3,868,388

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

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

As at the end of the reporting period, Holding held a total of 3,886,423,927 shares of the Company (no change in the number of shares held during the reporting period), including 3,830,560,000 A shares of the Company on behalf of the State and increased a total of 55,863,927 A shares of the Company via the trading system of the SSE. Holding is the controlling shareholder of the Company. For details, please refer to "Substantial shareholders and actual holders"

HKSCC (Nominees) Limited held 1,708,420,898 H shares (an increase of 678,000 shares during the reporting period) of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody

As at 31 December 2014 and 28 February 2015, which is the latest practicable date for the publication of this report, to the best knowledge of the Directors, the Company had sufficient public float as stipulated by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange ("Hong Kong Listing Rules").

Save as disclosed above, details of the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2014 were as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (Shares)	Approximate percentage of the Company's issued H shares (%)
Morgan Stanley	Equity held by corporations controlled by substantial shareholders	87,085,566 (Long Position)	5.02
		28,148,000 (Short position)	1.62

3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS

3.1 Substantial Shareholders

Legal person

Unit: RMB'000

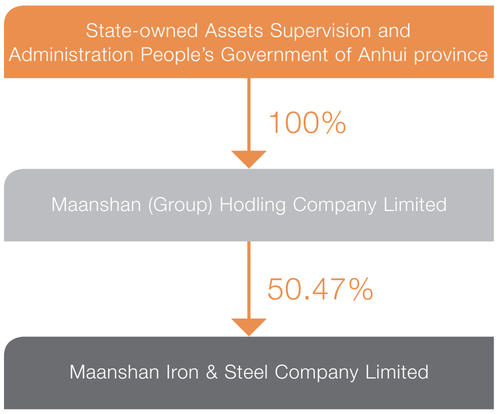
Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gao Haijian
Date of Incorporation	1 September 1993
Organization registration code	150509144
Registered capital	6,298,290
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Future development strategies	Building Masteel into a modern business group with international competitiveness
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.

3.2 Actual holders

➢ **Legal person**

Name	State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province
Organization registration code	764755374

➢ **The Proprietorship and Controlling Relationship between the Company and its De Facto Controller**



VII. Directors, Supervisors, Senior Management, Employees

1. CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS

1.1 Changes in Shareholding held by and Emoluments for Incumbent and Resigned Directors, Supervisors and Senior Management during the Reporting Period

Unit: share

Name	Position	Sex	Age	Date of term commencement	Date of term termination	Annual emoluments (before tax)
Ding Yi	Chariman	Male	51	1 September 2014	31 August 2017	–
Qian Haifan	Director	Male	54	1 September 2014	31 August 2017	85.49
Ren Tianbao	Director	Male	51	1 September 2014	31 August 2017	65.40
Su Shihuai	Director	Male	56	1 September 2014	31 August 2017	–
Qin Tongzhou	Independent Director	Male	45	1 September 2014	31 August 2017	10
Yang Yada	Independent Director	Female	59	1 September 2014	31 August 2017	10
Liu Fangduan	Independent Director	Male	51	1 September 2014	31 August 2017	10
Zhang Xiaofeng	Supervisor	Male	53	1 September 2014	31 August 2017	85.49
Fang Jinrong	Supervisor	Male	51	1 September 2014	31 August 2017	–
Yan Taixia	Supervisor	Female	49	1 September 2014	31 August 2017	27.01
Wong Chun Wa	Independent Supervisor	Male	41	1 September 2014	31 August 2017	7.37
Su Yong	Independent Supervisor	Male	60	1 September 2014	31 August 2017	7.37
Gao Haichao	Senior Management	Male	57	1 September 2014	31 August 2017	69.70
Yan Hua	Senior Management	Male	49	1 September 2014	31 August 2017	69.39
Lu Kecong	Senior Management	Male	51	1 September 2014	31 August 2017	65.6
Ren Qiang	Senior Management	Male	54	31 August 2011	27 June 2014	8.62
Total	/	/	/	/	/	521.44

Name: Working experience in recent 5 years.

Ding Yi: Mr. Ding served as the deputy general manager of the Company from January 2004. From July 2011, Mr. Ding served as the deputy general manager of Magang (Group) Holding Company Limited and no longer served as the deputy general manager of the Company since then. From 24 June 2013, Mr. Ding served as the general manager of Magang (Group) Holding Company Limited. From 9 August, 2013, Mr. Ding served as the Chairman of the Company. In addition, Mr. Ding also serves as the Chairman of the MG Trading and Development Gambit in Germany

Qian Haifan: Mr. Qian was appointed Deputy General Engineer of the Company in April 2010. Mr. Qian was appointed General Manager of the Company in July 2011 and Director of the Company in August 2011.

Ren Tianbao: Mr. Ren was a ppointed 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.

Su Shihuai: Mr. Su served as Deputy General Manager and Chief Engineer of the Company from December 2009 till July 2011. Mr. Su served as Deputy General Manager and Chief Engineer of Magang (Group) Holding Company Limited from July 2011 to present. Mr. Su was appointed as Director of the Company on 5 Feburary 2013.

Qin Tongzhou: Mr. Qin is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is presently CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming Certified Public Accountants from March 2001 to March 2010. He was appointed Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG in July 2010. Mr. Qin was appointed Independent Director of the Company on 31 August 2011.

Yang Yada: Ms. Yang is presently professor, master instructor and Dean of School of Management of Anhui University of Technology. Ms. Yang was appointed professor of School of Management of Anhui University of Technology in September 2002, mainly engaged in teaching and researching in fields of financial management and enterprise strategy. She sequentially served as Head of Business Administration Department and Deputy Dean of School of Management of Anhui University of Technology. She is presently Dean of School of Management of Anhui University of Technology and Deputy Chairman of Economic Association of Maanshan. She was elected as members of 10th and 11th and 12th National People's Congress. Ms. Yang was appointed Independent Director of the Company on 31 August 2011.

Liu Fangduan: Mr. Liu was qualified and practiced as a lawyer in 1991. He currently serves as a supervisor at Anhui Xingwan Law Firm and concurrently holds various positions such as Legal Counsel for the Wuhu Municipal People's Government and Vice-chairman of the Lawyers Association of Wuhu Municipality. Mr. Liu served as Independent Directors from October 25 2012.

Zhang Xiaofeng: Mr. Zhang was appointed Chairman of the Labour Union of Holding and the Company in August 2008. Mr. Zhang was appointed Chairman of the Supervisory Committee of the Company on 31 August 2008.

Fang Jinrong: Mr. Fang was appointed Deputy Manager of the Finance Department of the Group and the Company since February 2004. Mr. Fang has been Supervisor of the Company since 31 August 2005. Mr. Fang was appointed Vice Minister of Supervision and Audit Department since December 2013.

Yan Taixia: Ms. Yan was appointed Manager of Legal Department of the Company since July 2003 and of the Group since August 2011. Ms. Yan has been Manager of Legal Department of the Company since January 2013. Mr. Yan was appointed Supervisor of the Company since 29 November 2013.

Wong Chun Wa: Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He established ACT Business Consultants Limited in December 2006 and acted as the company's director. Mr. Wong was appointed Independent Director of the Company on 31 August 2005. He was appointed Independent Supervisor of the Company on 31 August 2011. Mr. Wong is also independent director of China Zhongwang Holdings Limited.

Su Yong: Mr. Su was appointed Deputy Director of the School of Management of Fudan University Eastern Management Research Centre in October 2004. Mr. Su has been Independent Director of the Company since 31 August 2005, and become Independent Supervisor of the Company on 31 August 2011. He also serves as independent director of Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Jahwa United Co. Ltd, Shanghai Pret Composites Co. Ltd and SGSB Group Co. Ltd.

Gao Haicao: Mr. Gao served as deputy chief engineer of the Company from April 2010 to July 2011; and assistant to the general manager of Magang (Group) Holding Co., Ltd. from July 2011 to February 2013, during which he concurrently served as manager of the technology innovation department of Magang (Group) Holding Co., Ltd. from August 2011 to July 2012. He has been the Company's deputy general manager and chief engineer since 17 February 2013.

Yan Hua: Mr. Yan was appointed Manager of Automation Project Co. and Director of Metering Department in July 2003. Mr. Yan was appointed Deputy General Manager of the Company in July 2011.

Lu Kecong: Mr. Lu was appointed Manager and Secretary of the Party General Branch of Ma Steel International Trade & Economics Corporation ("Ma Steel International Trade Corp") and Director of Foreign Affairs Office in July 2004; General Manager (Director) and Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in May 2010; General Manager (Director) and Deputy Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in February 2011. Mr. Lu was appointed Deputy General Manager of the Company in July 2011.

Ren Qiang: Mr. Ren was appointed Factory Manager and Deputy Secretary of the Party Committee of No.1 Iron-making Plant in February 2008, Manager and Deputy Secretary of the Party Committee of the Coke Plant in July 2009. Mr. Ren was appointed Deputy General Manager of the Company in July 2011. And ceased to be Vice General Manager of the Company in June 2014.

1.2 Situation of the Company's Equity Incentives Awarded To Directors, Supervisors and Senior Management Personnel during the Reporting Period

√ Not applicable

2. POSITIONS OF CURRENT AND OUTGOING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL DURING THE REPORTING PERIOD

2.1 Positions in Shareholders' Unit

√ Applicable

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

2.2 Positions in Other Entities

√ Applicable

Name	**Name of other entities**	**Position in other entities**
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Yang Yada	Anhui University of Technology	Professor of Business School
Liu Fangduan	Anhui Xingwan Law Firm	Director

2.3 Emoluments for Directors, Supervisors and Senior Management

Decision making process of emoluments for Directors, Supervisors and Senior Management	Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders general meeting, and based on their respective appraisals.Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.
Basis for determination of Directors, Supervisors and Senior Management	Appraisals
Actual payment to Directors, Supervisors and Senior Management	Please refer to the previous section "Changes in Shareholding Held by and Emoluments"
Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period	During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB5,214,400 (tax inclusive). The above-mentioned emoluments received by the Company's Executive Directors, Non-independent Supervisors and Senior Management include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2014 accordance with the pension scheme of the Company.

2.4 Personnel Movement of Directors, Supervisors and Senior Management

Name	Position	Movement	Reasons of movement
Ren Qiang	Senior Management	Removal	Proposal of the General Manager

2.5 The Company's Core Technology Team or Key Technical Staff

During the reporting period, six senior technical officers were promoted to be middle-level management executives and were still responsible for management on relevant technical issues; two chief technical officers retired. The retirement of the two chief technical officers created difficulties to the management on technical issues, in response, the Company minimized the effect of loss of authoritative technical staff through exploring its existing human resources, fostering technical backbone staff, and improving the capability of solving difficult technical issues.

2.6 Employees in the Parent Company and its Major Subsidiaries

➢ Employees

The number of current employees of the parent company	30,796
The number of current employees of the major subsidiaries	9,586
Total number of current employees	40,382
The number of resigned or retired staff for whom the parent and the major subsidiaries need to pay the expenses	19,295

Profession constitution

Profession category	Number of staff of profession constitution
Production line	33,002
Sales representative	390
Technician	3,466
Financial staff	282
Administrative Staff	3,242
Total	40,382

Education

Educational level	Number of staff
Postgraduate	493
Graduate	4,287
Junior College	8,111
Vocational secondary or belows	27,491
Total	40,382

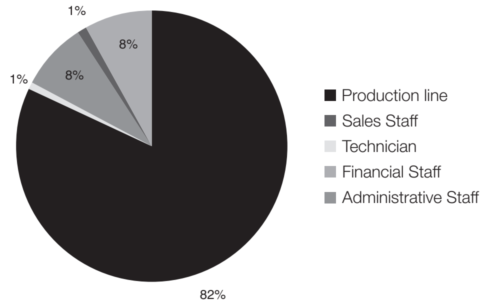
➢ Remuneration policy

A total salary package system is implemented across the Company, under which salaries, bonuses, allowances, production and processing labour costs are all included into the total wages and directly linked with each unit's performance in cost reduction and efficiency enhancement. Each unit establishes a policy under which indicators are broken down at each level, and conducts a quarterly comprehensive evaluation of positions. For important departments and key positions where cost reduction and efficiency enhancement are carried out, the Company sets up appropriate incentive schemes that are specifically offered to positions and staff scoring significant achievements in cost reduction and efficiency enhancement. For the management of the Company, the turn of the principal iron and steel business from loss to profit is used as a major evaluation indicator in the assessment and evaluation by the Group Company. As to the middle management staff, a quarterly comprehensive evaluation is conducted together with the results of the completion of cost reduction and efficiency enhancement tasks.

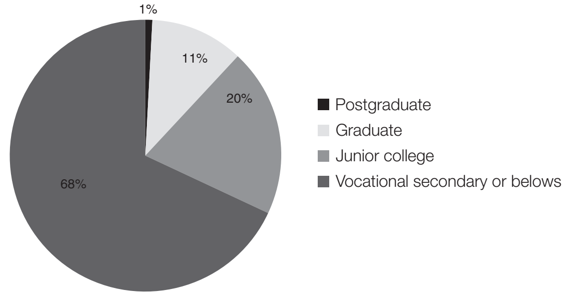
➢ **Training programmes**

The Company takes full advantage of external and internal training resources to provide training opportunities for the growth of all types of employees. In 2014, the Company conducted approximately 244 training sessions of various types, in which a total of 20,161 attendants received training.

➢ **Statistical Chart of Profession Constitution**



➢ **Statistical Chart of Educational Level**



VIII. Corporate Governance

1. SITUATIONS OF THE CORPORATE GOVERNANCE AND MANAGEMENT SYSTEM FOR PEOPLE WITH ACCESS TO INSIDER INFORMATION

SITUATIONS OF THE CORPORATE GOVERNANCE

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

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance and enhanced the fundamental system. In accordance with the requirements of the China Securities Regulatory Commission, the board of directors newly established the Strategic Development Committee and implemented the Regulation of Strategic Development Committee to further standardize the information disclosure.

1.1 Corporate Governance Report

In 2014, the Company has complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules. The information is summarized as follows:

➢ **Directors**

Directors and the composition of the Board

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

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

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

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

Chairman and General Manager

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

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

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

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

Non-executive Directors

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

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

Duties and authorities of the Board and the Management

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

- To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;
- To decide on the annual operating plans and key investment proposals of the Company;
- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;

- To receive the report from the Company's General Manager and to review the work of the General Manager;

- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and trust management within the limit as stipulated in the Articles of Association;

- There are four committees under the Board, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Development Committee. Please refer to "(4), (5), (6) and (7)" of this section for the major duties of the committees.

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

- To organise the implementation of the Company's annual operating plans and investment proposals;

- To propose the establishment schemes of the Company's internal management structure;

- To propose the Company's fundamental management system;

- To formulate the Company's basic constitutions;

- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;

- To decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointments, recruitment or removal and termination of the Company's staff;

- To deal with the important external businesses of the Company on its behalf;

- To propose the convening of extraordinary Board meetings.

The Board Meeting

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

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

➢ **Remuneration of the Directors, Supervisors and Senior Management**

Directors' remuneration

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

Supervisors' remuneration

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

Senior Management's remuneration

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

➢ **Nomination of Directors**

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

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

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

➢ Audit Committee

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

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

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

Discharge of duties by the Audit Committee during the reporting period

In 2014, the Committee held five meetings. All members attended the meeting in person. The meetings were chaired by Chairman of the Committee Mr. Qin Tongzhou. Details of the meetings in 2014 are as follows:

- Discussed the unaudited 2013 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.
- Discussed the audited 2013 financial statement with the Company's audit department and the external accounting firm to generate written opinion on the statement.
- Debriefed the internal control work on a periodic basis to urge improvement.

- Reviewed the audited 2013 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 2013 conducted by the external auditors.

- Approved the payment of RMB5.115 million to Ernst & Young Hua Ming in 2013, which included an audit fee of RMB4.785 million, an annual audit fee of RMB4.2 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; and non-audit fees of RMB330,000 included attestation services for the disposal of the assets of non-steel subsidiaries.

- Having considered and Agreed that Ernst & Young Hua Ming would be re-appointed as the Company's auditors for 2014.

- Reviewed and Approved the related party transactions for 2013 between the Company, its affiliate Magang (Group) Holding and its affiliates, and concluding that the transactions were made in the daily business under normal business terms or no inferior than the terms for independent providers (or by independent providers), the transactions were carried out in line with relevant terms, the terms were fair, reasonable and met the best interests of the Company and its shareholders.

- Acquired an understanding from the Company's management and the external auditors of the Company's provision of guarantees for external parties as at 31 December 2013, reviewed the relevant information and was of the opinion that: (1) as at 31 December 2013, all the procedures for the approval of the Company's external guarantees were legal and compliant; (2) As as December 31 2013, the Company did not provide any guarantee for external companies or subsidiaries.

- 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 2013.

- Reviewed the Company's unaudited first quarterly financial statement of 2014 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 2014 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 2014 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 the chairman for the audit committee of the eighth session of the Board of the Company.

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 2014, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

➢ **Remuneration Committee of the Board**

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

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

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

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

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

- Other responsibilities as delegated by the Board.

During the reporting period, discharge of duties by the Remuneration Committee is as follow:

In 2014, the Remuneration Committee of the eighth session of the Board held three meetings. All members attended the meeting in person. The details of the meeting are as follows:

1. Reviewed remuneration of directors and senior management for 2013; 2. Reviewed the Remuneration Committee's Report on Discharge of Duties for 2013; 3. Reviewed the proposal on remuneration of directors of the eighth board of directors of the Company; and 4. Elected the chairman of the Remuneration Committee of the eighth session of Board of Directors.

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

➢ **Nomination Committee**

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

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

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

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

- To examine the independence of Independent Directors;

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

During the reporting period, discharge of duties by the Nomination Committee is as follows:

In 2014, the Nomination Committee held three meetings. All members attended the meetings in person. The meetings were chaired by Ms. Yang Yada. Agenda of the meeting was as follows: 1. Reviewed the Nomination Committee's Report on Discharge of Duties for 2013; 2. Nominated candidates for directors of the eighth session of Board of Directors of the Company; 3. Elected the Chairmen of the Nomination Committee; 4. Nominated Qian Haifan as GM of the Company; 5. Reviewed Vice GM and chief engineer whom the GM requests the Board of Directors to recruit; 6. Nominated Ren Tianbao as Secretary to the Board of the Company.

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

➢ **Strategic Development Committee**

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

- Research and make suggestions on long-term development strategy and important investment decisions of the Company;

- Research and make suggestions on long- and medium-term planning for strategic development of the Company;

- Monitor the implementation of strategic development plan of the Company and report any significant deviation from the development strategy to the Board of Directors;

- Research material changes in economic situation, industrial policies, technological advances, industry conditions, and force majeure, and make suggestions to the Company as to adjustments to its development strategy;

- Research and make suggestions on other material issues affecting development of the Company;

- Other duties granted by the Board of Directors.

As it was newly established, the Strategic Development Committee did not perform any specific work during the reporting period.

➢ Auditors' Remuneration

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

As at 31 December 2014, Ernst & Young Hua Ming has provided auditing services to the Group for 21 consecutive years. Ms. Zhong Li and Ms. Chen Yan were the certified public accountants who have signed the Company's 2014 auditors' reports. Ms. Zhong Li has provided auditing services to the Company for five consecutive years, while Ms. Chen Yan 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 and such services were not included in the scope of audit, with tax service fees of HK$18,900.

➢ 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 2013 annual general meeting notice and 2014 first extraordinary general meeting notices that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings.

During the reporting period, the Chairman attended the two shareholders' general meetings in person and served as the chairman of the meetings. The Company's relevant Directors, General Manager, the Person-in-charge of Financial Operations and Secretary to the Board attended the shareholders' general meetings in person and fully prepared for answering questions of shareholders' concern. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter.

Voting by poll

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

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

➢ **Ad hoc Events for Corporate Governance**

During the reporting period, the Company once again carefully examined the implementation of various corrective measures since Company launched the ad hoc events for corporate governance according to the requirements of CSRC and its agency Anhui Securities Regulatory Bureau in order to consolidate the achievements of the ad hoc events for corporate governance, and found there was no corrective measures not yet enforced by the Company.

➢ **Other Provisions as Set Out in the Code Apart from the above**

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

As Ernst & Young Hua Ming has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2014. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2013 annual general meeting held on 27 June 2014.

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

2. SHAREHOLDERS' GENERAL MEETING

Session of meeting	Date of meeting	Name of Agenda	Resolutions	Specified website for publishing resolutions	Publishing date of resolution
2013 annual general meeting	27 June 2014	1. Considered and approved the work report of the Board to the year 2013; 2. Considered and approved the work report of the Supervisory Committee for the year 2013 3. Considered and approved the audited financial statements for the year 2013 4. Considered and approved the appointment of Ernst & Young Hua Ming as the Company's auditors of the year 2014, and the authorization to the Board to determine the remuneration of the auditors based on that in 2013; 5. Reviewed and approved the proposal on adjustment to years of depreciation of fixed assets; 6. Considered and approved the profit distribution plan for the year 2013	All approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-06-27/600808_20140628_2.pdf	28 June 2014
2014 first general meeting	29 Augugst 2014	1. Reviewed and approved the revision plan for the Articles of Association; 2. Elected members of the eighth board of directors of the Company (excluding independent non-executive directors); 3. Elected independent non-executive directors of the eighth board of directors of the Company; 4. Elected non-employee supervisors for the eighth Supervisory Committee of the Company; 5. Reviewed and approved the proposal on director compensations for the eighth board of directors of the Company; 6. Reviewed and approved the proposal on supervisor compensations of the eighth board of directors of the Company.	All approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-08-29/600808_20140830_1.pdf	30 August 2014

3. PERFORMANCE OF DIRECTORS

3.1 Attendance Of Directors In The Board Meetings and Shareholders' General Meeting

Name of Director	Independent Director	Attendance in the Board Meetings: Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	Attendance in the General Meetings Attendance
Ding Yi	NO	14	12	2	0	0	NO	2
Qian Haifan	NO	14	12	2	0	0	NO	2
Su Shihuai	NO	14	8	2	4	0	NO	0
Ren Tianbao	NO	14	12	2	0	0	NO	2
Qin Tongzhou	Yes	14	10	4	0	0	NO	2
Yang Yada	Yes	14	8	4	2	0	NO	2
Liu Fangduan	Yes	14	9	3	2	0	NO	1

No. of The Board Meeting	14
of which: convented on-site	10
convented by way of correspondence	2
Convented by way of combination of on-site and correspondence	2

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

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

Report of the Supervisory Committee

4.1 Resolutions of the meetings of the Supervisory Committee in 2014

The Company held nine meetings of the Supervisory Committee in 2014. With timely and full understanding of the operating and financial status, the Supervisory Committee reviewed a series of major issues. Major resolutions of the meetings:

➢ Reviewed and approved the 2013 financial report, the annual report and its abstract;

➢ Reviewed and approved the 2013 work report of the Supervisory Committee;

➢ Reviewed and approved the report on duty performance of supervisors;

- Reviewed and approved the proposal for changes in the provisions for inventory impairment and adjustment of the depreciation period of fixed assets;

- Reviewed and approved the connected transactions for 2013;

- Reviewed and approved the profit distribution plan for the year 2013;

- Reviewed and approved the appraisal report on internal control for 2013;

- Reviewed and approved the social responsibility report for 2013;

- Reviewed and approved the proposal for the changes in the provisions for inventory impairment for the first quarter of 2014;

- Reviewed and approved the report for the first quarter of 2014 and its main body;

- Approved the adjustment in the depreciation of fixed assets;

- Approved the acquisition of Valdunes' assets;

- Nomination of Mr. Fang Jinrong, Mr. Su Yong and Mr. Wong Chun Wa's appointment as Supervisors of non-staff representatives for the eighth session of the Supervisory Committee of the Company, among which Mr. Su Yong and Mr. Wong Chun Wa were nominees of independent Supervisors. Staff-represented Supervisors were to be chosed by Staff-representitive union. All candidates for Supervisors were appointed for a term from 1 September 2014 to 31 August 2017;

- Reviewed and approved the renumberation for the eighth session of the Supervisory Committee;

- Reviewed and approved the proposal for the changes in the provisions for inventory impairment for the second quarter of 2014;

- Reviewed and approved the unaudited financial report for the first half of 2014, report for the first half of 2014 and its abstract;

- Review and approved the election of Zhang Xiaofeng as Chairman of the eighth session of the Supervisory Committee of the Company;

- Reviewed and approved the proposal for the changes in the provisions for inventory impairment for the third quarter of 2014;

- Reviewed and approved the report for the third quarter of 2014 and its main body;
- Reviewed and approved the Agreement on Provision of Financial Services for 2015;
- Reviewed and approved the Agreement on Provision of Comprehensive Supporting Services for 2015;
- Reviewed and approved the application for registration of medium term notes in an aggregate amount of not more than RMB4 billion and short-term financing notes in an aggregate amount of not more than RMB10 billion by the Company.

Besides the aforementioned, the Supervisory Committee, based on the actual situation of the Company, aligned work flows of the Supervisory Committee and working instructions, to improve efficiency and lay the foundation for a solid system to smooth work flows.

During the period, the Supervisory committee strictly abided to relevant laws and regulation and articles of association, and performed sound supervision and inspections on the Company's business operations, financial performance, major asset reorganization and following issues, sale of assets and connected transactions. According to the inspection results, the Supervisory Committee expresses their views on Company's operations.

4.2 Independent opinions of the Supervisory Committee on the Company's operating performance in 2014

- The operating performance pursuant to law
  In 2014, the Supervisory Committee attended board meetings and general meetings pursuant to relevant laws and regulations, and fulfilled strict supervision and inspection on the decision-making procedures and duty performance of the directors and senior management. It concluded that, during the reporting period, the decision-making procedures were legal and effective; the board of directors earnestly carried out the resolutions of the general meetings of shareholders and the board meetings; and the Internal Control System of the Company was improved, establishing balances among the operational organization, decision-making organization and the supervisory organization. While performing their duties, the directors and senior management had no activities that violated the laws, regulations and the Articles of Association or compromised the interests of the Company and shareholders.

Judging from the current situation of the general economy and the industry, the Company is faced with enormous challenge. To safeguard the business operations and sustainable development, also taking into consideration of the long-term interests of the shareholders, the Board recommended not to pay any cash dividend for 2014 and no capital reserve fund will be transferred to share capital. Undistributed profits will be transferred to 2015 for production operations. The Supervisory Committee has approved the proposal for after taxes profit distribution and considers it complied with the laws, regulations and the Articles of Association. The review process also complied with the laws and regulations and had no activities that compromised the interests of the Company and shareholders.

➢ Inspection results of the financial performance

The Supervisory Committee carefully examined and audited the financial statement and information, inspected the supervision system for finance and the financial performance in the reporting period, and concluded that the accountants strictly complied with the laws and regulations, such as the Accounting Law and the Accounting Standards for Enterprises, and they had not violated any regulations or disciplines. Ernst & Young Hua Ming LLP issued an auditors' report with standard unqualified opinion on the Group's 2014 financial statements. According to the Accounting Standard for Business Enterprises, the Company has reviewed the actual useful life of all fixed assets, and determined to adjust the useful lives of certain fixed assets as follows:

Type of fixed assets	**Depreciation period Before adjustment (year)**	**Depreciation period after Adjustment (year)**
Buildings and fixtures	20	30
Equipment	13	15

With the new useful lives being effective since July 2014, the depreciation expenses of fixed assets for 2014 was reduced by RMB450.29 million, while owners' equities and net profits increased by RMB337.72 million. The adjustment was effective since July 2014 and was reviewed and approved at the twenty-sixth meeting of the seventh session of the Supervisory Committee. The Supervisory Committee considered the change of accounting estimates in depreciation period complied with the Accounting Standards for Business Enterprises and the actual situation of the usage of the Company's fixed assets. The adjustment was reasonable and also truly reflected the financial status and operational achievements. The review process complied with the laws and regulations and had no activities that compromised the interests of the Company and shareholders. The Supervisory Committee approved the changes to the depreciation period.

VIII. Corporate Governance (continued)

- Inspection results for the use of raised funds

  The Company strictly complied with the Corporate Law and the Securities Law on the use and management of raised funds in 2014. The Supervisory Committee concluded that, during the reporting period, the information disclosed regarding the raised funds was timely and accurate, and truly reflected the actual usage and deposite of the proceed of funds. There were no activities disobeying the relevant laws and regulations and complied with the requirements of the China Securities Regulatory Commission and other securities watchdogs.

- Acquisitions and sales of assets

  During the reporting period, the Company acquired the assets of Valdunes S.A.S. and assumed its employees for a consideration of EUR13,000,000. The acquisition was not in substance of material asset reorganizations as according to Administrative Measures for the Material Asset Reorganizations of Listed Companies. The acquisition complied with laws and regulations and the Articles of Association and has met the demand of the Company's product development. The review process also complied with the laws and regulations and had no activities that compromised the interests of the Company and shareholders. Except for above mentioned, the Company did not conduct any major acquisition, asset sale, asset swap, or asset pledge. There were no activities disobeying the resolutions of the general meeting of shareholders, compromised the interests of shareholders or caused the loss of assets.

- Connected transactions

  In response to being accountable for all shareholders' interests, the Supervisory Committee conducted supervision and inspection of the Company's major connected transactions during the reporting period. The Supervisory Committee considered that the connected transactions in 2014 were carried out in strict compliance with the Articles of Association and the agreed terms. The transactions were fair and reasonable, there were no activities that compromised the interests of the Company and the shareholders. The connected transactions took place in 2014 were fair and reasonable and their review process has complied with laws and regulations and the Articles of Association. There were no activities involved with inside trading and compromised the interests of shareholders.

➢ Self-evaluation report on internal control

In 2014, taking into consideration of the actual needs of production and operation, the Company focused on the internal control of its subsidiaries with financial risks control at the core, paid attention to very risks, internal control requirements and control activities, and merged internal control into integrated management system to improve the internal control system. The Company has strictly followed the "Basic Principles of Corporate Internal Control" and its complementary guidelines and improved "Internal Control Manual".

In accordance with the rules for the system of internal control of enterprise, the Supervisory Committee inspected the internal control built and implemented by the board of directors. Based on the determination of material defects in the internal control on the Company's financial reporting, as of the base date of the internal control evaluation report, there were no material defects in the internal controls on the financial reporting, the Company has maintained effective internal control on financial reporting in all material aspects in compliance with the requirements of the Regulated System of Internal Control for Enterprises and the relevant provisions. According to the assessment on deficiency of internal control in non-financial report, there was no significant deficiency of internal control in non-financial report during the reporting period. From the base date of the internal control evaluation report up to the issue date of the internal control evaluation report, there were no factors which would affect the evaluation conclusion of effectiveness of internal controls.

➢ Creation and implementation of the rules for management of information insiders

The Supervisory Committee inspected the creation and implementation of the rules for management of information insiders in the reporting period, and concluded that: in the reporting period, the Company strictly complied with the rules for confidentiality of inside information and regulated the procedures for spreading information, the directors, supervisors, senior managements and other information insiders strictly complied with the rules for management of information insiders, there was no insider trading. The Company did not encounter any regulatory investigation or rectification in the reporting period.

➢ Opinion of the Supervisory Committee on the regular report

During the period, the regular reports were compiled and reviewed in compliance with the laws, regulations, Articles of Association and company's internal control by the Supervisory Committee. The content and format met the requirements of the China Securities Regulatory Commission and the securities exchanges, the information inside can truly reflect the operating and financial performance, no participant in compiling and reviewing the regular reports had any activities that violated the rules for confidentiality. Ernst & Young Hua Ming LLP has issued a standard unqualified opinion in its auditors' report on the Company's 2014 financial statements, which truly and objectively reflected the Company's financial status.

IX. Internal Control

1. DISCLAIMER OF INTERNAL CONTROL AND ESTABLISHMENT OF THE INTERNAL CONTROL SYSTEM

The Board of the Company declares responsibility for the establishment, improvement, and effective implement of the internal control system.

The Company amended and improved its "Internal Control Manual" comprehensively in 2010 and 2011 according to the amendments to the "Supporting Guidelines on Corporate Internal Control" as well as the modifications to the structure and functions of its internal organizations and the changes in the business processes, completed a new upgrade version of the "Internal Control Manual", thereby further improving the internal control system of the Company, ensuring the effectiveness of the internal control system at all times.

During the reporting period, the Company established policies such as the Work Rules of the Strategic Development Committee, and amended management systems such as the Measures Governing the Hedging of Future Business. These policies describe in detail the key control activities in specific business process, and serve as an effective supplement to the Internal Control Manual, having ensured internal control and risk management are operating effectively under such policies.

During the reporting period, the supervisory and audit department established a work panel for appraisal on internal control, fully assessed the creation and operation of internal control in terms of internal environment, risk appraisal, control activities, information & communication, and internal supervision, among others, and submitted the internal control appraisal report to the audit committee after sorting and compiling the appraisal results. Auditors audited the effectiveness of the internal control related to the financial report. The audit committee supervised the implementation of the internal control through assessing the work of the audit department and auditors. The board of directors judged the effectiveness of the internal control based on the debriefing of the audit committee. The appraisal report on internal control was submitted to the board of directors and released to the public upon approval from the board of directors.

On 25 March 2015 the "Self-evaluation Report on Internal Control of the Company for year 2014" was considered and approved at the seventh meeting of the eighth session of the Board, and it was confirmed that the internal control of the Company was effective in 2014. Information source: www.sse.com.cn, www.hkex.hk

According to the assessment on deficiency of non-financial report internal control, there was no significant deficiency of non-financial report internal control during the reporting period. In 2014, certain management personnel of the Company were investigated and penalised for individual violations of disciplinary rules and laws, which indicates certain insufficiency on such personnel's compliance with relevant rules and laws. In this regard, the Company will continue to enhance its employees' compliance awareness and to strengthen its risk prevention. Those individual violations do not have any impact on the effectiveness of the Company's internal control system.

The Company's internal control system in relation to the preparation and disclosure of financial reports was formulated in accordance with the relevant State laws, rules, regulations of authorities and regulatory documents including the "Basic Principles of Corporate Internal Control" and its complementary guidelines jointly published by the five ministries of the Central Government including the Ministry of Finance. The content of the internal control system covered the arrangement of the preparation of financial reports and its control, the preparation of financial reports and its control, the submission and disclosure of the financial reports and its control and so forth. During the reporting period, the Company implemented the abovementioned system effectively.

Whether or not to disclose the self-assessment report of internal control
Yes

2. RELEVANT INFORMATION ON INTERNAL CONTROL AUDIT REPORT

Ernst & Young Hua Ming issued an auditors' report containing an unqualified opinion on the Company's internal control over financial reporting as at 31 December 2014. Websites: www.sse.com.cn, www.hkexnews.hk.

Whether or not to disclose the internal control audit report
Yes

3. THE RESPONSIBLE SYSTEM FOR MATERIAL ERRORS IN ANNUAL REPORT INFORMATION DISCLOSURE ESTABLISHED BY THE COMPANY

The Company established the Administrative Measures for Information Disclosure in 2002, and made amendment to the same in 2005, 2007, 2008, 2010, 2012 and 2013 in order to ensure the Measures comply with the requirement of regulatory authorities. The Measures included the relevant clauses of the Inquiry System for Material Mistakes Made in Information Disclosure of Annual Reports. During the reporting period, the Company implemented the abovementioned system effectively and there was no material mistake in information disclosure of annual report.

X. Financial Statements

Note: The notes to the financial statements with * are disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Independent Auditors' Report

Ernst & Young Hua Ming (2015) Shen Zi No. 60438514_A01

To the shareholders of Maanshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited, which comprised of the consolidated and company statements of financial position as at 31 December 2014, and the consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

2. AUDITORS' RESPONSIBILITY

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

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

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

3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as at 31 December 2014 and its consolidated and company financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP

Zhong Li
Chinese Certified Public Accountant

Chen Yan
Chinese Certified Public Accountant

Beijing, the People's Republic of China

25 March 2015

Consolidated Statement of Financial Position

31 December 2014
Renminbi Yuan

ASSETS	Note V	**31 December 2014**	31 December 2013
CURRENT ASSETS:			
Cash and bank balances	1	**4,654,551,519**	5,106,718,069
Financial assets measured at fair value through profit or loss	2	**1,073,490**	509,330
Bills receivable	3	**8,483,607,113**	8,629,108,926
Trade receivables	4	**856,559,860**	800,946,475
Dividends receivable	5	**–**	44,787,460
Interest receivable		**1,898,994**	3,540,453
Prepayments	6	**648,963,073**	1,022,394,879
Other receivables	7	**255,577,937**	1,948,145,123
Inventories	8	**8,684,293,285**	10,049,721,134
Loans and advances to customers	9	**633,203,277**	486,511,748
Other current assets	10	**665,474,438**	504,406,279
Total current assets		**24,885,202,986**	28,596,789,876
NON-CURRENT ASSETS:			
Available-for-sale financial investments	11	**126,772,160**	126,772,160
Long term equity investments	12	**1,089,585,013**	950,065,445
Investment properties	13	**62,904,210**	64,412,476
Property, plant and equipment	14	**37,041,356,860**	30,668,420,630
Construction materials		**–**	29,788,206
Construction in progress	15	**2,831,050,182**	8,729,815,208
Intangible assets	16	**1,826,460,576**	1,900,179,245
Deferred tax assets	17	**647,842,823**	755,374,754
Total non-current assets		**43,625,971,824**	43,224,828,124
TOTAL ASSETS		**68,511,174,810**	71,821,618,000

Consolidated Statement of Financial Position (Continued)

31 December 2014
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**31 December 2014**	31 December 2013
CURRENT LIABILITIES:			
Deposits and balances from banks and other financial institutions	19	**500,000,000**	–
Customer deposits	20	**1,199,618,850**	1,390,609,858
Repurchase agreements	21	**–**	344,732,675
Short term loans	22	**12,058,394,894**	8,553,509,860
Bills payable	23	**4,802,906,077**	5,542,646,513
Accounts payable	24	**6,679,288,444**	6,524,149,751
Deposits received	25	**3,701,440,863**	5,125,265,201
Payroll and employee benefits payable	26	**299,077,212**	208,890,914
Taxes payable	27	**236,783,996**	233,964,348
Interest payable	28	**146,625,806**	165,365,086
Dividends payable	29	**7,210,819**	80,642,412
Other payables	30	**827,419,110**	962,699,474
Non-current liabilities due within one year	31	**2,231,683,000**	7,951,717,780
Accrued liabilities	32	**14,100,985**	4,140,000
Total current liabilities		**32,704,550,056**	37,088,333,872
NON-CURRENT LIABILITIES:			
Long term loans	33	**6,339,132,454**	6,059,444,300
Bonds payable	34	**2,332,666,298**	2,328,266,077
Deferred income	35	**1,186,358,849**	609,637,532
Long-term employee benefits payable	26	**25,877,746**	–
Deferred tax liabilities	17	**33,191,420**	36,900,781
Total non-current liabilities		**9,917,226,767**	9,034,248,690
Total liabilities		**42,621,776,823**	46,122,582,562

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2014	31 December 2013
SHAREHOLDERS' EQUITY:			
Share capital	36	**7,700,681,186**	7,700,681,186
Capital reserve	37	**8,329,067,663**	8,329,067,663
Other comprehensive income	38	**(137,159,480)**	(72,208,059)
Special reserve	39	**21,511,442**	13,055,678
Surplus reserve	40	**3,831,458,700**	3,789,735,764
General reserve		**98,706,649**	98,706,649
Retained profits	41	**3,451,299,829**	3,272,406,740
Equity attributable to owners of the parent company		**23,295,565,989**	23,131,445,621
Non-controlling interests		**2,593,831,998**	2,567,589,817
Total shareholders' equity		**25,889,397,987**	25,699,035,438
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**68,511,174,810**	71,821,618,000

The financial statements are authorized by the following persons:

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014
Renminbi Yuan

	Note V	**2014**	2013
Revenue	42	**59,820,938,286**	73,848,883,383
Less: Cost of sales	42,51	**55,840,222,612**	70,393,962,617
Business taxes and surcharges	43	**235,299,998**	226,431,646
Selling expenses	44	**512,505,919**	423,074,212
General and administrative expenses	45	**1,310,839,451**	1,333,991,968
Financial expenses	46	**1,243,663,019**	1,154,159,806
Impairment losses	47	**770,488,879**	1,164,499,129
Add: Gain/(loss) on the changes in fair value		**564,160**	(77,790)
Investment income	48	**149,598,960**	289,004,676
including: share of profits from associates and joint ventures		**136,512,001**	177,184,255
Operating profit/(loss)		**58,081,528**	(558,309,109)
Add: Non-operating income	49	**540,901,409**	888,138,225
including: gain on disposal of non-current assets		**1,915,776**	433,638,305
Less: Non-operating expenses	50	**86,866,543**	7,683,672
including: loss on disposal of non-current assets		**84,095,373**	–
Profit before tax	51	**512,116,394**	322,145,444
Less: Income tax expense	52	**248,068,879**	114,210,366
Net profit		**264,047,515**	207,935,078
Net profit attributable to owners of the parent company		**220,616,025**	157,220,198
Non-controlling interests		**43,431,490**	50,714,880

	Note V	2014	2013
Other comprehensive income, net of tax			
Total other comprehensive income attributable to owners of the parent company, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	38	**(64,951,421)**	(102,718,483)
Total other comprehensive income attributable to non-controlling interests, net of tax		**(857,819)**	(1,992,622)
Total comprehensive income		**198,238,275**	103,223,973
Including:			
Total comprehensive income attributable to owners of the parent company		**155,664,604**	54,501,715
Total comprehensive income attributable to non-controlling interests		**42,573,671**	48,722,258
EARNINGS PER SHARE:			
Basic	53	**2.86 cents**	2.04 cents
Diluted		**2.86 cents**	2.04 cents

Consolidated Statement of Changes in Equity

Year ended 31 December 2014
Renminbi Yuan

	Attributable to owners of the parent									
	Share capital (Note V 36)	Capital reserve (Note V 37)	Other comprehensive income (Note V 38)	Special reserve (Note V 39)	Surplus reserve (Note V 40)	General reserve	Retained profits (Note V 41)	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2014	7,700,681,186	8,329,067,663	(72,208,059)	13,055,678	3,789,735,764	98,706,649	3,272,406,740	23,131,445,621	2,567,589,817	25,699,035,438
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(64,951,421)	-	-	-	220,616,025	155,664,604	42,573,671	198,238,275
2) Capital contribution and withdrawal										
(i) Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	12,955,267	12,955,267
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	41,722,936	-	(41,722,936)	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	-	-	-	(29,286,757)	(29,286,757)
4) Special reserve										
(i) Additions	-	-	-	190,629,467	-	-	-	190,629,467	-	190,629,467
(ii) Utilization	-	-	-	(184,981,270)	-	-	-	(184,981,270)	-	(184,981,270)
(iii) Changes in the share of associates' special reserve, net	-	-	-	2,807,567	-	-	-	2,807,567	-	2,807,567
3. At 31 December 2014	7,700,681,186	8,329,067,663	(137,159,480)	21,511,442	3,831,458,700	98,706,649	3,451,299,829	23,295,565,989	2,593,831,998	25,889,397,987

	Attributable to owners of the parent									
	Share capital (Note V 36)	Capital reserve (Note V 37)	Other comprehensive income (Note V 38)	Special reserve (Note V 39)	Surplus reserve (Note V 40)	General reserve	Retained profits (Note V 41)	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2013	7,700,681,186	8,329,067,663	30,510,424	14,768,610	3,750,928,170	55,650,161	3,245,037,973	23,126,644,187	2,385,412,385	25,512,056,572
2. Increase/(decrease) during the year										
1) Total comprehensive income	–	–	(102,718,483)	–	–	–	157,220,198	54,501,715	48,722,258	103,223,973
2) Capital contribution and withdrawal										
(i) Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	281,000,000	281,000,000
3) Profits appropriation										
(i) Transfer to surplus reserve	–	–	–	–	104,726,623	–	(104,726,623)	–	–	–
(ii) Transfer to general reserve	–	–	–	–	–	26,399,571	(26,399,571)	–	–	–
(iii) Distribution to shareholders	–	–	–	–	–	–	–	–	(11,655,176)	(11,655,176)
(iv) Others	–	–	–	–	–	16,656,917	–	16,656,917	1,055,082	17,711,999
4) Special reserve										
(i) Additions	–	–	–	74,080,251	–	–	–	74,080,251	10,943,433	85,023,684
(ii) Utilization	–	–	–	(75,793,183)	–	–	–	(75,793,183)	(12,344,922)	(88,138,105)
5) Disposal of subsidiaries	–	–	–	–	(65,919,029)	–	1,274,763	(64,644,266)	(135,543,243)	(200,187,509)
3. At 31 December 2013	7,700,681,186	8,329,067,663	(72,208,059)	13,055,678	3,789,735,764	98,706,649	3,272,406,740	23,131,445,621	2,567,589,817	25,699,035,438

Consolidated Statement of Cash Flows

Year ended 31 December 2014
Renminbi Yuan

	Note V	2014	2013
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**71,987,144,817**	89,212,385,934
Tax refunds received		**68,339,480**	45,247,610
Deposits in central bank		**61,932,358**	78,883,349
Net increase in customer deposits and deposits from banks		**309,008,992**	825,441,876
Cash received for interest charges, fees and commissions		**191,073,156**	199,205,804
Cash received relating to other operating activities	54	**51,231,771**	35,243,995
Sub-total of cash inflows		**72,668,730,574**	90,396,408,568
Cash paid for purchase of goods and services		**(62,284,727,884)**	(77,832,649,475)
Decrease in repurchase agreements		**(344,732,675)**	(150,021,323)
Increase in loans and advances to customers		**(154,133,779)**	(278,234,150)
Cash paid to or on behalf of employees		**(4,418,965,256)**	(4,608,107,096)
Taxes and surcharges paid		**(2,111,753,212)**	(2,020,820,138)
Cash paid for interest charges, fees and commissions		**(25,203,501)**	(31,208,668)
Cash paid relating to other operating activities	54	**(416,360,438)**	(384,009,163)
Sub-total of cash outflows		**(69,755,876,745)**	(85,305,050,013)
Net cash flows from operating activities	55(1)	**2,912,853,829**	5,091,358,555
2. Cash flows from investing activities:			
Cash received from disposal of investments		**–**	67,556,005
Cash received from investment income		**247,240,780**	439,715,038
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		**1,628,518,176**	301,819,164
Decrease/(increase) in restricted cash		**1,285,552,366**	(218,455,270)
Proceeds from disposal of subsidiaries and other business units	55(2)	**–**	391,716,548
Cash received relating to other investing activities	54	**989,765,127**	84,076,474
Sub-total of cash inflows		**4,151,076,449**	1,066,427,959

	Note V	2014	2013
2. Cash flows from investing activities (continued)			
Purchase of property, plant and equipment, intangible assets and other non-current assets		**(2,599,448,741)**	(5,520,646,569)
Cash paid for investments		**(105,244,733)**	(88,480,000)
Acquisition of a subsidiary and other operating units	55(2)	**(108,774,997)**	–
Cash paid relating to other investing activities		**(11,361,096)**	–
Sub-total of cash outflows		**(2,824,829,567)**	(5,609,126,569)
Net cash flows from/(used in) investing activities		**1,326,246,882**	(4,542,698,610)
3. Cash flows from financing activities:			
Cash received from borrowings		**20,526,622,204**	17,698,491,235
Cash received from investors		**30,000,000**	281,000,000
Including: Capital contribution from non-controlling interests		**30,000,000**	281,000,000
Sub-total of cash inflows		**20,556,622,204**	17,979,491,235
Repayment of borrowings		**(22,500,139,926)**	(21,986,537,135)
Cash paid for distribution of dividends or profits and for interest expenses		**(1,400,778,356)**	(1,293,541,070)
Including: dividends paid to non-controlling interests by subsidiaries		**(74,345,750)**	(11,655,176)
Sub-total of cash outflows		**(23,900,918,282)**	(23,280,078,205)
Net cash flows used in financing activities		**(3,344,296,078)**	(5,300,586,970)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**513,541**	(63,350,942)
5. Net increase/(decrease) in cash and cash equivalents		**895,318,174**	(4,815,277,967)
Add: cash and cash equivalents at the beginning of the year		**1,814,518,125**	6,629,796,092
6. Cash and cash equivalents at the end of the year	55(3)	**2,709,836,299**	1,814,518,125

Statement of Financial Position

31 December 2014
Renminbi Yuan

ASSETS	Note XIV	**31 December 2014**	31 December 2013
CURRENT ASSETS:			
Cash and bank balances		**5,033,512,998**	4,232,355,957
Financial assets measured at fair value through profit or loss		**1,073,490**	509,330
Bills receivable		**6,168,408,389**	4,924,057,882
Trade receivables	1	**1,301,307,701**	1,292,033,185
Dividends receivable		**7,225,723**	44,787,460
Prepayments		**408,746,555**	837,535,356
Other receivables	2	**161,823,003**	1,766,161,692
Inventories	3	**6,084,558,454**	7,151,763,970
Other current assets		**346,438,700**	294,632,327
Total current assets		**19,513,095,013**	20,543,837,159
NON-CURRENT ASSETS:			
Available-for-sale financial investments		**126,772,160**	126,772,160
Long term equity investments	4	**6,542,246,491**	5,907,348,550
Investment properties		**77,745,472**	79,758,318
Property, plant and equipment		**27,894,663,311**	24,560,421,961
Construction in progress		**2,725,983,735**	6,477,395,016
Intangible assets		**1,003,515,704**	1,033,117,375
Deferred tax assets		**583,517,420**	723,967,462
Total non-current assets		**38,954,444,293**	38,908,780,842
TOTAL ASSETS		**58,467,539,306**	59,452,618,001

LIABILITIES AND SHAREHOLDERS' EQUITY	**31 December 2014**	31 December 2013
CURRENT LIABILITIES		
Short term loans	**5,350,000,000**	2,009,536,713
Bills payable	**3,281,609,644**	2,380,386,149
Accounts payable	**10,496,946,152**	8,843,343,090
Deposits received	**3,158,414,180**	4,325,598,569
Payroll and employee benefits payable	**186,884,642**	136,411,098
Taxes payable	**80,187,544**	115,217,039
Interest payable	**146,840,022**	160,616,364
Dividends payable	**6,407,961**	6,296,662
Other payables	**556,182,231**	623,463,137
Non-current liabilities due within one year	**2,180,683,000**	7,951,717,780
Accrued liabilities	**–**	4,140,000
Total current liabilities	**25,444,155,376**	26,556,726,601
NON-CURRENT LIABILITIES		
Long term loans	**8,471,764,660**	8,289,928,800
Bonds payable	**2,332,666,298**	2,328,266,077
Deferred income	**500,208,915**	583,338,640
Total non-current liabilities	**11,304,639,873**	11,201,533,517
Total liabilities	**36,748,795,249**	37,758,260,118
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,338,358,399**	8,338,358,399
Special reserve	**2,807,567**	–
Surplus reserve	**2,993,175,001**	2,991,017,140
Retained profits	**2,683,721,904**	2,664,301,158
Total shareholders' equity	**21,718,744,057**	21,694,357,883
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**58,467,539,306**	59,452,618,001

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014
Renminbi Yuan

	Note XIV	**2014**	2013
Revenue	6	**51,283,769,806**	56,385,722,558
Less: Cost of sales	6	**48,445,542,832**	54,498,417,736
Business taxes and surcharges		**173,389,039**	161,497,080
Selling expenses		**278,512,914**	228,294,265
Administrative expenses		**926,657,507**	888,482,627
Financial expenses		**952,163,510**	982,149,711
Impairment losses	7	**705,527,220**	1,161,281,311
Add: Gain/(loss) on the changes in fair value		**564,160**	(77,790)
Investment income	8	**205,063,466**	950,135,547
Including: share of profits from associates and joint ventures		**138,150,343**	177,224,960
Operating profit/(loss)		**7,604,410**	(584,342,415)
Add: Non-operating income		**155,646,691**	813,515,855
Including: gain on disposal of non-current assets		**1,906,614**	432,576,296
Less: Non-operating expenses		**1,222,452**	5,118,831
Including: loss on disposal of non-current assets		**–**	–
Profit before tax		**162,028,649**	224,054,609
Less: Income tax expense		**140,450,042**	(44,435,774)
Net profit		**21,578,607**	268,490,383
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**21,578,607**	268,490,383

Statement of Changes in Equity

Year ended 31 December 2014
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2014	7,700,681,186	8,338,358,399	–	2,991,017,140	2,664,301,158	21,694,357,883
2. Increase/(decrease) during the year						
1) Total comprehensive income	–	–	–	–	21,578,607	21,578,607
2) Profits appropriation						
(i) Transfer to surplus reserves	–	–	–	2,157,861	(2,157,861)	–
3) Special reserve						
(i) Additions	–	–	154,320,281	–	–	154,320,281
(ii) Utilization	–	–	(154,320,281)	–	–	(154,320,281)
(iii) Changes in the share of associates' special reserve, net	–	–	2,807,567	–	–	2,807,567
3. At 31 December 2014	7,700,681,186	8,338,358,399	2,807,567	2,993,175,001	2,683,721,904	21,718,744,057

Statement of Changes in Equity (Continued)

Year ended 31 December 2013
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2013	7,700,681,186	8,338,358,399	–	2,964,168,101	2,422,659,814	21,425,867,500
2. Increase/(decrease) during the year						
1) Total comprehensive income	–	–	–	–	268,490,383	268,490,383
2) Profits appropriation						
(i) Transfer to surplus reserves	–	–	–	26,849,039	(26,849,039)	–
3) Special reserve						
(i) Additions	–	–	51,352,182	–	–	51,352,182
(ii) Utilization	–	–	(51,352,182)	–	–	(51,352,182)
3. At 31 December 2013	7,700,681,186	8,338,358,399	–	2,991,017,140	2,664,301,158	21,694,357,883

Statement of Cash Flows

Year ended 31 December 2014
Renminbi Yuan

	Note XIV	**2014**	2013
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**57,343,256,251**	65,854,397,821
Tax refunds received		**41,097,300**	–
Cash received relating to other operating activities		**14,342,905**	16,033,786
Sub-total of cash inflows		**57,398,696,456**	65,870,431,607
Cash paid for purchase of goods and services		**(47,875,128,641)**	(53,840,660,880)
Cash paid to or on behalf of employees		**(3,492,786,823)**	(3,815,722,465)
Taxes and surcharges paid		**(1,529,469,714)**	(1,408,828,740)
Cash paid relating to other operating activities		**(387,662,275)**	(1,023,371,375)
Sub-total of cash outflows		**(53,285,047,453)**	(60,088,583,460)
Net cash flows from operating activities	9	**4,113,649,003**	5,781,848,147
2. Cash flows from investing activities:			
Cash received from investment income		**350,205,470**	1,005,195,136
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		**1,605,230,740**	666,336,476
Proceeds from disposal of subsidiaries and other business units		**–**	1,403,696,862
Cash received relating to other investing activities		**16,331,000**	82,749,000
Sub-total of cash inflows		**1,971,767,210**	3,157,977,474
Purchase of property, plant and equipment, intangible assets and other non-current assets		**(1,381,892,573)**	(3,502,358,675)
Cash paid for investments		**(105,244,733)**	(83,000,000)
Acquisition of a subsidiary		**(476,695,298)**	(568,000,000)
(Increase)/decrease in restricted cash		**(226,235,702)**	799,842,247
Cash paid relating to other investing activities		**(11,361,096)**	–
Sub-total of cash outflows		**(2,201,429,402)**	(3,353,516,428)
Net cash flows used in investing activities		**(229,662,192)**	(195,538,954)

Statement of Cash Flows (Continued)

Year ended 31 December 2014
Renminbi Yuan

	Note XIV	**2014**	2013
3. Cash flows from financing activities:			
Cash received from borrowings		**13,266,379,464**	17,023,240,146
Sub-total of cash inflows		**13,266,379,464**	17,023,240,146
Repayments of borrowings		**(15,532,900,085)**	(22,799,684,915)
Cash paid for distribution of dividend or profits and for interest expenses		**(1,043,851,868)**	(1,128,139,871)
Sub-total of cash outflows		**(16,576,751,953)**	(23,927,824,786)
Net cash flows used in financing activities		**(3,310,372,489)**	(6,904,584,640)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**1,307,017**	(9,312,104)
5. Net increase/(decrease) in cash and cash equivalents		**574,921,339**	(1,327,587,551)
Add: Cash and cash equivalents at beginning of year		**4,232,198,204**	5,559,785,755
6. Cash and cash equivalents at end of year		**4,807,119,543**	4,232,198,204

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited company incorporated after the reorganization of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business license is Qi Gu Wan Zong Zi No. 340000400002545. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. 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 Company's principal activities are comprised of the following: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron and steel related business; extended processing of iron and steel products, production and sale of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycling and processing of discarded vehicles (limited to the internally discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificates); and rendering of technological services and consultancy services.

The holding company and the ultimate holding company of the Group is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

The financial statements were approved by the board of directors on 25 March 2015. According to the Articles of Association of the Company, the financial statements will be submitted to shareholders for approval at a shareholders' meeting.

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

II. BASIS OF PREPARATION

1. BASIS OF PREPARATION

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

As at 31 December 2014, the net current liabilities of the Group were RMB7,819,347,070. The directors of the Company have considered the availability of funding sources, including but not limited to unused banking facilities of RMB32.7 billion. After assessment, the Company’s board of directors believes that the Group has sufficient resources to continue as a going concern for no less than 12 months after the approval of the financial statements. Therefore, the Company’s board of directors continues to prepare the Group’s financial statements for the year ended 31 December 2014 on a going concern basis.

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

2. ADOPTION OF THE NEW CAS

During January to March 2014, the MOF formulated CAS No.39 – Fair Value Measurement and CAS No.40 – Joint Arrangements and CAS No.41 – Disclosure of Interests in Other Entities, revised and issued CAS No.2 – Long Term Equity Investments, CAS No.9 – Employee Benefits, CAS No.30 – Presentation of Financial Statements, and CAS No.33 – Consolidated Financial Statements. The above seven CASs became effective from 1 July 2014, but the MOF encourages early adoption by overseas listed companies. As listed both domestically and overseas, the Company early adopted the above seven CASs in the 2013 financial statements, and applied the standards in accordance with relevant initial adoption requirements, the impacts of which were reflected in the 2013 financial statements. The Company consistently applied these standards in preparation of the 2014 financial statements.

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. STATEMENT OF COMPLIANCE WITH THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2014, and the results of their operations and their cash flows for the year then ended.

2. ACCOUNTING PERIOD

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

3. REPORTING CURRENCY

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

The Group's subsidiaries use their respective local currencies as the reporting currency for recording purposes in accordance with their own operating environment, which are translated to Renminbi in the preparation of the consolidate financial statements.

4. BUSINESS COMBINATION

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

Business combination involving entities under common control

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

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

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

4. BUSINESS COMBINATION *(CONTINUED)*

Business combination involving entities not under common control

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

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

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

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

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 2014. A subsidiary is a company or entity that is controlled by the Company (including separable parts of the enterprise and the invested entity, as well as the structural body controlled by the Company).

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

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

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

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

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

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

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

6. JOINT ARRANGEMENT AND JOINT OPERATIONS

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

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

9. FINANCIAL INSTRUMENTS

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

Recognition and derecognition of financial instruments

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

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

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Recognition and derecognition of financial instruments *(Continued)*

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

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

Classification and measurement of financial assets

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

The subsequent measurement of financial assets depends on their classification:

Financial assets at fair value through profit or loss

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

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

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

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

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

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

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

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial liabilities

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

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

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.

Financial guarantee contracts

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

Impairment of financial assets

The Group assesses the carrying amount of a financial asset at the end of each reporting period and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events that occurred after the initial recognition of the financial asset and could impact the estimated future cash flows of the financial asset, and such impacts can be reliably measured. Evidence of impairment of financial assets may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interests or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortized cost (Continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in the statement of profit or loss and other comprehensive income. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would be had the impairment not been recognized at the reversal date.

Available-for-sale financial assets

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Transfer of financial assets

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

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

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

10. RECEIVABLES, LOANS AND ADVANCES TO CUSTOMERS

(1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the statement of the profit or loss and other comprehensive income.

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

(3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at 2.5% (2013: 1.9%) of the balance as at the year end.

11. INVENTORIES

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

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

Inventories are accounted for using the perpetual inventory system.

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

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

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

12. LONG TERM EQUITY INVESTMENTS

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

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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

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

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

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

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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

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

13. INVESTMENT PROPERTIES

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, except for property, plant and equipment generated by consuming safety production reserves. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings	10-30 years	3%	3.2-9.7%
Plant and machinery	10-15 years	3%	6.5-9.7%
Office equipment	10 years	3%	9.7%
Motor vehicles	5 years	3%	19.4%

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

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

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

15. CONSTRUCTION IN PROGRESS

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

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

16. BORROWING COSTS

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

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

The capitalization of borrowing costs commences when:

(1) Expenditures for the assets are being incurred;

(2) Borrowing costs are incurred; or

(3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale has commenced.

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

16. BORROWING COSTS *(CONTINUED)*

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

(1) For specific borrowings, the borrowing costs eligible for capitalization are the actual borrowing costs incurred during the current period deducted by any temporary interest or investment income.

(2) For general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the weighted average of capital expenditure that exceeds the specific borrowings.

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

17. INTANGIBLE ASSETS

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

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

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

	Useful life
Concession contract	25 years
Land use rights	50 years
Mining rights	25 years

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.

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

17. INTANGIBLE ASSETS *(CONTINUED)*

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives, and adjusts then if appropriate, at least at the end of each reporting period.

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

18. IMPAIRMENT OF ASSETS

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

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

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

18. IMPAIRMENT OF ASSETS *(CONTINUED)*

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

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

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

Impairment losses cannot be reversed in subsequent accounting periods.

19. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

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

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

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

Short-term employee benefits payable

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

Post-employment benefit (Defined contribution plans)

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

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

Post-employment benefit (Defined benefit plans)

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

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

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

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

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

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

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income comprising interest income on plan assets, interest expense on plan obligations and the interest influenced by asset limit.

Termination benefits

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

Other long-term employee benefits

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

20. PROVISIONS

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

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

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

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

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Provisions shall be reviewed at the end of each reporting period. If there is conclusive evidence that the book value does not reflect the current best estimate, then adjust the book value to the current best estimate.

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

20. PROVISIONS *(CONTINUED)*

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

21. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

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

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

22. REVENUE

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

Revenue from the sale of goods

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

22. REVENUE *(CONTINUED)*

Revenue from the rendering of services

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

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

Interest income

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

Royalty income

Royalty income is recognized according to the agreed contract terms.

Lease income

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

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

23. GOVERNMENT GRANTS

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

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

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

24. INCOME TAX

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

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

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

24. INCOME TAX *(CONTINUED)*

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

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

(2) as to temporary differences associated with subsidiaries, joint ventures and associates: the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

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

25. LEASES

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

As lessee in operating leases

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

As lessor in operating leases

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

26. PROFIT DISTRIBUTION

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

27. SAFETY PRODUCTION RESERVE

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

28. GENERAL RESERVE

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

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

29. FAIR VALUE MEASUREMENT

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

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

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

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

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

30. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Continuous operation

As stated in Note II. 1, the going-concern ability of the Group relies on the cash inflow of borrowing and operational activities, in order to maintain sufficient cash in the due date of relevant liabilities. The uncertainty of the Group's going-concern ability involves once the Group cannot obtain sufficient cash. The financial statement does not include any necessary adjustments related to booking value and classification of assets and liabilities when the Group cannot operate continuously.

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

Judgments *(Continued)*

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

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

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

The Group determines whether entities in which the Group holds less than 20% of voting rights but has a significant influence over them, and has developed criteria in making that judgment. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Therefore, the Group has the power to participate in the financial and operating policy decisions of the entities in which the Group holds less than 20% of voting rights, and recognized as the available-for-sale investments.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

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

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

Estimation uncertainty *(Continued)*

Deferred tax assets

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

Estimation of fixed assets' useful life

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

Provision for bad debts of receivables

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

Estimation of inventories under net realizable value

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

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

31. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Changes in accounting estimates

In accordance with the CAS 4 – Fixed Assets and CAS 28 – Changes in Accounting Policy and Estimate and Correction of Errors, the Group adjusted the useful lives of property, plant and equipment to ensure the adjusted useful lives to meet the estimates on the period that the future economic benefits. The impact on the change in the useful lives will not result in a restatement. The new useful lives applied from July 1, 2014. The change was approved by the board of directors on the seventh session of the 40th meeting of the board of directors on May 8, 2014, and was approved by the annual shareholders' meeting on June 27, 2014.

From July 1, 2014, the Company adjusted the useful lives of buildings and plant and machinery:

	Buildings	Plant and machinery
Useful life before changes	20	13
Useful life after changes	30	15

The major impact on the financial statements for the year ended 31 December 2014 by the change in accounting estimates are as follows:

The Group

2014

	Before change in accounting estimates Year end/ Current year	Change in depreciation	After change in accounting estimates Year end/ Current year
Net book value of fixed assets	36,591,066,835	450,290,025	37,041,356,860
Depreciation of fixed assets	4,047,358,711	(450,290,025)	3,597,068,686
Profit	61,826,369	450,290,025	512,116,394
Income tax	135,496,373	112,572,506	248,068,879
Net (loss)/profit	(73,670,004)	337,717,519	264,047,515
Retained profits	3,113,582,310	337,717,519	3,451,299,829

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

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

Changes in accounting estimates *(Continued)*

The Company

2014

	Before change in accounting estimates Year end/ Current year	Change in depreciation	After change in accounting estimates Year end/ Current year
Net book value of fixed assets	27,444,373,286	450,290,025	27,894,663,311
Depreciation of fixed assets	3,304,424,711	(450,290,025)	2,854,134,686
(Loss)/Profit before tax	(288,261,376)	450,290,025	162,028,649
Income tax	27,877,536	112,572,506	140,450,042
Net (loss)/profit	(316,138,912)	337,717,519	21,578,607
Retained profits	2,346,004,385	337,717,519	2,683,721,904

IV. TAX

1. THE PRINCIPAL KINDS OF TAXES AND THE RELATED RATES ARE AS FOLLOWS:

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refund rates of 9% to 17%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.
Business tax	Payable based on 3% to 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their assessable profits.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
Real estate tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

2. TAX BENEFITS AND APPROVAL DOCUMENTS

Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax at the rate of 15%. Taxes for other subsidiaries located elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions, ranging from 16.5% to 33.3%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	2014	2013
Cash on hand	**179,213**	267,684
Bank balances	**2,715,810,506**	1,961,167,745
Other monetary assets	**1,075,433,928**	2,220,222,410
Mandatory reserves with central bank	**863,127,872**	925,060,230
	4,654,551,519	5,106,718,069

As at 31 December 2014, the Group's other monetary assets amounting to RMB1,075,433,928 have been pledged to banks as security (31 December 2013: RMB2,220,222,410) for trade facilities and performance bonds, and time deposits amounting to USD1,000,000, which is equivalent as RMB6,153,420 (31 December 2013: USD1,000,000, which is equivalent to RMB6,132,360 and time deposits amounting to RMB140,784,944, total amount of RMB 146,917,304) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB863,127,872 (31 December 2013: RMB925,060,230). As at 31 December 2014, the Group does not have bank deposits frozen (31 December 2013: None).

As at 31 December 2014, the Group had cash and bank balances amounting to RMB479,677,102 that have been deposited outside the PRC (31 December 2013: RMB215,403,536), without restriction on remittance.

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

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

	2014	2013
Equity instruments held for trading	**1,073,490**	509,330
	1,073,490	509,330

The above equity instruments were all listed on the Shanghai Stock Exchange. There was no material restriction on realization of these investments as at the end of reporting period.

3. BILLS RECEIVABLE

	2014	2013
Bank acceptance bills	**8,483,607,113**	8,623,990,738
Commercial acceptance bills	**–**	5,118,188
	8,483,607,113	8,629,108,926

The pledged bills receivable were as follows:

	2014	2013
Bank acceptance bills	**4,723,683,840**	4,053,734,443

As at 31 December 2014, the undue bills discounted or endorsed were as follows:

	2014		2013	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance bills	**3,371,814,170**	**241,358,860**	7,708,848,973	911,117,144
	3,371,814,170	**241,358,860**	7,708,848,973	911,117,144

As at 31 December 2014 and 31 December 2013, there were was no trade receivables transferred from bills receivable because of the drawers' inability to pay.

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

4. TRADE RECEIVABLES

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

The aging of trade receivables is analyzed below:

	2014	2013
Within one year	**775,850,830**	776,614,818
One to two years	**77,466,943**	28,600,288
Two to three years	**11,226,000**	1,184,316
Over three years	**8,574,303**	8,756,853
	873,118,076	815,156,275
Less: Provisions for bad debts	**16,558,216**	14,209,800
	856,559,860	800,946,475

The movements of provision for bad debts against trade receivables for the year are disclosed in Note V.18.

The balances of trade receivables are analysed as follows:

	2014				2013			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**835,909,910**	**96**	**(6,927,040)**	**1**	761,681,928	93	(6,927,040)	1
Other insignificant but assessed for impairment individually	**37,208,166**	**4**	**(9,631,176)**	**26**	53,474,347	7	(7,282,760)	14
	873,118,076	**100**	**(16,558,216)**		815,156,275	100	(14,209,800)	

4. TRADE RECEIVABLES *(CONTINUED)*

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

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

As at 31 December 2013, those individually significant and assessed for impairment individually were as follows:

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

In 2014, provision for bad debts was RMB1,989,407 (2013: RMB121,936), and there was no recovery or reversal of provision for bad debts (2013: None).

In 2014, there were no trade receivables that had been written off (2013: RMB547,527).

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

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

5. DIVIDENDS RECEIVABLE

	2014	2013
Anhui Masteel Engineering Technology Company Limited ("Magang Engineering Technology")	**–**	17,687,460
Henan JinMa Energy Co., Ltd. ("Henan Jinma Energy")	**–**	27,100,000
	–	44,787,460

6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

	2014		2013	
	Balance	**Ratio (%)**	Balance	Ratio (%)
Within one year	**605,876,337**	**94**	1,000,361,657	98
One to two years	**35,064,880**	**5**	12,157,694	1
Two to three years	**1,232,762**	**–**	1,265,699	–
Over three years	**6,789,094**	**1**	8,609,829	1
	648,963,073	**100**	1,022,394,879	100

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

7. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

	2014	2013
Within one year	**121,958,079**	1,669,432,037
One to two years	**21,256,089**	729,907,083
Two to three years	**653,561,416**	38,183,949
Over three years	**15,437,153**	6,459,483
	812,212,737	2,443,982,552
Less: Provision for bad debts	**556,634,800**	495,837,429
	255,577,937	1,948,145,123

The movements of provision for bad debts against other receivables for the year are disclosed in Note V.18.

Other receivable balance is analyzed as follows:

	2014				2013			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**795,422,639**	**98**	**(550,376,448)**	**69**	2,414,505,218	99	(489,579,077)	20
Other insignificant but assessed for impairment individually	**16,790,098**	**2**	**(6,258,352)**	**37**	29,477,334	1	(6,258,352)	21
	812,212,737	**100**	**(556,634,800)**		2,443,982,552	100	(495,837,429)	

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

7. OTHER RECEIVABLES *(CONTINUED)*

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

2014

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

7. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2013, those individually significant and assessed for impairment individually were as follows:

2013

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	Note 1
Company 2	127,685,367	(64,790,807)	51%	Note 1
Company 3	37,243,732	(24,893,732)	67%	Note 1
Company 4	132,186,434	(132,186,434)	100%	Note 1
Company 5	92,302,582	(20,302,582)	22%	Note 4
Company 6	76,821,224	(76,821,224)	100%	Note 2
Company 7	17,079,513	(17,079,513)	100%	Note 2
Company 8	34,783,463	(34,783,463)	100%	Note 2
Company 9	9,159,443	(9,159,443)	100%	Note 2
Company 10	9,051,133	(9,051,133)	100%	Note 2
Company 11	10,026,979	(10,026,979)	100%	Note 2
Company 12	4,972,153	(4,972,153)	100%	Note 2
Company 13	17,028,058	(17,028,058)	100%	Note 2
Company 14	5,143,596	(5,143,596)	100%	Note 2
Company 15	2,400,000	(2,400,000)	100%	Note 3
	636,823,637	(489,579,077)		

Note 1: The companies were original steel trading suppliers of the Company, which were in operating difficulties. Management has assessed that the present value of estimated future cash flows for the receivables due from those companies were lower than the carrying amounts, and a provision for the bad debts were consequently measured as such differences in 2013. At the end of 2014, the fair value of the assets which pledged the receivables has been changed, the management assessed that it was difficult for the Company to collect the receivables as second in line pledgee, therefore, full provision for the bad debts were made.

Note 2: The companies were original steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd ("Shanghai Trading"), a subsidiary of the Company. The management of the Group has assessed that it was difficult to collect the receivables because that the companies were in operating difficulties, and made a full provision for the bad debts.

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

7. OTHER RECEIVABLES *(CONTINUED)*

Note 3: As the customer was in operating difficulty, the management has assessed that it was difficult to collect the receivables and made a full provision for the bad debts.

Note 4: For purpose of protecting the Company's interest as the creditor, Maanshan Iron and Steel (Wuhu) Processing and Distribution Co., Ltd. (" Ma Steel (Wuhu)"), a subsidiary of the Company, signed an equity interest transfer agreement and its supplementary agreement (collectively known as "Agreements") with this debtor's original shareholders, pursuant to which to acquire its 60% equity interest at a purchase consideration of RMB 1. The Agreements stipulated that Ma Steel (Wuhu) would sell all the holding interest to the original shareholders at the original purchase consideration once the debtor repay all the debts to Ma Steel (Wuhu) before 31 December 2014. And before 31 December 2014, Ma Steel (Wuhu) would not participate in any decision-making process on financial or operating of the debtor, and do not share any of its profit or loss. The management believed that the Company had no control over the debtor at the end of 2014.

As of 31 December 2014, the book value of the receivables due from the debtor is RMB92,302,582, and the provision for the bad debts is RMB20,302,582. The management had assessed that there was no more provision should be made for the receivables.

During the year, the Group has made a provision of RMB75,244,560 (2013: RMB1,727,440) and has reversed provision for bad debt of RMB14,447,189 (2013: RMB59,019,529).

There was no provision for bad debt that was written off during 2014 (2013: RMB124,182).

Other receivables were analyzed by nature as follows:

	2014	2013
Receivables for sales of equity and assets	**–**	1,569,539,285
Payment on behalf of other companies	**50,719,451**	100,539,451
Tax rebates	**8,157,911**	29,657,911
Prepayment of customs duties and VAT	**22,575,508**	29,593,595
Prepayment for trading	**603,688,484**	588,726,583
Prepaid guarantee for steel futures transaction	**63,733,481**	63,733,481
Others	**63,337,902**	62,192,246
Provision for bad debts	**(556,634,800)**	(495,837,429)
	255,577,937	1,948,145,123

7. OTHER RECEIVABLES *(CONTINUED)*

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

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

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

	Balance	Ratio in other receivables (%)	Nature	Payment date	Balance of provision
Company 1	1,569,539,285	64	sale of equity, asset	Within one year	–
Company 2	132,186,434	5	current account	One to two years	132,186,434
Company 3	127,685,368	5	current account	One to two years	64,790,807
Company 4	93,073,811	4	current account	Within one year	–
Company 5	92,302,582	4	current account	One to two years	20,302,582
	2,014,787,480	82			217,279,823

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

7. OTHER RECEIVABLES *(CONTINUED)*

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

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

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

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

Note: The balance is the government grant owned by a subsidiary named Chang Jiang Iron and Steel in 2009 from the County Government of Taibai, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government subsidy was recorded as non-operating income in 2009, and is expected to be received in 2015.

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

8. INVENTORIES

	2014			2013		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**4,353,192,496**	**(126,475,398)**	**4,226,717,098**	5,705,360,415	(522,727,311)	5,182,633,104
Work in progress	**888,303,710**	**(27,565,874)**	**860,737,836**	1,084,278,582	(13,601,442)	1,070,677,140
Finished goods	**2,176,685,871**	**(54,862,983)**	**2,121,822,888**	2,250,722,070	(25,170,409)	2,225,551,661
Spare parts	**1,535,046,957**	**(60,031,494)**	**1,475,015,463**	1,634,079,930	(63,220,701)	1,570,859,229
	8,953,229,034	**(268,935,749)**	**8,684,293,285**	10,674,440,997	(624,719,863)	10,049,721,134

The movements of impairment provision against inventories for the year are disclosed in Note V.18.

At the end of reporting period, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under the normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2014, the Group had no reversal of impairment provision against inventories (2013: RMB588,948).

9. LOANS AND ADVANCES TO CUSTOMERS

	2014	2013
Loans	**574,900,000**	460,000,000
Discounted bills	**75,208,138**	35,974,359
	650,108,138	495,974,359
Less: Bad debt provision for loans and advances	**16,904,861**	9,462,611
	633,203,277	486,511,748

The movements of the provision for bad debts against loans and advances to customers for the current year are disclosed in Note V.18.

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

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

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 2.5% of its closing balance (2013: 1.9%). As at 31 December 2014, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2014 and 31 December 2013 are stated in Note X.6 to the financial statements.

10. OTHER CURRENT ASSETS

	2014	2013
Prepaid corporate income tax	**306,924,902**	311,405,513
Accumulated deductible value added tax input	**358,549,536**	193,000,766
	665,474,438	504,406,279

At the end of 2014, the amount of prepaid corporate income tax and deductible VAT input were reclassified as other current assets, and the prior year's related amount were adjusted accordingly.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014			2013		
	Book value	**Provision for impairment**	**Carrying value**	Book value	Provision for impairment	Carrying value
Available-for-sale equity instruments measured at cost	**126,772,160**	**–**	**126,772,160**	126,772,160	–	126,772,160

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

	Book value				Provision for impairment					Cash dividend during the year
	Opening balance	Addition	Deduction	Ending balance	Opening balance	Addition	Deduction	Ending balance	(%)	
Henan Longyu Energy Co., Ltd.	10,000,000	–	–	10,000,000	–	–	–	–	0.66	5,237,569
China MCC17 Group Co., Ltd.	8,554,800	–	–	8,554,800	–	–	–	–	1.56	1,384,383
Shanghai LuoJing Ore Quay Co., Ltd	88,767,360	–	–	88,767,360	–	–	–	–	12	7,194,838
Beijing Lianye Parameter Monitoring Company	50,000	–	–	50,000	–	–	–	–	6.1	–
Beijing Zhonglian Steel Ecommerce Co., Ltd	1,000,000	–	–	1,000,000	–	–	–	–	3.4	–
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	–	–	400,000	–	–	–	–	5	80,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	–	–	15,000,000	–	–	–	–	0.15	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co. Ltd.	3,000,000	–	–	3,000,000	–	–	–	–	6.9	–
	126,772,160	–	–	126,772,160	–	–	–	–	35.77	13,896,790

As at 31 December 2014, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment value at the end of each reporting period, and their fair values would not be disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group has no intention to dispose of the investments.

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

12. LONG TERM EQUITY INVESTMENTS

2014

	Opening balance	Movements during the year: Increase during the year	Decrease during the year	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received during the year	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	313,268,792	-	-	72,066,471	-	2,087,013	(76,000,000)	-	311,422,276	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	551,944	-	-	(9,275)	-	-	-	-	542,669	-
Associates										
Henan JinMa Energy	187,806,274	-	-	19,691,642	-	-	-	-	207,497,916	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	213,088,920	-	-	32,283,993	-	440,310	-	-	245,813,223	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	37,966,695	-	-	5,011,079	-	-	(12,000,000)	-	30,977,774	-
Anhui Xinchuang Economize Resource Co., Ltd ("Xinchuang Economize Resource")	25,530,298	-	-	5,157,181	-	280,244	-	-	30,967,723	-
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail") (Note1)	126,765,329	45,000,000	-	(289,088)	-	-	-	-	171,476,241	-
Jiyuan Jinyuan Chemical Co., Ltd ("Jiyuan Jinyuan Chemical")	41,555,808	-	-	4,238,340	-	-	-	-	45,794,148	-
Anhui Linhuan Chemical Co., Ltd ("Anhui Linhuan Chemical") (Note2)	-	43,200,000	-	-	-	-	-	-	43,200,000	-
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking")	3,531,385	-	-	(1,638,342)	-	-	-	-	1,893,043	-
	950,065,445	88,200,000	-	136,512,001	-	2,807,567	(88,000,000)	-	1,089,585,013	-

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

Note 1: In 2014, the Company paid the capital of RMB45,000,000 to Ma Steel Jinxi Rail, according to the articles of association, the Company completed the withdraw of the capital agreed.

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

2013

		Movements during the year								
	Opening balance	Increase during the year	Decrease during the year	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received during the year	Provision for impairment	Closing balance	Impairment at the end of the year
BOC-Ma Steel	315,052,064	-	-	76,216,728	-	-	(78,000,000)	-	313,268,792	-
MASTEEL-CMI	551,193	-	-	751	-	-	-	-	551,944	-
Sino-Japan Resource Regeneration (i)	509,792	980,000	(5,880,000)	4,390,208	-	-	-	-	-	-
Associates										
Henan JinMa Energy	162,150,444	-	-	44,735,830	-	-	(19,080,000)	-	187,806,274	-
Shenglong Chemical	181,852,159	-	-	31,236,761	-	-	-	-	213,088,920	-
Shanghai Iron and Steel Electronic	37,949,164	-	-	17,531	-	-	-	-	37,966,695	-
Maanshan Harbour (i)	193,936,508	-	(112,500,000)	(79,411,508)	-	-	(2,025,000)	-	-	-
Zhengpu Harbor (ii)	34,994,723	35,000,000	(70,000,000)	5,277	-	-	-	-	-	-
Xinchuang Economize Resource	38,345,660	-	(15,000,000)	2,184,638	-	-	-	-	25,530,298	-
Ma Steel Jinxi Rail (iii)	84,357,542	30,000,000	-	12,407,787	-	-	-	-	126,765,329	-
Jiyuan Jinyuan Chemical (iii)	18,000,000	18,000,000	-	5,555,808	-	-	-	-	41,555,808	-
Masteel Auto-parking (iv)	-	4,500,000	-	(968,615)	-	-	-	-	3,531,385	-
	1,067,699,249	88,480,000	(203,380,000)	96,371,196	-	-	(99,105,000)	-	950,065,445	-

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) According to the selling agreement signed between the Company and the Holding, the Company transferred the ownership of Masteel Engineering to the Holding, and the transfer was completed on 31 October 2013. Since 31 October 2013, the Company had not included Masteel Engineering into the scope, and then lost a 49% equity interest in Sino-Japan Resource Regeneration and a 15% equity interest in Xinchuang Economize Resource, which were indirectly held through Masteel Engineering. On 31 December 2013, the Group owns a 20% equity interest in Xinchuang Economize Resource.

(ii) According to the disposal agreement signed between the Company and the Holding in 2013, the Company transferred its equity of Maanshan Harbor and Zhengpu Harbor to the Holding, which was completed on 31 October 2013. Since 31 October 2013, the Company neither held the above entities nor enjoyed the rights and interests.

(iii) In 2013, the Company injected capital to Ma Steel Jinxi Rail and Jiyuan Jinma Coke by RMB30,000,000 and RMB18,000,000 respectively.

(iv) Masteel Auto-parking was an indirectly held subsidiary of the Company. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party. According to its revised Articles of Association, the board of directors is comprised of three directors, out of which one shall be appointed by Ma Steel (HK), and the other two shall be appointed by the acquiree, as a result of acquirer gaining control over Masteel Auto-parking. Therefore, Masteel Auto-parking becomes an associate of the Group since 9 April 2013.

* All investments in joint ventures and associates accounted under the equity method are unlisted companies.

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

13. INVESTMENT PROPERTIES

Investment properties measured under the cost method:

2014

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

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

13. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties subsequently measured under the cost method:

	Buildings
Cost:	
At 1 January 2013	5,729,496
Addition	62,974,429
Transferred from fixed assets (note)	513,978
Disposal	(4,006,854)
At 31 December 2013	65,211,049
Accumulated depreciation:	
At 1 January 2013	1,328,878
Provided during the year	60,787
Transferred from fixed assets (note)	109,517
Disposal	(700,609)
At 31 December 2013	798,573
Provision for impairment:	
At 1 January 2013 and 31 December 2013	–
Net carrying amount:	
At 31 December 2013	64,412,476
At 1 January 2013	4,400,618

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

2014

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land ownership	Total
Cost:						
At 1 January 2014	23,070,622,467	45,333,690,035	364,494,161	224,633,111	-	68,993,439,774
Acquisition	69,443,215	187,335,430	13,016,059	2,790,884	10,787,241	283,372,829
Transfer from construction in progress (Note V.15)	3,258,384,418	6,518,299,157	19,672,066	244,058	-	9,796,599,699
Reclassifications (i)	(170,832,914)	160,617,581	688,876	9,526,457	-	-
Disposal (ii)	(137,424,202)	(253,594,179)	(4,487,126)	(80,176)	-	(395,585,683)
Transferred to investment real estate	(201,262)	-	-	-	-	(201,262)
Other transfer out	(6,214,385)	(14,484,950)	-	-	-	(20,699,335)
At 31 December 2014	26,083,777,337	51,931,863,074	393,384,036	237,114,334	10,787,241	78,656,926,022
Accumulated depreciation:						
At 1 January 2014	10,395,896,878	27,434,503,182	293,373,650	201,245,434	-	38,325,019,144
Provided during the year	956,966,825	2,587,055,762	27,178,635	25,867,464	-	3,597,068,686
Reclassifications (i)	(38,376,218)	41,901,338	468,781	(3,993,901)	-	-
Disposal (ii)	(83,402,618)	(218,765,694)	(4,253,223)	(42,291)	-	(306,463,826)
Transferred to investment real estate	(54,842)	-	-	-	-	(54,842)
Other transfer out	-	-	-	-	-	-
At 31 December 2014	11,231,030,025	29,844,694,588	316,767,843	223,076,706	-	41,615,569,162
Provision for impairment:						
At 1 January 2014	-	-	-	-	-	-
Provision	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
At 31 December 2014	-	-	-	-	-	-
Net carrying amount:						
At 31 December 2014	14,852,747,312	22,087,168,486	76,616,193	14,037,628	10,787,241	37,041,356,860
At 1 January 2014	12,674,725,589	17,899,186,853	71,120,511	23,387,677	-	30,668,420,630

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

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

(ii) The decrease of fixed assets in 2014 was mainly due to the disposal of part of the Company's fixed assets. Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)"), a subsidiary of the Company, disposed buildings and equipments in line with its transformation development. Please refer to Note V.16 for more information. The decrease of fixed assets in 2013 was mainly due to the Company's transfer of the equity and assets of the non-steel business subsidiaries to the Holding.

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

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

2013

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

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

As at 31 December 2014, certificates of ownership in respect of 53 of the Group's buildings in Mainland China, with an aggregate cost of 1,418,058,337 (31 December 2013: RMB1,340,707,113), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

As at 31 December 2014, certain of the Group's production equipment with a net carrying amount of RMB45,662,645 (31 December 2013: RMB47,037,718) was pledged to secure bank loans amounting to RMB12,000,000 (31 December 2013: RMB15,000,000). The details are disclosed in Note V.22.

15. CONSTRUCTION IN PROGRESS

	2014			2013		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Product quality projects	**804,193,622**	**–**	**804,193,622**	6,958,116,296	–	6,958,116,296
Energy-saving and environment protection projects	**436,691,290**	**–**	**436,691,290**	356,021,360	–	356,021,360
Equipment advancement and other modification projects	**1,505,024,957**	**–**	**1,505,024,957**	1,188,835,449	–	1,188,835,449
Other projects	**85,140,313**	**–**	**85,140,313**	226,842,103	–	226,842,103
	2,831,050,182	**–**	**2,831,050,182**	8,729,815,208	–	8,729,815,208

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2014

Name of projects	Budget RMB'000	Opening balance RMB	Additions RMB	Transferred to fixed assets (Note V.14) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
Product quality projects	10,533,620	6,958,116,296	2,890,776,658	(9,044,699,332)	804,193,622	Internally financed/loan financed	80%
Energy-saving and environment protection projects	2,324,350	356,021,360	235,970,649	(155,300,719)	436,691,290	Internally financed	38%
Equipment advancement and other modification projects	3,280,255	1,188,835,449	532,253,733	(216,064,225)	1,505,024,957	Internally financed	94%
Other projects	N/A	226,842,103	238,833,633	(380,535,423)	85,140,313	Internally financed	N/A
		8,729,815,208	3,897,834,673	(9,796,599,699)	2,831,050,182		
Less: Provision for impairment		-	-	-	-		
		8,729,815,208	3,897,834,673	(9,796,599,699)	2,831,050,182		

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2013

Name of projects	Budget RMB'000	Opening balance RMB	Additions RMB	Transferred to fixed assets (Note V.14) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
Product quality projects	10,559,524	3,708,314,376	4,483,788,288	(1,233,986,368)	6,958,116,296	Internally financed/loan financed	70%
Energy-saving and environment protection projects	839,896	277,581,357	132,483,353	(54,043,350)	356,021,360	Internally financed	76%
Equipment advancement and other modification projects	3,375,774	1,219,449,377	356,092,064	(386,705,992)	1,188,835,449	Internally financed	87%
Other projects	N/A	492,324,566	1,323,499,750	(1,588,982,213)	226,842,103	Internally financed/ loan financed	N/A
		5,697,669,676	6,295,863,455	(3,263,717,923)	8,729,815,208		
Less: Provision for impairment		–	–	–	–		
		5,697,669,676	6,295,863,455	(3,263,717,923)	8,729,815,208		

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2014

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

2013

Name of projects	Average percentage of completion (%)	Accumulated interest capitalization RMB	The capitalized interest expense in current year RMB	The interest capitalization rate (%)
Product quality projects	70%	15,872,077	15,872,077	4.8
Energy-saving and environment protection projects	76%	–	–	–
Equipment advancement and other modification projects	87%	–	–	–
Other projects	N/A	33,770,532	33,770,532	4.8
		49,642,609	49,642,609	

Note: The balance represents capitalization of borrowing costs contained by construction in process at 31 December 2014 and 31 December 2013 respectively.

16. INTANGIBLE ASSETS

2014

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

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

16. INTANGIBLE ASSETS *(CONTINUED)*

(i) The concession assets are owned by the subsidiary, Maanshan Iron & Steel (Hefei) Limited Industrial Water Supply Co,. Ltd (Hefei Water Supply). On 18 May 2011, Hefei Water Supply obtained a concession right by signing "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economy Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive a water fee from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The infrastructure construction contract was applied, and no construction service revenue was recognized. According to the agreement, the payment for the project during the construction was recognized as intangible assets. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.

(ii) On 7 January 2014, Ma Steel (Hefei) was received the "Notice regarding the Announced Supervision and Handling of Magang Hefei Steel's Environmental Incompliance by Anhui Department of Environmental Protection and Anhui Department of Supervision" (Anhui WanHuanHan [2014] No.1) to suspend its production and to take curtailment measures with regard to its emission of dust and other atmospheric pollutants requested by the Environmental Protection Department and Supervision Department of Anhui Province. On 9 January 2014, the Holding submitted the proposal themed with shutting down the existent iron and steel production lines and switching to more environmentally friendly production on behalf of Ma Steel (Hefei) to the Hefei Municipal Party Committee and the Hefei Municipal Government. On 16 January 2014, the Hefei Municipal Government reached an agreement with the Holding and confirmed that Hefei City Land Reserve Center will purchase back the land use rights over 3,377.9 mu of industrial land at a consideration of no less than RMB1,200,000,000. The consideration was aimed at compensating the downsized employees and production switching expenditure, as well as loss of the land use rights and production lines.

On 28 February 2014, the Board of Directors of the Company resolved to approve the resolution on the Approval of Magang Hefei Steel signing the "Agreement on the Repurchase of Hefei State-owned Land Use Rights for Construction Purposes" with Hefei Municipal Land Reserve Centre.

On 28 February 2014, based on the preliminary asset evaluation report, Hefei Municipal Land Reserve Center entered into the agreement of recovery of state owned construction land's use rights (No. reserve land 467) with Ma Steel (Hefei) and consented that the consideration would be no less than RMB1, 200,000,000. The final consideration would be based on the appraisal value of related land, buildings and facilities filed and approved by Hefei Municipal Bureau of Land Resources, Hefei Municipal Management Bureau of Real Estate and Hefei Municipal Architecture Affairs Administration.

On 26 December 2014, based on the asset evaluation result, Municipal Land Reserve Center entered into a formal supplementary agreement with Ma Steel (Hefei) and consented that the consideration for compensating would be RMB1, 238,648,933. Ma Steel (Hefei) would deliver the land use rights over 3,377.9 mu to Municipal Land Reserve Center in two phrases as follows, 1,085.2 mu and related assets at a consideration of RMB307,861,680 to be delivered in 2014, the remaining 2,292.7 mu at a consideration of RMB930,787,253 to be delivered before the end of 2016. As of 31 December 2014, Ma Steel (Hefei) had completed the delivery of the land use tight over 1,085.2 mu to Municipal Land Reserve Center.

As of 31 December 2014, Ma Steel (Hefei) had received the compensation totaling RMB960, 000,000, of which RMB307, 861,681 has recorded in profit for the current year. The carrying amount of delivered land use rights and fixed assets was a total of RMB94,632,196.

16. INTANGIBLE ASSETS *(CONTINUED)*

2013

	Concession assets (i)	Back-up roll technology	Land use rights	Mining rights	Total
Cost:					
At 1 January 2013	–	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Additions	136,781,479	–	111,064	19,118,468	156,011,011
Disposal of subsidiaries (iii)	–	(45,082,836)	(8,766,493)	–	(53,849,329)
Disposal (iii)	–	–	(120,359,561)	–	(120,359,561)
Exchange realignment	–	–	–	(30,675,725)	(30,675,725)
At 31 December 2013	136,781,479	–	2,178,895,585	159,256,154	2,474,933,218
Accumulated depreciation:					
At 1 January 2013	–	9,767,947	515,457,568	35,160,126	560,385,641
Provided during the year	8,672,433	3,756,903	53,673,726	4,928,899	71,031,961
Disposal of subsidiaries (iii)	–	(13,524,850)	(824,098)	–	(14,348,948)
Disposal (iii)	–	–	(35,908,561)	–	(35,908,561)
Exchange realignment	–	–	–	(6,406,120)	(6,406,120)
At 31 December 2013	8,672,433	–	532,398,635	33,682,905	574,753,973
Provision for impairment:					
At 1 January 2013 and at 31 December 2013	–	–	–	–	–
Net carrying amount:					
At 31 December 2013	128,109,046	–	1,646,496,950	125,573,249	1,900,179,245
At 1 January 2013	–	35,314,889	1,792,453,007	135,653,285	1,963,421,181

(iii) In 2013, the decrease of intangible assets is mainly attributable to the transfer of the equity and assets of non-core business from the Company to the Holding.

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

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

17. DEFERRED TAX ASSETS/LIABILITIES

	2014		2013	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	**261,376,120**	**65,344,030**	624,669,696	156,167,424
Sales incentive	**83,623,905**	**20,905,976**	126,999,923	31,749,980
Salary payable	**182,715,516**	**45,678,879**	123,436,608	30,859,152
Government grants	**265,851,900**	**66,462,975**	280,791,692	70,197,923
Deductible tax losses	**1,620,713,736**	**405,178,434**	1,783,883,084	445,970,771
Others	**177,090,116**	**44,272,529**	81,718,012	20,429,504
	2,591,371,293	**647,842,823**	3,021,499,015	755,374,754

	2014		2013	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax liabilities				
Fair value adjustments related to business combination not under common control	**132,765,680**	**33,191,420**	147,603,124	36,900,781

As at 31 December 2014, unrecognized deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	2014	2013
Deductible temporary differences	**143,208,502**	201,709,404
Deductible tax losses	**978,927,794**	706,454,432
	1,122,136,296	908,163,836

17. DEFERRED TAX ASSETS/LIABILITIES

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

	2014	2013
To expire in 2016	**233,247,027**	233,247,027
To expire in 2017	**2,439,124,244**	2,240,752,423
To expire in 2018	**483,216,836**	351,818,279
To expire in 2019	**760,123,067**	–

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

Based on the current rules and regulations of taxation and preferential tax policy committed by local tax authorities or the Group deserved to have, the Group estimated the amount of income tax and deferred tax. In business activities, there were uncertainties of tax treatments for several transactions and issues. Therefore, if the final recognized 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 recognized 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 recognized to the extent that the deficit covered by taxable profit which would probably generate in future or the deductible temporary differences that could be reversed. The deferred tax assets are recognized based on the significant judgment by the management after considering when and how much taxable profit would generate and its tax planning.

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

18. ASSET IMPAIRMENT PROVISIONS

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

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

(ii) The change is caused by the business combination, which is the MG-VALDUNES S.A.S, the wholly subsidiary of the Group, acquired the total assets of VALDUNES S.A.S at the end of 2014. See details at Note VI.2.

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

18. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2013					
		Increase	Decrease during the year			
	Opening	during the		Write-back/	Disposal of	Closing
	Opening	year	Reversal	Write-off	subsidiaries	balance
Provisions for bad debts	570,863,066	9,134,584	59,019,529	671,709	796,572	519,509,840
Including: Trade receivables	15,076,606	121,936	–	547,527	441,215	14,209,800
Other receivables	553,609,057	1,727,440	59,019,529	124,182	355,357	495,837,429
Loans and advances to customers	2,177,403	7,285,208	–	–	–	9,462,611
Inventory impairment provision (i)	350,099,012	1,214,973,022	588,948	939,311,546	451,677	624,719,863
Including: Raw materials	221,378,174	970,471,965	500,563	668,170,588	451,677	522,727,311
Work in progress	49,634,401	67,653,767	–	103,686,726	–	13,601,442
Finished products	18,434,509	173,960,270	88,385	167,135,985	–	25,170,409
Spare parts	60,651,928	2,887,020	–	318,247	–	63,220,701
	920,962,078	1,224,107,606	59,608,477	939,983,255	1,248,249	1,144,229,703

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

19. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
Deposits and balances from banks	**500,000,000**	–

20. CUSTOMER DEPOSITS

	2014	2013
Demand deposits	**964,818,850**	1,096,029,858
Notice deposit	**162,800,000**	28,500,000
Time deposits	**72,000,000**	266,080,000
	1,199,618,850	1,390,609,858

The details of customer deposits related to shareholders who held 5% or more of voting shares and the related parties at 31 December 2014 and 31 December 2013 are disclosed in Note X.6.

21. REPURCHASE AGREEMENTS

	2014	2013
Bills	**–**	344,732,675

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

22. SHORT TERM LOANS

	2014	2013
Unsecured loans	**1,574,576,377**	2,484,910,082
Short-term financing bonds (i)	**5,000,000,000**	1,500,000,000
Guaranteed loans (ii)	**12,000,000**	15,000,000
Pledged loans (iii)	**–**	10,000,000
Inward documentary bills and usance letter of credit (iv)	**5,471,818,517**	4,543,599,778
	12,058,394,894	8,553,509,860

(i) As at 23 August 2012, the Group signed a contract with CITIC Securities, and Industrial and Commercial Bank of China which arranged to issue short-term financing bonds of RMB10,000,000,000 in the next three years which could be issued at intervals. The first bond (12Magang CP001) was issued on 25 October 2012, amounting to RMB3,500,000,000 with the interest rate of 4.7% per annum and a maturity of one year. The second bond (13 Magang CP001) was issued on 16 September 2013, amounting to RMB1,500,000,000 with the interest rate of 6% per annum and a maturity of one year. Both were repaid in 2013 and 2014, respectively. The third bond (14 Ma'angangtie CP001) was issued on 22 August 2014, amounting to RMB5,000,000,000 with the interest rate of 5.56% per annum and a maturity of one year.

(ii) As at 31 December 2014, the Group's short-term guaranteed loans amounting to RMB12,000,000 were secured by production equipment (31 December 2013: RMB15,000,000). Details are disclosed in Note V.14.

(iii) As at 31 December 2014, the Group had no short term pledged loan (31 December 2013: RMB10,000,000).

(iv) As at 31 December 2014, the trust receipt loans of the Group not settled yet was amounted to RMB5,471,818,517 (2013: RMB4,543,599,778).

As at 31 December 2013, the interest rates of the above short-term loans ranged from 1.680% to 7.200% (31 December 2013: 1.591% to 6.560%).

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

22. SHORT TERM LOANS *(CONTINUED)*

As at 31 December 2014, the Group had an expired outstanding short term loan, which is as follows:

	Amount	Overdue nature	Due date	Annual interest rate	Purpose	Reasons for expired	Expected repayment date
China Everbright Bank Shanghai Baoshan Branch	48,500,500	Principal overdue	2014.11.20	6.00%	Business borrowing	Financial strain	Extension
Bank of Nanjing Shanghai Branch	29,800,000	Principal and interest overdue	2015.01.03	5.60%	Business borrowing	Financial strain	Extension

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

The details of pledge and collateral for pledged loans and guaranteed loans are disclosed in Note V.57.

23. BILLS PAYABLE

	2014	2013
Bank acceptance bills	**4,785,906,077**	5,542,646,513
Commercial acceptance bills	**17,000,000**	–
	4,802,906,077	5,542,646,513

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

24. ACCOUNTS PAYABLE

* The ageing analysis of accounts payable is as follows:

	2014	2013
Within one year	**6,549,854,820**	6,396,013,395
One to two years	**71,503,745**	53,967,042
Two to three years	**5,021,121**	21,827,472
Over three years	**52,908,758**	52,341,842
	6,679,288,444	6,524,149,751

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

At 31 December 2014, the accounts payable with material amounts aged more than one year (over RMB 2 million) are as follows:

	Amount payable	**Reason for outstanding**
Company 1	28,282,900	Note
Company 2	19,000,000	Note
Company 3	7,917,184	Note
Company 4	5,241,160	Note
Company 5	4,935,168	Note
Other	27,478,795	Note

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

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

25. DEPOSITS RECEIVED

	2014	2013
Deposits received	**3,701,440,863**	5,125,265,201

At 31 December 2014, the deposits received with material amounts aged more than one year were as follows:

	Amount	**Reason for non-settlement**
Company 1	6,250,000	Note
Company 2	3,970,000	Note
Company 3	5,240,000	Note
Company 4	5,560,000	Note
Company 5	6,340,000	Note
	27,360,000	

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

26. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

2014

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

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

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Short-term employee benefits	205,900,833	3,793,823,607	3,800,411,431	199,313,009
Post-employment benefits (Defined contribution plans)	22,206,233	808,449,409	821,077,737	9,577,905
	228,107,066	4,602,273,016	4,621,489,168	208,890,914

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

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

Short-term employee benefits:

2014

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

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	141,025,587	2,960,566,694	2,956,067,151	145,525,130
Welfare	15,972,000	148,033,125	148,954,886	15,050,239
Social insurance	9,168,474	272,246,260	277,667,195	3,747,539
Including: Medical insurance	7,276,421	212,735,098	217,027,703	2,983,816
Work-related injury insurance	1,398,818	48,384,321	49,170,147	612,992
Maternity insurance	493,235	11,126,841	11,469,345	150,731
Housing fund	27,594,104	326,783,442	332,226,534	22,151,012
Labor union fee and employee education fee	12,140,668	86,194,086	85,495,665	12,839,089
	205,900,833	3,793,823,607	3,800,411,431	199,313,009

26. PAYROLL AND BENEFITS PAYABLE *(CONTINUED)*

Defined contribution plans:

2014

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

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Pension insurance	10,817,068	625,804,053	636,350,100	271,021
Unemployment insurance	637,293	66,604,113	67,150,595	90,811
Supplementary pension scheme	10,751,872	116,041,243	117,577,042	9,216,073
	22,206,233	808,449,409	821,077,737	9,577,905

As at 31 December 2014 and 31 December 2013, the balance of payroll and employee benefits payable had not included performance-based wages.

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

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

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

Long-term compensation:

	2014	2013
Supplementary retirement benefit	**28,328,924**	–
Less: Supplementary retirement benefit (current portion)	**2,451,178**	–
	25,877,746	–

27. TAXES PAYABLE

	2014	2013
Value-added tax	**28,355,340**	79,765,927
Corporate income tax	**88,225,997**	77,733,077
City construction and maintenance tax	**35,096,903**	17,027,679
Other taxes	**85,105,756**	59,437,665
	236,783,996	233,964,348

As at 31 December 2014 and 31 December 2013, the advance payment of income tax and the deductible VAT input tax has been reclassified as other current assets, and the prior year's amount was adjusted accordingly.

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

28. INTEREST PAYABLE

	2014	2013
Interest payables for short-term loans	**87,070,075**	32,043,447
Installment interest payables for long-term loans repay at due date	**12,085,145**	8,266,979
Interest payables for corporate bond	**47,470,586**	110,347,660
Interest payables for medium term note	**–**	14,707,000
	146,625,806	165,365,086

At 31 December 2014, the Group had not outstanding interest payable (31 December 2014: NIL).

29. DIVIDENDS PAYABLE

	2014	2013
Other shareholders	**7,210,819**	80,642,412
	7,210,819	80,642,412

30. OTHER PAYABLES

	2014	2013
Payable for construction, maintenance and inspection fee	**196,103,192**	184,349,225
Sales incentives	**83,623,905**	126,999,923
Service fees payable	**39,680,171**	86,641,685
Technology project fund received	**36,091,410**	33,831,049
Withholding social welfare and housing fund payable	**41,481,319**	37,449,339
Accrued interest expense for letters of credit	**173,054,060**	159,767,083
Others	**257,385,053**	333,661,170
	827,419,110	962,699,474

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

30. OTHER PAYABLES *(CONTINUED)*

At 31 December 2014, other payables with material amounts aged more than one year are as follows:

	Amount payable	**Reason for outstanding**
Company 1	2,029,700	Note
Company 2	2,000,000	Note
Company 3	2,000,000	Note
	6,029,700	

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

31. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2014	2013
Long term loans due within one year	**2,231,683,000**	2,000,887,700
Medium-term note due within one year (Note V.34)	**–**	2,797,432,500
Bonds payable due within one year (Note V.34)	**–**	3,153,397,580
	2,231,683,000	7,951,717,780

32. ACCRUED LIABILITIES

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	**4,140,000**	**1,986,172**	**(4,140,000)**	**1,986,172**
Pending onerous contract (i)	**–**	**12,114,813**	**–**	**12,114,813**
	4,140,000	**14,100,985**	**(4,140,000)**	**14,100,985**

(i) The accrued liabilities of pending onerous contract was caused by the business combination that the Company's subsidiary MG-WALDUNES S.A.S. acquired total assets from VALDUNES S.A.S. this year. As VALDUNES S.A.S. signed sales orders with third parties previously, and the management estimated the cost of executing those orders would exceed agreed price. Therefore the accrued liabilities were estimated at RMB12,114,813 at the end of 2014. Please find details of Business combination in Note VI. 2.

33. LONG TERM LOANS

	2014	2013
Guaranteed loans	**1,625,889,200**	2,366,244,300
Unsecured loans	**3,743,243,254**	2,703,200,000
Pledged loans	**970,000,000**	990,000,000
	6,339,132,454	6,059,444,300

As at 31 December 2014, the interest rates of the above long-term loans ranged from 2.40% to 6.15% (31 December 2013: from 1.84% to 6.15%).

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

33. LONG TERM LOANS *(CONTINUED)*

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

	2014	2013
*Within one year (Note V.31)	**2,231,683,000**	2,000,887,700
One to two years (including two years)	**4,718,989,094**	4,069,444,300
Three to five years (including three years and five years)	**1,575,107,520**	1,990,000,000
Over five years	**45,035,840**	–
	8,570,815,454	8,060,332,000

34. BONDS PAYABLE

	2014	2013
Medium-term note payable – 2011 second issue	**–**	2,797,432,500
Corporate bonds – 3 years	**–**	3,153,397,580
Corporate bonds – 5 years	**2,332,666,298**	2,328,266,077
	2,332,666,298	8,279,096,157
Less: Transfer into non-current liabilities due within one year (Note V.31)		
Including: Medium-term note	**–**	2,797,432,500
Corporate bonds	**–**	3,153,397,580
	2,332,666,298	2,328,266,077

34. BONDS PAYABLE *(CONTINUED)*

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

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

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

	Issue date	Term to maturity	Amount on offer	Opening balance	Current year issuance	Current year accrued interest	Amortization of discount	Current year repayment	Closing balance
Medium-term note payable –									
2010 first issue	2010/02	3 years	1,000,000,000	999,832,400	-	4,145,205	167,600	1,000,000,000	-
2011 second issue	2011/11	3 years	2,800,000,000	2,794,632,900	-	160,440,000	2,799,600	-	2,797,432,500
Bonds payable									
Corporate bonds – 3 years	2011/08	3 years	3,160,000,000	3,143,493,948	-	177,908,000	9,903,632	-	3,153,397,580
Corporate bonds – 5 years	2011/08	5 years	2,340,000,000	2,323,865,856	-	134,316,000	4,400,221	-	2,328,266,077
			9,300,000,000	9,261,825,104	-	476,809,205	17,271,053	1,000,000,000	8,279,096,157

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

34. BONDS PAYABLE *(CONTINUED)*

Medium-term note payable

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

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

Corporate bonds

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

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

35. DEFERRED INCOME

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

Deferred income is as follows:

	2014	2013
Government grants related to assets		
Technological transformation fund for Phase II silicon steel	**93,041,669**	98,000,000
The new city land subsidies (Block No. 31836 & 31837)	**50,374,852**	61,007,068
Subsidy for developing emerging strategic industries in Anhui Province	**42,768,750**	45,000,000
New-zone Thermal Power Plant CCPP system engineering	**39,689,972**	48,019,976
EMU steel wheel production line project	**39,374,990**	43,624,994
Cold-rolled sheet project	**16,146,639**	30,851,643
Masteel 5 # 6 # coal charging and coke dust removal project	**12,610,819**	13,312,075
Exhaust gas power generation projects of steel blast furnace	**10,750,000**	12,025,000
1 # -4 # coke dry quenching project	**10,695,373**	12,473,569
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	**10,508,330**	12,208,334
Flue gas desulfurization project of 135 mw thermal environmental subsidy funds	**10,000,000**	10,000,000
Hot-rolled sheet project	**9,973,361**	25,868,357
National environmental fund for flue gas treatment by 3rd steel plant	**9,375,700**	9,375,700
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	**9,018,537**	10,368,333
Slag processing recycling engineering AD201050406 state subsidies	**8,617,500**	9,000,000
Subsidy for construction by Wuhu Technique	**8,600,762**	10,054,412
6 # full burning blast furnace gas boiler works	**8,452,364**	10,226,312
The municipal environmental protection subsidies of 3rd iron works sintering flue gas desulfurization engineering	**7,870,000**	7,870,000
New-zone coking field project	**7,093,141**	9,733,237
Fix assets subsidy for thin plate project	**7,031,000**	–
The first iron works iron farm before blast furnace flue gas project	**6,690,713**	7,317,101
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	**6,284,800**	16,301,200
Rolled wheel works	**6,180,000**	10,260,000
Pulse clarifier pollution	**5,839,167**	7,269,167
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	**5,550,000**	5,550,000
Subsidies for environmental protection funds of smoke desulfurization project		
No.3 Iron general factory B# Sintering machine	**5,000,000**	–
Denitrification project of smoke of thermoelectricity plant 135MW generators	**5,000,000**	–
Comprehensive utilization of water resources	**3,951,750**	5,634,750
Others	**62,730,341**	58,286,304
Government grants related to income:		
Compensation for disposal of land use right (Note)	**652,138,319**	–
Relocation compensation for Transport Company	**15,000,000**	20,000,000
Total	**1,186,358,849**	609,637,532

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

35. DEFERRED INCOME *(CONTINUED)*

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). See details at Note V.16.

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

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage	-	960,000,000	(307,861,681)	-	652,138,319	Income
Technological transformation fund for Phase II silicon steel	98,000,000	-	(4,958,331)	-	93,041,669	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	61,007,068	-	(10,632,216)	-	50,374,852	Assets
Subsidy for developing emerging strategic industries in Anhui Province	45,000,000	-	(2,231,250)	-	42,768,750	Assets
New-zone Thermal Power Plant CCPP system engineering	48,019,976	-	(8,330,004)	-	39,689,972	Assets
EMU steel wheel production line project	43,624,994	-	(4,250,004)	-	39,374,990	Assets
Cold-rolled sheet project	30,851,643	-	(14,705,004)	-	16,146,639	Assets
Relocation compensation for Transport Company	20,000,000	-	(5,000,000)	-	15,000,000	Income
5 # 6 # coke dust removal project	13,312,075	-	(701,256)	-	12,610,819	Assets
Exhaust gas power generation projects of Steel blast furnace	12,025,000	-	(1,275,000)	-	10,750,000	Assets
1 # -4 # coke dry quenching project	12,473,569	-	(1,778,196)	-	10,695,373	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	12,208,334	-	(1,700,004)	-	10,508,330	Assets
Environmental subsidy funds for flue gas desulfurization and 135 mw thermal power	10,000,000	-	-	-	10,000,000	Assets

35. DEFERRED INCOME *(CONTINUED)*

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

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Hot-rolled sheet project	25,868,357	–	(15,894,996)	–	9,973,361	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–	–	–	9,375,700	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	10,368,333	–	(1,349,796)	–	9,018,537	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	9,000,000	–	(382,500)	–	8,617,500	Assets
Subsidy for construction by Wuhu Technique	10,054,412	–	(1,453,650)	–	8,600,762	Assets
6 # full burning blast furnace gas boiler works	10,226,312	–	(1,773,948)	–	8,452,364	Assets
Municipal environmental protection subsidies for desulfurization engineering of 3rd iron plant's sintering flue gas	7,870,000	–	–	–	7,870,000	Assets
New-zone coking field project	9,733,237	–	(2,640,096)	–	7,093,141	Assets
Fix assets subsidy for thin plate project	–	7,110,000	(79,000)	–	7,031,000	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	7,317,101	–	(626,388)	–	6,690,713	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	16,301,200	–	(10,016,400)	–	6,284,800	Assets
Rolled wheel works	10,260,000	–	(4,080,000)	–	6,180,000	Assets
Pulse clarifier antipollution	7,269,167	–	(1,430,000)	–	5,839,167	Assets
Subsidy for water pollution deduction in clarifying basin	7,269,167	–	(1,430,000)	–	5,839,167	Assets

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

35. DEFERRED INCOME *(CONTINUED)*

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

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	5,550,000	-	-	-	5,550,000	Assets
Subsidies for environmental protection funds of smoke desulfurization project No.3 Iron general factory B# Sintering machine	-	5,000,000	-	-	5,000,000	Assets
Denitrification project of smoke of thermoelectricity plant 135MW generators	-	5,000,000	-	-	5,000,000	Assets
Comprehensive utilization of water resources	5,634,750	-	(1,683,000)	-	3,951,750	Assets
Others	58,286,304	14,315,981	(8,211,090)	(1,660,854)	62,730,341	Assets
Total	609,637,532	991,425,981	(413,043,810)	(1,660,854)	1,186,358,849	

35. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2013, the government subsidies related to liabilities are as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	98,000,000	–	–	–	98,000,000	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	71,639,284	–	(10,632,216)	–	61,007,068	Assets
New-zone Thermal Power Plant CCPP system engineering	56,349,980	–	(8,330,004)	–	48,019,976	Assets
Subsidy for developing emerging strategic industries in Anhui Province	–	45,000,000	–	–	45,000,000	Assets
EMU steel wheel production line project	47,874,998	–	(4,250,004)	–	43,624,994	Assets
Cold-rolled sheet project	45,556,647	–	(14,705,004)	–	30,851,643	Assets
Hot-rolled sheet project	41,763,353	–	(15,894,996)	–	25,868,357	Assets
Relocation compensation for Transport Company	25,000,000	–	(5,000,000)	–	20,000,000	Income
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	26,317,600	–	(10,016,400)	–	16,301,200	Assets
1 # -4 # coke dry quenching project	14,251,765	–	(1,778,196)	–	12,473,569	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	13,908,338	–	(1,700,004)	–	12,208,334	Assets
Exhaust gas power generation projects of Steel blast furnace	13,300,000	–	(1,275,000)	–	12,025,000	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	11,718,129	–	(1,349,796)	–	10,368,333	Assets
Rolled wheel works	14,340,000	–	(4,080,000)	–	10,260,000	Assets

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

35. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2013, the government subsidies related to liabilities are as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
6 # full burning blast furnace gas boiler works	12,000,260	–	(1,773,948)	–	10,226,312	Assets
Subsidy for construction by Wuhu Technique	11,508,062	–	(1,453,650)	–	10,054,412	Assets
Environmental subsidy funds for Flue gas desulfurization and 135 mw thermal power	–	10,000,000	–	–	10,000,000	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	–	9,000,000	–	–	9,000,000	Assets
5 # 6 # coke dust removal project	13,370,513	–	(58,438)	–	13,312,075	Assets
Municipal environmental protection subsidies for desulfurization engineering of 3rd iron plant's sintering flue gas	–	7,870,000	–	–	7,870,000	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	7,369,300	–	(52,199)	–	7,317,101	Assets
Subsidy for water pollution deduction in clarifying basin	8,699,167	–	(1,450,000)	–	7,249,167	Assets
New-zone coking field project	12,373,333	–	(2,640,096)	–	9,733,237	Assets
Comprehensive utilization of water resources	7,317,750	–	(1,683,000)	–	5,634,750	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	–	5,550,000	–	–	5,550,000	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–	–	–	9,375,700	Assets
Others	56,962,833	6,656,474	(5,313,003)	–	58,306,304	Assets
Total	618,997,012	84,076,474	(93,435,954)	–	609,637,532	

36. SHARE CAPITAL

2014	At 1 January 2014		Increase/(decrease) during the year			At 31 December 2014	
Registration issued and fully paid	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

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

36. SHARE CAPITAL *(CONTINUED)*

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

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

37. CAPITAL RESERVE

2014	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**8,338,358,399**	**–**	**–**	**8,338,358,399**
Business combination involving entities under the same control	**(9,290,736)**	**–**	**–**	**(9,290,736)**
	8,329,067,663	**–**	**–**	**8,329,067,663**

2013	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	–	–	8,338,358,399
Business combination involving entities under the same control	(9,290,736)	–	–	(9,290,736)
	8,329,067,663	–	–	8,329,067,663

38. OTHER COMPREHENSIVE INCOME

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

	1 January 2013	Increase/ (decrease)	31 December 2013	Increase/ (decrease)	31 December 2014
Exchange differences arising from foreign currency translation	30,510,424	(102,718,483)	(72,208,059)	(64,951,421)	(137,159,480)

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

38. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

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

2014	**Amount before tax**	**Company income tax**	**Amount after tax**
Exchange differences arising from foreign currency translation	**(64,951,421)**	**–**	**(64,951,421)**
Less: Recorded in other comprehensive income originally, rolled out and included in current profit or loss	**–**	**–**	**–**
	(64,951,421)	**–**	**(64,951,421)**

2013

	Amount before tax	Company income tax	Amount after tax
Exchange differences arising from foreign currency translation	(102,718,483)	–	(102,718,483)
Less: Recorded in other comprehensive income originally, rolled out and included in current profit or loss	–	–	–
	(102,718,483)	–	(102,718,483)

39. SPECIAL RESERVE

2014	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Safety fund	**13,055,678**	**193,437,034**	**(184,981,270)**	**21,511,442**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	14,768,610	74,080,251	(75,793,183)	13,055,678

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

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

40. SURPLUS RESERVES

2014	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory reserve (i)	**3,117,868,545**	**23,502,736**	**–**	**3,141,371,281**
Discretionary surplus reserve (ii)	**513,915,870**	**15,239,119**	**–**	**529,154,989**
Reserve fund (iii)	**93,542,443**	**1,729,042**	**–**	**95,271,485**
Enterprise expansion fund (iii)	**64,408,906**	**1,252,039**	**–**	**65,660,945**
	3,789,735,764	**41,722,936**	**–**	**3,831,458,700**

2013	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,128,384,103	47,520,837	58,036,395	3,117,868,545
Discretionary surplus reserve (ii)	466,698,974	48,408,663	1,191,767	513,915,870
Reserve fund (iii)	92,679,456	5,024,995	4,162,008	93,542,443
Enterprise expansion fund (iii)	63,165,637	3,772,128	2,528,859	64,408,906
	3,750,928,170	104,726,623	65,919,029	3,789,735,764

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

In 2014, the Company accrued the SR with RMB2,157,861 based on 10% of profit after tax (2013: RMB26,849,039) in accordance with the Company Law of the PRC and the articles of association of the Company.

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

40. SURPLUS RESERVES *(CONTINUED)*

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

During the year, the share of subsidiaries' current year appropriations to each of the surplus reserve, the discretionary surplus reserve, the reserve fund and the enterprise expansion fund, in accordance with the percentage of investment held by the Group, was RMB21,344,875 (2013: RMB20,671,798), RMB15,239,119 (2013: RMB48,408,663), RMB1,729,042 (2013: RMB5,024,995) and RMB1,252,039 (2013: RMB3,772,128), respectively.

41. RETAINED PROFITS

	2014	2013
Retained profits at the end of prior year	**3,272,406,740**	3,245,037,973
Add: Net profit attributable to the owners of the parent company	**220,616,025**	157,220,198
Less: Transfer to surplus reserves	**23,502,736**	47,520,837
Transfer to discretionary surplus reserve	**15,239,119**	48,408,663
Transfer to reserve fund	**1,729,042**	5,024,995
Transfer to enterprise expansion fund	**1,252,039**	3,772,128
Transfer to general reserve	**–**	26,399,571
Disposal of subsidiaries	**–**	(1,274,763)
Retained profits at end of year	**3,451,299,829**	3,272,406,740

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

42. REVENUE AND COST OF SALES

	2014		2013	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**58,267,526,008**	**54,322,488,251**	66,302,750,956	62,899,401,695
Other operating income	**1,553,412,278**	**1,517,734,361**	7,546,132,427	7,494,560,922
	59,820,938,286	**55,840,222,612**	73,848,883,383	70,393,962,617

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

Revenue is stated as follows:

	2014	2013
Sale of products	**59,546,356,935**	72,604,596,183
Rendering service	**121,356,764**	979,272,286
Others	**153,224,587**	265,014,914
	59,820,938,286	73,848,883,383

43. BUSINESS TAXES AND SURCHARGES

	2014	2013
City construction and maintenance tax	**123,549,926**	116,171,861
Education surcharges and local education surcharges	**89,489,562**	82,895,313
Other taxes	**22,260,510**	27,364,472
	235,299,998	226,431,646

44. SELLING EXPENSES

	2014	2013
Employee benefits	38,497,305	36,012,819
Transportation fees	427,402,832	339,899,029
Insurance premium	12,943,000	15,476,422
Others	33,662,782	31,685,942
	512,505,919	423,074,212

45. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Employee benefits	486,875,991	540,320,061
Other taxes	276,097,648	217,758,045
Office expenses	193,659,157	195,852,176
Rental fees	60,120,778	53,255,486
Depreciation expenses	45,181,466	54,105,083
Amortization expenses	40,517,858	50,772,315
Research and development expenses	36,227,963	37,609,456
Travel and entertainment expenses	27,774,950	32,522,963
Maintenance expenses	24,866,516	18,111,103
*Auditors' remuneration	5,928,730	5,115,000
Others	113,588,394	128,570,280
	1,310,839,451	1,333,991,968

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

46. FINANCIAL EXPENSES

	2014	2013
Interest expenses (Note)	**1,360,504,202**	1,356,985,823
Less: Interest income	**130,653,118**	85,077,732
Less: Capitalised interest	**44,981,975**	83,123,380
Exchange gain/(loss)	**2,361,363**	(81,515,847)
Others	**56,432,547**	46,890,942
	1,243,663,019	1,154,159,806

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

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

	2014	2013
Interest expense:		
Interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years	**1,359,552,297**	1,356,985,823
Interest on bank loans which will not expire within five years	**951,905**	–
	1,360,504,202	1,356,985,823

47. ASSET IMPAIRMENT LOSS

	2014	2013
Provision/(reversal) of bad debts	**70,229,028**	(49,884,945)
Including: Trade receivables	**1,989,407**	121,936
Other receivables	**60,797,371**	(57,292,089)
Loans and advances	**7,442,250**	7,285,208
Provision of inventory impairment	**700,259,851**	1,214,384,074
	770,488,879	1,164,499,129

48. INVESTMENT INCOME

	2014	2013
Long term equity investment income under the equity method	**136,512,001**	177,184,255
Long term equity investment income from available for sale financial assets	**13,896,790**	23,154,717
Investment income from disposal of subsidiaries	**–**	88,649,043
Investment income from disposal of an affiliated company	**17,127**	16,661
Other investment income	**(826,958)**	–
	149,598,960	289,004,676

* During the current year, the Group's investment income from listed companies and unlisted companies were RMB17,127 and RMB150,408,791, respectively (2013: the investment income from listed companies and unlisted companies were RMB16,661and RMB288,988,015, respectively).

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

49. NON-OPERATING INCOME

	2014	2013	**Included in 2014 non-recurring gains and losses**
Gain on disposal of non-current assets	**1,915,776**	433,638,305	1,915,776
Including: Gain on disposal of fixed assets	**1,915,776**	134,259,166	1,915,776
Gain on disposal of intangible assets	**–**	299,379,139	–
Government grant (Note)	**538,621,712**	452,710,625	538,621,712
Others	**363,921**	1,789,295	363,921
	540,901,409	888,138,225	540,901,409

Note: The Group's government grant during the year were mainly derived from the compensation for disposal of land use right received from Hefei Municipal Land Reserve Center of RMB307,861,681 by Ma Steel (Hefei). Please refer to Note V.16 for details.

Details of government subsidy income recorded in the statement of profit or loss are as follows:

	2014	2013
Amortisation of deferred income (Note V.35)	**100,182,129**	93,435,954
Subsidies granted by government		
Compensation received (Note V.16)	**307,861,681**	–
Carve-out of non-core business (note)	**–**	280,572,361
Tax refund	**68,339,480**	45,247,610
Others	**62,238,422**	33,454,700
	538,621,712	452,710,625

Note: The subsidies were granted by Maanshan municipal government for the Company's carve-out of the non-core business in 2013, in the form of levy-refund of the disposal-related land value-added tax and stamp duty.

50. NON-OPERATING EXPENSES

	2014	2013	**Included in 2014 non-recurring gains and losses**
Loss on disposal of non-current assets	**84,095,373**	–	84,095,373
Including: Loss on disposal of fix assets	**36,674,721**	–	36,674,721
Loss on disposal of intangible assets	**47,420,652**	–	47,420,652
Public relief donation	**780,000**	820,000	780,000
Penalty expenditure	**811,364**	4,975,835	811,364
Others	**1,179,806**	1,887,837	1,179,806
	86,866,543	7,683,672	86,866,543

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

51. PROFIT BEFORE TAX

Cost of sales by nature:

	2014	2013
Raw materials and consumables used	**42,388,708,992**	51,434,206,489
Purchase of inventories in relation to trading activities	**93,780,485**	6,095,819,033
Employee benefit expenses	**3,887,857,808**	4,023,488,959
Depreciation of property, plant and equipment	**3,551,017,304**	3,732,765,397
Power and utilities	**4,006,206,069**	3,462,880,182
Changes in inventories of finished goods and work in progress	**356,333,844**	386,648,386
Reversal of inventory impairment	**(1,075,360,653)**	(939,230,348)
Amortization of intangible assets	**18,909,877**	20,248,019
Repair and maintenance	**904,784,974**	521,967,158
Transportation and testing expense	**1,008,281,564**	902,091,028
Others	**699,702,348**	753,078,314
	55,840,222,612	70,393,962,617

For the classification of the Group's cost of sales, sales expenses, general and administrative expenses, finance expenses, impairment losses and non-operating expenses, please refer to Note V.44, Note V.45, Note V.46, Note V.47 and Note V.50, respectively.

52. INCOME TAX

	2014	2013
Mainland China:		
*Current income tax expense	**97,947,044**	125,134,536
Adjustments in respect of current tax of previous periods	**(361,303)**	(1,894,206)
Deferred tax income	**120,114,272**	(56,833,508)
*Hong Kong current income tax expense (ii)	**3,870,537**	5,687,079
*Overseas current income tax expense	**26,498,329**	42,116,465
	248,068,879	114,210,366

52. INCOME TAX *(CONTINUED)*

Relationship between income tax and profit before tax:

	2014	2013
Profit before tax	**512,116,394**	322,145,444
Tax at the applicable tax rate of 25% (i)	**128,029,099**	80,536,361
Effect of different tax rates of subsidiaries	**2,048,506**	4,139,448
Expenses nondeductible	**31,798,862**	42,095,133
Adjustments on current tax of previous periods	**(361,303)**	(1,894,206)
Other tax concessions	**(36,277,861)**	(74,175,568)
Income not subject to tax	**(4,562,119)**	(9,296,092)
Unrecognised deductible temporary difference and tax losses	**161,964,235**	125,520,174
Tax losses utilised	**(32,954)**	(8,408,643)
Profits and losses attributable to the joint ventures and associates	**(34,537,586)**	(44,306,241)
Withholding income tax of dividends received from associates in the mainland of the PRC	**–**	–
Tax charge at the Group's effective rate	**248,068,879**	114,210,366

(i) 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.

(ii) Income tax for a subsidiary operating in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the year.

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

53. EARNINGS PER SHARE

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

The calculations of basic and diluted earnings per share amounts are as follows:

	2014	2013
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**220,616,025**	157,220,198
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**7,700,681,186**	7,700,681,186

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

54. NOTE TO THE STATEMENT OF CASH FLOWS

	2014	2013
Cash received relating to other operating activities:		
Specific subsidies granted by the government	**50,867,850**	33,454,700
Others	**363,921**	1,789,295
	51,231,771	35,243,995
Cash paid relating to other operating activities:		
Supporting services expense	**132,411,356**	120,016,396
Insurance premium	**49,643,424**	58,000,784
Packing fees	**27,004,744**	26,459,588
Flood prevention fund	**24,568,519**	29,202,780
Environmental improvement fees	**56,139,779**	38,728,583
Research and development expense	**53,989,851**	38,503,552
Bank charges	**56,432,547**	46,890,942
Others	**16,170,218**	26,206,538
	416,360,438	384,009,163
Cash received relating to other investing activities:		
Government special project funding	**29,765,127**	84,076,474
Compensation on the land (note)	**960,000,000**	–
	989,765,127	84,076,474

Note: The compensation received RMB960,000,000 by the Group this year was mainly due to the disposal of land-use right and related assets of Ma Steel (Hefei), please find the details in Note V.16.

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

55. SUPPLEMENTS TO CASH FLOWS

(1) Cash flows from operating activities:

	2014	2013
Net profit	**264,047,515**	207,935,078
Add: Provision/ (reversal) of provision for bad debts	**62,786,778**	(57,170,153)
Provision for inventories	**700,259,851**	1,214,384,074
Provision for loans and advances to customers	**7,442,250**	7,285,208
Depreciation of fixed assets	**3,597,068,686**	3,788,221,572
Amortisation of investment properties	**1,705,447**	60,787
Amortisation of intangible assets	**59,467,659**	71,031,962
Amortisation of deferred income	**(100,182,129)**	(93,435,954)
Loss/(Gain) on disposal of non-current assets	**82,179,597**	(433,638,305)
Compensation for disposal of land use rights (i)	**(307,861,681)**	–
Subsidy for carve-out of non-core business (ii)	**–**	(280,572,361)
Increase/(decrease) in special reserves	**5,648,197**	(1,712,932)
Financial expenses	**1,187,230,471**	1,107,268,864
Investment income	**(149,598,960)**	(289,004,676)
(Gain)/Loss on fair value changes	**(564,160)**	77,790
Decrease/(increase) in deferred tax assets	**123,823,632**	(53,208,739)
Decrease in deferred tax liabilities	**(3,709,361)**	(3,714,103)
Decrease/(increase) in inventories	**779,710,556**	(571,119,921)
Decrease/(increase) in receivables from operating activities	**657,150,965**	(2,466,600,074)
(Decrease)/increase in payables from operating activities	**(4,060,112,580)**	2,941,130,438
Others	**6,361,096**	4,140,000
Net cash flows from operating activities	**2,912,853,829**	5,091,358,555

Note 1: Compensation for disposal of land use rights was received from the Municipal Land Reserve Center by the Company's subsidiary Ma Steel (Hefei), please find the details in Note V.16.

Note 2: The subsidies were granted by Maanshan municipal government for the Company cave-out of non-core business in 2013, in the form of levy-refund of the disposal-related land value-added tax and stamp duty.

55. SUPPLEMENTS TO CASH FLOWS *(CONTINUED)*

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

	2014	2013
Disposal price of subsidiaries and other business units	**–**	1,384,485,432
Gain on disposal of subsidiaries and other units	**–**	1,384,485,432
Less: Cash and cash equivalents of subsidiaries deemed disposed of	**–**	992,768,884
Net cash on disposal of subsidiaries and other units	**–**	391,716,548

Acquisition of subsidiaries and other business units:

	2014	2013
Acquisition price of subsidiaries and other business units	**108,774,997**	–
Cash and cash equivalents on acquisition of subsidiaries	**108,774,997**	–
Less: Cash and cash equivalents of subsidiaries deemed acquired	**–**	–
Acquisition of subsidiaries	**108,774,997**	–

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

55. SUPPLEMENTS TO CASH FLOWS *(CONTINUED)*

(3) Cash and cash equivalents:

Net change of cash and cash equivalents

	2014	2013
Cash on closing balance	**2,709,836,299**	1,814,518,125
Less: cash on opening balance	**1,814,518,125**	6,629,796,092
Add: cash equivalents on closing balance	**–**	–
Less: cash equivalents on opening balance	**–**	–
Increase/(decrease) on net change of cash and cash equivalents	**895,318,174**	(4,815,277,967)

	2014	2013
Cash		
Include: cash on hand	**179,213**	267,684
cash in Bank	**2,709,657,086**	1,814,250,441
Cash and cash equivalents balance at the end of that year	**2,709,836,299**	1,814,518,125

56. DIVIDENDS*

	2014	2013
Proposed final dividend	**–**	–

The board of directors of the Company recommended not to propose a final dividend for the year ended 31 December 2014.

57. THE PLEDGE OF ASSETS

	2014	2013	
Cash and bank balances (Note V.1)	**1,944,715,220**	3,292,199,944	(i)
Bills receivable (Note V.3)	**4,723,683,840**	4,053,734,443	(ii)
Fixed Assets (Note V.14)	**45,662,645**	47,037,778	(iii)
	6,714,061,705	7,392,972,165	

(i) As at 31 December 2014, the Group's cash and bank balances amounting to RMB1,944,715,220 have been pledged to banks as security (31 December 2013: RMB3,292,199,944), including cash deposit as collateral amounting to RMB1,075,433,928 (31 December 2013: RMB2,220,222,410) pledged as security for trade facilities and performance bonds, and time deposits of USD1,000,000, equivalent to RMB6,153,420 (31 December 2013: USD1,000,000, equivalent to RMB6,132,360 and time deposits of RMB140,784,944, total amount of RMB146,917,304) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB863,127,872 (31 December 2013: RMB925,060,230).

(ii) As at 31 December 2014, all hosting bills of the Company in Ma'anshan Branch of Industrial and Commercial Bank of China were pledged as security to obtain bank long-term loans of RMB970,000,000 (31 December 2013: RMB1,000,000,000), which is disclosed in Note V.33. According to the loan contract, the Company needs to ensure that no less than RMB1,120,000,000 bills receivable be hosted in Ma'anshan Branch of Industrial and Commercial Bank of China. As at 31 December 2014, the balance of which was RMB3,991,221,307 (2013: RMB 3,890,000,000). Besides, certain of the Company's bank acceptance bills amounting to RMB253,626,954 and RMB221,236,832 were pledged as security to Ma'anshan Branch of Industrial and China Construction Bank Ma'anshan Metallurgy Branch to issue bank acceptance bills to suppliers respectively (2013: Nil). Certain of the Group's bank acceptance bills amounting to RMB257,598,747 were pledged as security to banks o issue bank acceptance bills to suppliers (31 December 2013: RMB163,734,443).

(iii) As at 31 December 2014, certain of the Group's production equipment with a net carrying amount of RMB45,662,645 (31 December 2013: RMB47,037,718) was pledged as security to acquire bank loans amounting to RMB12,000,000 (31 December (2013: RMB15,000,000).

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

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY

	2014			2013		
	Original Currency	Exchange rate	Convert into RMB	Original Currency	Exchange rate	Convert into RMB
Cash and Bank balances						
HKD	279,413	0.7889	220,429	2,494,831	0.7862	1,961,436
USD	196,368,672	6.1190	1,201,579,904	58,028,519	6.0969	353,794,078
EUR	30,144,838	7.4556	224,747,854	3,560,168	8.4189	29,972,698
JPA	101,010	0.0514	5,189	1,101,401	0.0578	63,661
AUD	28,918,247	5.0174	145,094,412	18,237,447	5.4301	99,031,161
			1,571,647,788			484,823,034
Trade Receivables						
USD	37,618,795	6.1190	230,189,407	27,334,580	6.0969	166,656,199
EUR	10,759,013	7.4556	80,214,900	1,202,950	8.4189	10,127,513
HKD	–	0.7889	–	–	0.7862	–
AUD	3,452,475	5.0174	17,322,448	1,266,480	5.4301	6,877,113
			327,726,755			183,660,825
Other Receivables						
HKD	34,781,148	0.7889	27,438,848	31,977,062	0.7862	25,140,366
EUR	4,849,516	7.4556	36,156,053	219,357	8.4189	1,846,745
AUD	136,648	5.0174	685,619	30,263	5.4301	164,332
			64,280,520			27,151,443
Accounts payable						
AUD	69,889	5.0174	350,661	272,404	5.4301	1,479,181
EUR	7,962,132	7.4556	59,362,471	3,939,139	8.4189	33,163,217
HKD	42,355,222	0.7889	33,414,035	–	0.7862	–
			93,127,167			34,642,398

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY *(CONTINUED)*

	2014			2013		
	Original Currency	Exchange rate	RMB	Original Currency	Exchange rate	RMB
Other payables						
AUD	3,704,070	5.0174	18,584,803	6,011,430	5.4301	32,642,667
HKD	219,361,212	0.7889	173,054,060	203,214,300	0.7862	159,767,083
EUR	8,957,351	7.4556	66,782,428	1,093,970	8.4189	9,210,025
			258,421,291			201,619,775
Short-term borrowing						
USD	894,234,110	6.1190	5,471,818,517	771,398,004	6.0969	4,703,136,491
EUR	289,051	7.4556	2,155,049	–	8.4189	–
			5,473,973,566			4,703,136,491
Long-term borrowings within one year						
USD	157,000,000	6.1190	960,683,000	133,000,000	6.0969	810,887,700
Long-term borrowing						
USD	126,800,000	6.1190	775,889,200	–	6.0969	–

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARIES

In 2014, the Company established the following subsidiaries with 100% equity interests, and has included them in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Investment amount
Iron and Steel Sales Ma' Anshan (Guangzhou) Co., Ltd	2014/8	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Hangzhou) Co., Ltd	2014/8	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Wuxi) Co., Ltd	2014/8	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Chongqing) Co., Ltd	2014/8	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Nanjing) Co., Ltd	2014/7	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Wuhan) Co., Ltd	2014/7	RMB10,000,000	100%	Cash	RMB10,000,000
Iron and Steel Sales Ma' Anshan (Shanghai) Co., Ltd	2014/7	RMB10,000,000	100%	Cash	RMB10,000,000
MG-VALDUNES S.A.S.	2014/5	EUR40,200,000	100%	Cash	EUR40,200,000

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

2. BUSINESS COMBINATION

On 29 May 2014, the commercial court of Valenciennes approved that MG-VALDUNES S.A.S, a wholly-owned subsidiary of the Company, purchased all assets of VALDUNES S.A.S. from its bankruptcy administrator, and accepted all employees and related retirement benefit contribution plan, at a cash consideration of EUR13,000,000 (equivalent to RMB 108,734,997). On 19 December 2014, MG-VALDUNE S.A.S. has completed the changes in ownership of all assets and related transfer procedures. The completion date of the acquisition was determined as 19 December 2014. The acquisition is classified as a business combination.

VALDUNES S.A.S. is one of the global enterprises, famous in the system designing and manufacturing of the wheels on hi-speed rail, axle and wheel set. The headquarter was founded in Valenciennes, France. VALDUNES S.A.S. had two production bases, located at Dunkirk and Valenciennes respectively. The acquisition will improve the Group's competitiveness in the markets of wheels on hi-speed rail, axle and wheel set.

Based on the accessible and timeliness of the financial information, the disclosures of MG-VALDUNES S.A.S.'s financial information (including the book value and fair value of the identifiable assets and liabilities from VALDUNES S.A.S. on the acquisition date) were subject to the date of 31 December 2014:

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

2. BUSINESS COMBINATION *(CONTINUED)*

	19 December 2014 Fair value EUR		19 December 2014 Book value EUR
Cash and bank balances	26,581,700		26,581,700
Trade receivables	9,891,559		9,891,559
Other receivables	1,663,957		1,663,957
Inventories	15,363,292		15,363,292
Prepayments	1,455,682		1,455,682
Other current assets	2,923,931		2,923,931
Fixed assets	5,645,505		4,198,640
Intangible assets	–		5,142,132
Deferred tax assets	2,185,163		2,185,163
Total assets	65,710,789		69,406,056
Short term loans	289,051		289,051
Accounts payable	7,728,004		7,728,004
Advance from customers	319,712		319,712
Payroll and benefits payable	5,995,332		5,995,332
Taxes payable	4,119,771		4,119,771
Other payables	1,223,210		1,223,210
Accrued liabilities	1,891,328		1,891,328
Deferred income	473,467		473,467
Long-term payroll payable	3,470,914		3,470,914
Total liabilities	25,510,789		25,510,789
Net assets	40,200,000		43,895,267
Less: Capital to MG-VALDUNES	27,200,000	Note 1	27,200,000
Interest in the fair value of MG-VALDUNES's identifiable net assets	13,000,000		16,695,267
Goodwill	–		
Net cash paid on acquisition of MG-VALDUNES	13,000,000	Note 2	

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

2. BUSINESS COMBINATION *(CONTINUED)*

Note 1: The amount represents the additional investment to MG-VALDUNES S.A.S. (exclusive of the acquisition consideration).

Note 2: This amount represents the cash payment for the acquisition consideration with an amount of EUR 13,000,000 (equivalent to RMB 108,774,997).

The revenue, profit and cash flow generated from the acquisition date to December 31, 2014 were not significant to the Group.

The transaction cost of the acquisition is about RMB11,361,096, which was recorded in profit or loss for the current period as incurred.

VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

The details of subsidiaries are as follows:

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Subsidiaries acquired by establishment or investment						
Anhui Masteel K.Wah New Building Materials Co., Ltd. (ew BuilMasteel K. Wah.)	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	–
Ma Steel (Wuhu)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	27.3
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	–	92
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.66	–
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD4,800,000	91	–
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	26.39
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,000,000	90	–
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading and Development GmbH ("MG Trading")	Germany	Germany	Trading	EUR153,388	100	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Subsidiaries acquired by establishment or investment *(Continued)*						
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)")	Australia	Australia	Mine production and sale	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	61	25.48
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	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	RMB1,200,000,000	–	100
Ma Steel (Hefei) materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Ma' Anshan (Guangzhou) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	100	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name of investee	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Subsidiaries acquired by establishment or investment *(Continued)*						
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd (ii) ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Heifei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Metal Co., Ltd. ("Chang Jiang Iron and Steel Metal")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES S.A.S. ("MG-VALDUNES") (iii)	French	French	Manufacturing	EUR40,200,000	100	–
Subsidiaries acquired not under common control						
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui Chang JiangIron and SteelCo., Ltd. ("Anhui ChangJiang Iron and Steel")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Subsidiaries acquired not under common control Masteel Group Financial Co., Ltd. ("Masteel Financial")	Anhui, PRC	Anhui, PRC	Financial services	RMB1,000,000,000	91	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

i On 29 May 2014, Hefei Material increased RMB100,000,000 registered capital, which contains RMB70,000,000 cash payment; Anhui Jianghuai Automobile Co. Ltd., paid additional capital of RMB30,000,000 in cash. After the capital increase, the registered capital from Hefei Material was amounted to RMB200,000,000. The percentage of equity of the company remained the same.

ii These companies are established in 2014. Pleased refer to Note VI.1 for the details.

iii On 16 May 2014, MG-VALDUNES S.A.S. is established in France with EUR200,000 registered capital. In July 2014, the Company increased EUR40,000,000 registered capital to MG-VALDUNES S.A.S. As of the end of 2014, the amount of the Company's capital contribution to MG-VALDUNES S.A.S. was EUR40,200,000. Pleased refer to Note VI.1 for the details.

iv Since 12 October 2012, the Company lost control of Yuyuan Logistics. Therefore, Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation. On 31 July 2014, the Company received from the custodian of Yuyuan Logistics the civil judgment ([2012] MaPoZi No.00001-5) issued on 31 July 2014 by Ma'anshan City Intermediate People's Court, Anhui Province. The judgment states that "As the draft restructuring proposal was not approved and that the custodian of Yuyuan Logistics cannot reach agreement on a new draft restructuring proposal with the creditors after negotiation, in accordance with Section 88 of the Enterprise Bankruptcy Law of the People's Republic of China, it is decided that the restructuring procedure of Yuyuan Logistics shall be terminated Yuyuan Logistics is declared bankrupt. Such judgment took effect on 31 July 2014.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Subsidiaries including significant maternal non-controlling are as follows:

	2014	2013
The proportion of equity held by non-controlling shareholders:		
Ma Steel (Hefei)	**29%**	29%
Anhui Changjiang Iron and Steel	**45%**	45%
Masteel Financial	**9%**	9%
Profit attributable to non-controlling shareholders:		
Ma Steel (Hefei)	**2,218**	4,362,797
Anhui Chang Jiang Iron and Steel	**38,639,545**	21,379,954
Masteel Financial	**10,695,227**	12,792,721
Dividends paid to non-controlling shareholders:		
Ma Steel (Hefei)	**–**	–
Anhui Chang Jiang Iron and Steel	**17,250,970**	–
Masteel Financial	**–**	–
Cumulative balance of non-controlling interests at the end of the reporting period:		
Ma Steel (Hefei)	**960,651,510**	960,649,292
Anhui Chang Jiang Iron and Steel	**1,107,248,899**	1,083,489,479
Masteel Financial	**123,374,047**	112,678,820

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

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

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2014			
Current assets	1,479,942,018	1,756,207,510	1,381,922,412
Non-current assets	4,081,619,809	4,639,675,138	6,377,373,154
Total assets	5,561,561,827	6,395,882,648	7,759,295,566
Current liabilities	(1,576,101,221)	(3,902,138,118)	(6,388,247,820)
Non-current liabilities	(672,869,191)	(33,191,420)	(225,000)
Total liabilities	(2,248,970,412)	(3,935,329,538)	(6,388,472,820)
Revenue	4,917,761,207	9,625,460,442	365,406,944
Net Profit	7,648	85,865,656	118,835,859
Total comprehensive income	7,648	85,865,656	118,835,859
Net cash flows from operating activities	199,929,220	594,812,496	(694,125,423)

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2013			
Current assets	2,105,330,885	2,469,397,688	2,140,226,147
Non-current assets	3,412,070,345	4,682,621,543	5,916,728,494
Total assets	5,517,401,230	7,152,019,231	8,056,954,641
Current liabilities	(2,189,972,983)	(4,651,690,281)	(6,804,742,753)
Non-current liabilities	(14,844,480)	(92,574,550)	(225,000)
Totoal liabilities	(2,204,817,463)	(4,744,264,831)	(6,804,967,753)
Revenue	5,292,909,809	9,339,735,411	427,803,758
Net profit	15,044,127	47,511,010	142,141,346
Total comprehensive income	15,044,127	47,511,010	142,141,346
Net cash flows from operating activities	2,100,518	455,899,763	(2,717,391,403)

2. The changes of equity percentage of subsidiaries without effect on controls

In February 2014, the Company purchased 11% of equity in Ma Steel (HK) from Ma Steel International Trade Corp., with RMB17,040,000 as consideration. This change caused that the Company's equity percentage of Ma Steel (HK) to increase from 80% to 91%, and the interests of non-controlling shareholders decreased RMB29,460,000 in the consolidation financial statement.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	Place of incorporation	Place of registration	Business nature	Registered capital	Percentage of equity(%) Directly	Indirectly	Accounting method
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Associates							
Henan JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB222,220,000	36	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	32	–	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	–	Equity method
Xinchuang Economize Resource	Anhui, PRC	Anhui, PRC	Service industry	RMB100,000,000	20	–	Equity method
Ma Steel Jinxi Rail(i)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB300,000,000	50	–	Equity method
Jiyuan Jinyuan Chemical	Henan, PRC	Henan, PRC	Manufacturing	RMB100,000,000	36	–	Equity method
Anhui Linhuan Chemical (ii)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	–	Equity method
Intelligent Parking	Anhui, PRC	Anhui, PRC	Manufacturing	RMB20,700,000	25	–	Equity method

i: The Company owns 50% of equity in Ma Steel Jinxi Rail, with 40% voting rights, which means the Company has rights to participate in the financial and operating policy making, but cannot control the final decision by itself or with other parties.

ii: The Company owns 12% equity in Anhui Linhuan Chemical. The Company has rights to participate in the major decision-making regarding financial and operational management but has no control or joint control on Anhui Linhuan Chemical. Thus, the Company has significant influence over Anhui Linhuan Chemical.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

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

	2014	2013
Current assets	**303,106,681**	248,272,758
Including: Cash and cash equivalents	**232,754,244**	178,492,216
Non-current assets	**387,735,999**	438,865,413
Total assets	**690,842,680**	687,138,171
Current liabilities	**67,998,135**	60,600,587
Non-current liabilities	**–**	–
Total liabilities	**67,998,135**	60,600,587
Non-controlling interests	**–**	–
Equity attributable to the parent company	**622,844,545**	626,537,584
The Group's share of net assets	**311,422,273**	313,268,792
Adjustment	**–**	–
The carrying value of the investment	**311,422,273**	313,268,792
Revenue	**574,214,269**	569,451,971
Financial expenses in Interest income	**4,901,552**	2,786,492
Financial expenses in Interest expenses	**–**	–
Income tax expenses	**52,300,714**	47,672,295
Net profit	**148,306,966**	149,736,563
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**148,306,966**	149,736,563
Dividends received	**–**	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

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

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

3. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

	Henan JinMa Energy	Shenglong Chemical	Ma Steel Jinxi Rail
2013			
Current assets	863,090,891	950,394,762	123,351,156
Non-current assets	786,954,452	1,554,912,725	148,593,724
Total assests	1,650,045,343	2,505,307,487	271,944,880
Current liabilities	1,128,361,249	1,679,404,611	18,414,223
Non-current liabilities	–	160,000,000	–
Total liabilities	1,128,361,249	1,839,404,611	18,414,223
Minority interests	–	–	–
Equity attributable to the parent company	521,684,094	665,902,876	253,530,657
The Group's share of net assets	187,806,274	213,088,920	126,765,329
Adjustment	–	–	–
The carrying value of the investment	187,806,274	213,088,920	126,765,329
Revenue	3,343,441,048	2,971,662,732	75,346,610
Income tax expenses	27,957,402	23,708,994	8,285,100
Net profit	83,497,206	69,754,862	24,815,575
Net profit from discontinued operations	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	83,497,206	69,754,862	24,815,575
Dividends received	–	–	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

3. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

	2014	2013
Joint ventures		
The carrying value of the Group's investments	**542,669**	551,944
Total shown as below (calculated according to the equity percentage)		
Net loss	**(9,275)**	(770,568)
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(9,275)**	(770,568)
Associates		
The carrying value of the Group's investments	**152,832,688**	108,584,186
Total shown as below (calculated according to the equity percentage)		
Net profit	**12,768,258**	13,357,717
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**12,768,258**	13,357,717

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

2014

Financial Assets

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

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial Liabilities

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

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

2013

Financial Assets

	Financial assets measured at fair value through profit or loss				
	Designated as such upon initial recognition	Held for trading	Loans and receivables	Available-for-sale financial assets	Total
Cash and bank balances	–	–	5,106,718,069	–	5,106,718,069
Financial assets at fair value through profit or loss	1,126,460	(617,130)	–	–	509,330
Bills receivable	–	–	8,629,108,926	–	8,629,108,926
Trade receivables	–	–	800,946,475	–	800,946,475
Other receivables	–	–	1,948,145,123	–	1,948,145,123
Interest receivable	–	–	3,540,453	–	3,540,453
Dividends receivable	–	–	44,787,460	–	44,787,460
Loans and advances to customers	–	–	486,511,748	–	486,511,748
Available-for-sale financial assets	–	–	–	126,772,160	126,772,160
	1,126,460	(617,130)	17,019,758,254	126,772,160	17,147,039,744

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial liabilities

	Financial assets measured at fair value through profit or loss			
	Designated as such upon initial recognition	Held for trading	Other financial liabilities	Total
Short-term loans	–	–	8,553,509,860	8,553,509,860
Customer deposits	–	–	1,390,609,858	1,390,609,858
Repurchase agreements	–	–	344,732,675	344,732,675
Bills payable	–	–	5,542,646,513	5,542,646,513
Accounts payable	–	–	6,524,149,751	6,524,149,751
Interest payable	–	–	165,365,086	165,365,086
Dividends payable	–	–	80,642,412	80,642,412
Other payables	–	–	962,699,474	962,699,474
Non-current liabilities due within one year	–	–	7,951,717,780	7,951,717,780
Long term loans	–	–	6,059,444,300	6,059,444,300
Bonds payable	–	–	2,328,266,077	2,328,266,077
	–	–	39,903,783,786	39,903,783,786

2. FINANCIAL INSTRUMENTS RISK

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

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

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk

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

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had a certain concentration of credit risk as 6% (2013: 6%) and 24% (2013: 24%) of the Group's trade receivables were due from the Group's largest customer and five largest customers respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.4 and V.7 to the financial statements.

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

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

2014

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

2013

			Overdue	
	Total	Not overdue	Less than six months	Over six months
Trade receivables	800,946,475	685,446,823	94,485,658	21,013,994
Bills receivable	8,629,108,926	8,629,108,926	–	–
Dividends receivable	44,787,460	44,787,460	–	–
Available-for-sale financial assets	126,772,160	126,772,160	–	–
Interest receivable	3,540,453	3,540,453	–	–
Other receivables	1,948,145,123	1,414,469,152	185,905,704	347,770,267
Loans and advances to customers	486,511,748	486,511,748	–	–

As at 31 December 2014, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk

The Group applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flows of the Group into consideration. The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. The Group's policy is that no more than 80% of the borrowings should be due within 12 months according to the book value in the financial statements. As at December 31, 2014, 69% of the Group's debts are due within 12 months (2013:73%).

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

2014

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	12,058,394,894					12,058,394,894
Customer deposits	1,199,618,850	-	-	-	-	1,199,618,850
Deposit funds	500,000,000	-	-	-	-	500,000,000
Bills payable	4,802,906,077	-	-	-	-	4,802,906,077
Trade payables	6,679,288,444	-	-	-	-	6,679,288,444
Interest payable	146,625,806	-	-	-	-	146,625,806
Dividends payable	7,210,819	-	-	-	-	7,210,819
Other payables	827,419,110	-	-	-	-	827,419,110
Non-current liabilities due within one year	2,231,683,000	-	-	-	-	2,231,683,000
Long term loans	-	4,718,989,094	1,485,035,840	90,071,680	45,035,840	6,339,132,454
Bonds payable	-	2,332,666,298	-	-	-	2,332,666,298

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(Continued)*

2013

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	8,553,509,860	–	–	–	–	8,553,509,860
Customer deposits	1,390,609,858	–	–	–	–	1,390,609,858
Repurchase agreements	344,732,675	–	–	–	–	344,732,675
Bills payable	5,542,646,513	–	–	–	–	5,542,646,513
Trade payables	6,524,149,751	–	–	–	–	6,524,149,751
Interest payable	165,365,086	–	–	–	–	165,365,086
Dividends payable	80,642,412	–	–	–	–	80,642,412
Other payables	962,699,474	–	–	–	–	962,699,474
Non-current liabilities due within one year	7,951,717,780	–	–	–	–	7,951,717,780
Long term loans	–	4,069,444,300	1,990,000,000	–	–	6,059,444,300
Bonds payable	–	–	2,328,266,077	–	–	2,328,266,077

Market risk

Interest rate risk

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

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

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
2014		
RMB	**50**	**(21,150,000)**
USD	**50**	**(6,512,146)**
RMB	**(50)**	**21,150,000**
USD	**(50)**	**6,512,146**
2013		
RMB	50	(47,509,267)
USD	50	(9,333,344)
RMB	(50)	47,509,267
USD	(50)	9,333,344

Exchange rate risk

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

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

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in Notes V.1, 4, 22, 24 and 33 to the financial statements, respectively.

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

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

2. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Exchange rate risk (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (note)
2014			
Depreciation of RMB to USD	**(1%)**	**(43,324,661)**	**–**
Depreciation of RMB to EUR	**(1%)**	**1,596,141**	**3,144,526**
Depreciation of RMB to JPY	**(1%)**	**39**	**–**
Depreciation of RMB to AUD	**(1%)**	**1,220,639**	**2,293,460**
Depreciation of RMB to HKD	**(1%)**	**(1,252,468)**	**1,265,060**
Appreciation of RMB to USD	**1%**	**43,324,661**	**–**
Appreciation of RMB to EUR	**1%**	**(1,596,141)**	**(3,144,526)**
Appreciation of RMB to JPY	**1%**	**(39)**	**–**
Appreciation of RMB to AUD	**1%**	**(1,220,639)**	**(2,293,460)**
Appreciation of RMB to HKD	**1%**	**1,252,468**	**(1,265,060)**
2013			
Depreciation of RMB to USD	(1%)	(15,264,612)	–
Depreciation of RMB to EUR	(1%)	299,727	158,955
Depreciation of RMB to JPY	(1%)	636	–
Depreciation of RMB to AUD	(1%)	990,312	1,808,799
Depreciation of RMB to HKD	(1%)	128	1,022,456
Appreciation of RMB to USD	1%	15,264,612	–
Appreciation of RMB to EUR	1%	(299,727)	(158,955)
Appreciation of RMB to JPY	1%	(636)	–
Appreciation of RMB to AUD	1%	(990,312)	(1,808,799)
Appreciation of RMB to HKD	1%	(128)	(1,022,456)

Note: Surplus reserve is not included.

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

3. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years ended 31 December 2014 and 2013, the capital management objectives, policies or procedures of the Group did not change.

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

3. CAPITAL MANAGEMENT *(CONTINUED)*

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

	2014	2013
Deposits and balances from banks and other financial institutions	**500,000,000**	–
Customer deposits	**1,199,618,850**	1,390,609,858
Repurchase agreements	**–**	344,732,675
Short term loans	**12,058,394,894**	8,553,509,860
Bills payable	**4,802,906,077**	5,542,646,513
Accounts payable	**6,679,288,444**	6,524,149,751
Payroll and benefits payable	**299,077,212**	` 208,890,914
Interest payable	**146,625,806**	165,365,086
Dividends payable	**7,210,819**	80,642,412
Other payables	**827,419,110**	962,699,474
Non-current liabilities due within one year	**2,231,683,000**	7,951,717,780
Long term loans	**6,339,132,454**	6,059,444,300
Bonds payable	**2,332,666,298**	2,328,266,077
Long term payroll	**25,877,746**	–
Less: Cash and bank balances	**4,654,551,519**	5,106,718,069
Net liabilities	**32,795,349,191**	35,005,956,631
Capital attributable to owners of the parent	**23,295,565,989**	23,131,445,621
Adjusted capital	**23,295,565,989**	23,131,445,621
Capital and net liabilities	**56,090,915,180**	58,137,402,252
Gearing ratio	**58%**	60%

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

2014

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss	1,073,490	–	–	1,073,490

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

2014

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Long term loans	–	6,339,132,454	–	6,339,132,454
Bonds payable	–	2,332,666,298	–	2,332,666,298

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE

Fair value of financial assets

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

	Carrying amounts		**Fair values**	
	2014	2013	**2014**	2013
Financial liabilities				
Long term loans	**6,339,132,454**	6,059,444,300	**6,339,132,454**	6,059,444,300
Bonds payable	**2,332,666,298**	2,328,266,077	**2,332,666,298**	2,328,266,077

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

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

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

The method of discounted cash flows is adopted to determine the fair value of long-term borrowings and medium-term note payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As at 31 December 2014, the default risk for the long-term borrowings is evaluated as not significant; for corporate bonds payable, quoted market prices are adopted to determine their fair value.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

Name of parent	Place of Registration	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)
Masteel (Group) Holding Company Limited	Anhui, PRC	Manufacturing	6,298,290,000	50.47	50.47

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

2. SUBSIDIARIES

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

3. ASSOCIATES AND JOINT VENTURES OF THE GROUP

Further details on balances with associates and joint venture of the Group are sated in Note VII to the financial statements.

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding
Anhui Masteel Advanced Technician Institute	Controlled by Holding
Masteel Engineering Technology (ii)	Controlled by Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by Holding
Masteel Refractory Materials Co., Ltd.	Controlled by Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by Holding
Masteel Equipment Maintenance Engineering Co., Ltd.	Controlled by Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by Holding
Anhui Masteel Dangerous Goods Transportation Co. Ltd. (i)	Controlled by Holding
Masteel Metallurgy Construction Co., Ltd.	Controlled by Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by Holding
Masteel Automation and Information Technology Co., Ltd.	Controlled by Holding
Anhui Xinchuang Economize Resource Co., Ltd.	Controlled by Holding
Anhui Metal Technology Institute	Controlled by Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Steel Logistics Park Co. Ltd. (i)	Controlled by Holding
Maanshan Gang Chen Hydrogen Industry Co., Ltd. (i)	Controlled by Holding

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding
Maanshan Harbour Group Co., Ltd	Controlled by Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by Holding
Maanshan Masteel Steel Structure Technology Co., Ltd.	Controlled by Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding
Maanshan Used Vehicle Trading Centre Co. Ltd.	Controlled by Holding
Maanshan Changjiang Shipping Agency	Controlled by Holding
Maanshan Yangtze River Logistics	Controlled by Holding
Maanshan China Ocean Shipping Tally	Controlled by Holding
Ma Steel International Trade and Economic Co., Ltd. (ii)	Controlled by Holding
Masteel Group Mapping Co., Ltd.	Controlled by Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding
Masteel Green Energy Technology Development	Controlled by Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by Holding
Ma Steel United Electric Steel Roller Co. Ltd.	Controlled by Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding
Shanghai Masteel International Trade and Economic Co., Ltd. (i)	Controlled by Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding
Tongling Yuanda Co., Ltd.	Controlled by Holding
Anhui Zhengpu Harbor Co., Ltd.	Controlled by Holding
Ma’anshan Zhonglian Shipping Co. Ltd. (i)	Controlled by Holding

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

4. OTHER RELATED PARTIES *(CONTINUED)*

i: These are companies newly owned by the Company in the current year.

ii: These are companies changed names this year and controlled by Holding. They used to name *Anhui Masteel Engineering Technology Company Limited and Ma Steel International Trade and Economic Corporation.*

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

(1) Purchases of iron ore from related parties

	Note	**2014**	2013
The Holding	(i)	**3,200,092,886**	3,757,971,651
Ma Steel International Trade and Economic Co., Ltd. ("Masteel International Trade")	(i)	**211,519,018**	16,244,188
Tongling Yuanda Co., Ltd. ("Tongling Yuanda")	(i)	**57,802,479**	7,499,897
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	**20,460,633**	24,939,981
		3,489,875,016	3,806,655,717

(i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 2 December 2014 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index. The Group purchased iron ore from Tongling Yuanda and two subsidiaries of the Group purchase iron ore from Luo He Mining and Ma Steel International Trade Corp., and the price terms of which were negotiated.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	2014	2013
The Holding	(ii)	**49,807,832**	81,563,516
Masteel Refractory Materials Co., Ltd.	(ii)	**553,345,321**	89,896,867
Masteel Metallurgy Construction Co., Ltd.	(ii)	**272,915,076**	5,705,409
Xinchuang Economize Resource	(ii)	**245,385,463**	172,535,864
Masteel Equipment Maintenance Engineering Co., Ltd.	(ii)	**239,174,188**	37,219,235
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**215,795,497**	39,047,553
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**179,537,135**	2,527,103
Maanshan Harbour Group Co., Ltd.	(ii)	**178,428,818**	41,493,734
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	**161,029,009**	8,814,155
Masteel Automation and Information Technology Co., Ltd.	(ii)	**155,836,853**	33,131,515
Masteel Engineering Technology	(ii)	**107,746,455**	89,056,305
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**72,831,264**	4,801,263
Ma Steel International Trade	(ii)	**64,670,428**	61,940
Maanshan Gang Chen Industry Co., Ltd.	(ii)	**11,390,685**	25,799,634
Others	(ii)	**89,641,865**	113,911,310
		2,597,535,889	745,565,403

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(3) Agency fees paid to related parties

	Note	**2014**	2013
Maanshan Gangchen Industry Co., Ltd.	(iii)	**7,565,550**	14,345,073
Masteel Shenma Metal Co., Ltd.	(iii)	**85,764**	468,209
		7,651,314	14,813,282

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

(4) Rental expenses

	Note	**2014**	2013
The Holding	(iv)	**48,540,000**	48,540,000

(iv) The Holding leases a office building to the Group and the rent is determined by the terms mutually agreed between the Company and the related parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(5) Purchases of fixed assets and construction services

	Note	2014	2013
The Holding	(iii)	**–**	9,344,190
Masteel Metallurgy Construction Co., Ltd.	(iii)	**173,699,257**	49,168,876
Xinchuang Economize Resource	(iii)	**103,354,516**	179,389,909
Masteel Engineering Technology	(iii)	**32,543,960**	–
Masteel Automation and Information Technology Co., Ltd.	(iii)	**23,356,175**	–
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	**19,829,462**	20,840,000
Ma Steel United Electric Steel Roller Co. Ltd.	(iii)	**7,210,674**	–
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	**6,457,632**	–
Masteel Transportation Equipment Manufacturing Co., Ltd	(iii)	**2,405,883**	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**2,768,886**	–
Ma Steel International Trade	(iii)	**3,493,595**	83,220,999
Maanshan Boli Construction Supervising Co., Ltd	(iii)	**632,479**	–
Maanshan Lisheng Group Co., Ltd.	(iii)	**–**	3,131,973
Masteel (Group) Kangcheng Building and Installing Industry Co., Ltd.	(iii)	**–**	2,091,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	**–**	3,970,718
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	**526,798**	12,680,825
Masteel Electric Repair Co., Ltd.	(iii)	**–**	287,127
		376,279,317	364,125,617

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	**2014**	2013
The Holding	(iii)	**24,714,636**	59,148,280
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**79,583,577**	32,977,978
Xinchuang Economize Resource	(iii)	**65,739,718**	46,357,842
Masteel Metallurgy Construction Co., Ltd	(iii)	**39,593,476**	174,643,094
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	**27,574,061**	–
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	**13,792,125**	–
Masteel Refractory Materials Co., Ltd.	(iii)	**10,088,444**	–
Masteel Equipment Maintenance Engineering Co., Ltd.	(iii)	**9,343,277**	–
Masteel Transportation Equipment Manufacturing Co., Ltd	(iii)	**8,089,824**	–
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	**3,852,572**	985,399
Maanshan Gangchen Industry Co., Ltd.	(iii)	**1,830,958**	2,313,285
Others	(iii)	**20,123,340**	32,974,036
		304,326,008	349,399,914

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(7) Sale of steel products and other related products

	Note	**2014**	2013
Masteel Metallurgy Construction Co., Ltd.	(iii)	**246,529,925**	57,846,513
Maanshan Masteel Steel Structure Technology Co., Ltd.	(iii)	**77,863,275**	8,829,935
Ma Steel International Trade	(iii)	**48,503,462**	6,115,382
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**46,843,215**	7,774,557
Others	(iii)	**1,230,761**	73,420,450
		420,970,638	153,986,837

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

(8) Financial service costs paid to related parties

	Note	**2014**	2013
The Holding	(v)	**7,948,383**	10,994,722
Masteel Engineering Technology	(v)	**1,339,311**	621,243
Maanshan Gang Chen Industry Co., Ltd.	(v)	**963,132**	1,452,073
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	**783,221**	773,612
Masteel Metallurgy Construction Co., Ltd.	(v)	**687,253**	980,745
Ma Steel International Trade	(v)	**863,170**	478,906
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	**826,450**	186,139
Others	(v)	**2,437,475**	1,692,679
		15,848,395	17,180,119

(v) Masteel Financial took deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranged from 0.385% to 3.300% in 2014 (2013: 0.385% - 3.300%).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(9) Financial service income received from related parties

	Note	2014	2013
The Holding	(vi)	**19,355,364**	6,930,525
Maanshan Gangchen Industry Co., Ltd.	(vi)	**14,521,214**	11,605,581
Luohe Mining	(vi)	**6,242,933**	3,436,605
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	**3,121,963**	–
Anhui BRC & Masteel Weldmesh Co., Ltd	(vi)	**1,483,832**	1,654,506
Xinchuang Economize Resource	(vi)	**436,827**	–
Others	(vi)	**880,399**	608,221
		46,042,532	24,235,438

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

(10) Rental income from an associate

	Note	2014	2013
Masteel Auto-parking	(vii)	**210,065**	–

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(11) Rental expenses paid to an associate

	Note	2014	2013
Masteel Auto-parking	(vii)	**14,952**	–

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

(12) Sale of wheel to an associate

	Note	2014	2013
Ma Steel Jinxi Rail	(viii)	**60,087,608**	–

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

(13) Sales of coke-related products to an associate

	Note	2014	2013
Shenglong Chemical	(ix)	**1,157,834**	791,842

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(14) Purchases of coke from an associate

	Note	**2014**	2013
Shenglong Chemical	(ix)	**62,251,808**	5,410,102

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

(15) Sales of coke from an associate

	Note	**2014**	2013
Henan Jinma Energy	(x)	**–**	40,786,530

(x) These transactions were made between the Group and Henan Jinma Energy and were conducted in accordance with the terms mutually agreed between the parties.

(16) Loading expenses paid to an associate

	Note	**2014**	2013
Maanshan Harbor Co., Ltd.	(xi)	–	13,112,198

(xi) This transaction with Maanshan Harbor Co., Ltd. was conducted on terms mutually agreed between the Group and the Holding. Since the Company transferred the shares of Maanshan Harbor Co., Ltd to the Holding in 31 October 2013, it became the subsidiary of the Holding rather than an associate of the Company thereafter. So the transactions with Maanshan Harbor Co., Ltd are not listed here this year. Please find the details in Note X.5(2) for the transactions in this year.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(17) Fix assets transferred to an associate

	Note	**2014**	2013
Masteel Auto-parking	(xii)	**–**	595,280

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

(18) Rental income from a joint venture

	Note	**2014**	2013
BOC-Ma Steel	(xiii)	**1,250,000**	1,250,000

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

(19) Fees received for the supply of electricity from a joint venture

	Note	**2014**	2013
BOC-Ma Steel	(xiii)	**278,107,586**	275,092,387

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(20) Fees received for providing utilities and facilities from a joint venture

	Note	2014	2013
BOC-Ma Steel	(xiii)	**5,742,049**	5,694,520

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

(21) Purchase of gas products from a joint venture

	Note	2014	2013
BOC-Ma Steel	(xiii)	**565,447,922**	554,617,244

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

(22) Fees received for providing electrical and mechanical equipment maintenance from a joint venture

	Note	2014	2013
BOC-Ma Steel	(xiii)	**200,000**	–

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

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

	Note	2014	2013
BOC-Ma Steel	(xiii)	**42,631**	–

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

(24) Guarantee from a related party

2014

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured or not
Holding	(xiv)	**the Company**	**1.687 billion**	**Feb, 2012**	**Jul, 2020**	**Not yet as at the signing date of the report**

2013

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured
Holding	(xiv)	the Company	1.885 billion	Feb, 2012	August, 2016	Not yet as at the signing date of the report

(xiv) The Holding has guaranteed certain bank loans of the Group amounting approximately to RMB1.687 billion (2013: approximately RMB1.885 billion) in 2014 without attached conditions. The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB6.127 billion (2013: part of the Group's bank loans and bonds with warrants amounting approximately to RMB9.257 billion) as at 31 December 2014.

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(25) Borrowings from a related party

2014

	Note	**Amount** (RMB)	**Start date**	**End date**
Ma'anshan Zhonglian Shipping Co. Ltd.	(xv)	**50,000,000**	**2014.3.26**	**2015.3.26**

(xv) Ma'anshan Zhonglian Shipping Co. Ltd entrust the Mateel Financial to provide the Company a short-term loans of RMB50,000,000 with the annual interest rate 5.4% for 1 year on March 26, 2014 (2013: nil). The Company will repay the principal and all the interest on the expiration date. The loan interest has been accrued for RMB2,107,500 and not paid yet.

(26) Salaries of key management paid to of a related party

The total amount of key management salaries paid to a related party (including salaries in the form of monetary, benefits in kind and in other forms) was RMB4,766,860 during the current year (2013: RMB4,317,144).

(27) Directors' and supervisors' emoluments *

	2014	2013
Fees	**447,368**	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	**820,000**	603,648
Performance-related bonuses	**1,785,785**	1,526,266
Pension scheme contributions	**28,172**	26,528
	2,633,957	2,156,442
	3,081,325	2,603,810

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(27) 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:

	2014	2013
Independent directors		
Mr. Qin Tongzhou (i)	**100,000**	100,000
Ms. Yang Yada (i)	**100,000**	100,000
Mr. Liu Fangduan (ii)	**100,000**	100,000
	300,000	300,000
Independent supervisors		
Mr. Wong Chun Wa (iii)	**73,684**	73,684
Mr. Su Yong (iii)	**73,684**	73,684
	147,368	147,368
	447,368	447,368

There were no other emoluments payable to the independent directors and independent supervisors during the year (2013: Nil).

(i) Appointed as the board member on 31 August 2011
(ii) Appointed as the board member on 25 October 2012
(iii) Appointed as the supervisor on 31 August 2011

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(27) Directors' and supervisors' emoluments *(continued)

(ii) Non-independent directors and non-independent supervisors

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2014					
Executive directors					
Mr. Ding Yi (iv)	–	–	–	–	–
Mr. Su Jiangang (v)	–	–	–	–	–
Mr. Qian Haifan	–	250,000	597,850	7,043	854,893
Mr. Ren Tianbao	–	200,000	447,000	7,043	654,043
	–	450,000	1,044,850	14,086	1,508,936
Non-executive directors					
Mr. Zhao Jianming (vi)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	250,000	597,850	7,043	854,893
Mr. Liu Xianli (vii)	–	–	–	–	–
Ms. Yan Taixia (viii)	–	120,000	143,085	7,043	270,128
Mr. Fang Jinrong	–	–	–	–	–
	–	370,000	740,935	14,086	1,125,021
	–	820,000	1,785,785	28,172	2,633,957

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(27) Directors' and supervisors' emoluments *(continued)

(ii) Non-independent directors and non-independent supervisors (continued)

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2013					
Executive directors					
Mr. Ding Yi (iv)	–	–	–	–	–
Mr. Su Jiangang (v)	–	–	–	–	–
Mr. Qian Haifan	–	180,000	501,444	6,505	687,949
Mr. Ren Tianbao	–	144,000	401,155	6,505	551,660
	–	324,000	902,599	13,010	1,239,609
Non-executive directors					
Mr. Su Shihuai (vi)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	180,000	501,444	6,505	687,949
Mr. Liu Xianli (vii)	–	89,648	108,782	5,929	204,359
Ms. Yan Taixia (viii)	–	10,000	13,441	1,084	24,525
Mr. Fang Jinrong	–	–	–	–	–
	–	279,648	623,667	13,518	916,833
	–	603,648	1,526,266	26,528	2,156,442

(iv) Appointed as chairman of the board on 9 August 2013
(v) Resigned from chairman of the board on 9 August, 2013
(vi) Appointed to chairman of the board on 5 February 2013
(vii) Resigned from the supervisor position on 29 November 2013
(viii) Appointed as the supervisor position on 29 November 2013

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2013: Nil).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(28) Five highest paid individuals*

The two highest paid employees during the year were directors and supervisors (2013: three), details of whose remuneration are stated in Note VI.5 (27) above. Details of the remuneration of the remaining three highest paid employees (non-director, non-supervisor) in 2014 are as follows:

	2014	2013
Group		
Salaries, allowances and benefits in kind	**600,000**	288,000
Performance-related bonuses	**1,425,560**	802,310
Pension scheme contributions	**21,129**	13,010
	2,046,689	1,103,320

In 2014, the remuneration of the remaining three non-director, non-supervisor, highest paid employees fell within the bracket of nil to HKD1,000,000.

(29) As at 22 August 2013, the Company and the Holding signed the "Disposal Agreement" to transfer the assets of the non-core business from the Company to the Holding for a final consideration of RMB3,926,492,545. The consideration of the transfer is determined based on the appraisal report issued by Beijing Pan-China Assets Appraisal Co., Ltd. Up to 31 December 2013, the Company had already received payment of RMB2,373,272,800 from the Holding and the outstanding amount of receivables from the Holding was RMB1,553,219,745. According to the Disposal Agreement, the Holding has paid the consideration in full before in 2014. For the consideration not paid off as at 31 December 2013, the Holding should pay interests to the Company at the 6 months' loan rate issued by the bank.

(30) Except for the receivables from the Holding, which are related to the disposal of assets of the non-core business, the balances of other receivables, prepayments, payables, and advance receipts are unsecured, interest-free and have no fixed terms of repayment.

(31) The Group has not obtained any long-term entrusted loans from the Holding in 2014 (31 December 2013: Nil).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(32) According to the financial service agreement signed by Masteel Financial and the Holding at 27 December 2013, from 1 January 2014 to 31 December 2014, the highest daily outstanding loan should be less than RMB600 million, other financial service charge should be less than RMB60 million. The annual cap was the highest demand for daily deposits, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement.

The directors believe that the above transactions in (1) to (9), (18), (24) and (25) above are in the ordinary course of business of the Group.

* The related party transactions disclose in (1) to (9), (24) , (29) , (31) and (32) above constitute connected transactions or continuing connected transactions which are defined in Chapter 14A of the Hong Kong Stock Exchange's Listing Rules.

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2014	2013
Trade receivables:		
The Holding and its subsidiaries		
The Holding	**2,816,544**	784,528
Maanshan Jiahua Commodity Concrete Co., Ltd.	**544,153**	470,338
Masteel Metallurgy Construction Co., Ltd.	**179,410**	39,823,899
Masteel Heavy Machinery Manufacturing Co., Ltd.	**3,812,030**	16,083,336
Maanshan Masteel Steel Structure Technology Co., Ltd	**6,119,222**	12,399,475
Ma Steel Powder Metallurgy Co., Ltd.	**5,748,232**	5,282,816
Masteel Equipment Maintenance Engineering Co., Ltd.	**1,753,486**	1,611,400
Others entities controlled by the Holding	**1,960,360**	8,491,603
	22,933,437	84,947,395

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Prepayments:		
The Holding and its subsidiaries		
The Holding	**1,005,813**	1,408,389
Ma Steel International Trade	**6,327,020**	10,472,460
Masteel Engineering Technology	**–**	15,426
Ma Steel United Electric Steel Roller Co. Ltd.	**21,124,699**	21,734,918
Others entities controlled by the Holding	**78,840**	–
	28,536,372	33,631,193
Other receivables:		
The Holding and its subsidiaries		
The Holding	**–**	1,569,539,285
	–	1,569,539,285
Short term loans:		
The Holding and its subsidiaries		
Ma'anshan Zhonglian Shipping Co. Ltd.	**50,000,000**	–
	50,000,000	–

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Dividends receivable:		
Associates and joint ventures of the Group		
Masteel Engineering Technology	**–**	17,687,460
Henan Jinma Energy	**–**	27,100,000
	–	44,787,460

	2014	2013
Bills receivable:		
The Holding and its subsidiaries		
Masteel Metallurgy Construction Co., Ltd	**27,500,000**	22,000,000
Maanshan Gang Chen Industry Co., Ltd.	**146,890,062**	104,508,880
Anhui BRC & Masteel Weldmesh Co., Ltd.	**16,987,140**	–
Xinchuang Economize Resource	**2,500,000**	–
Maanshan Masteel Steel Structure Technology Co., Ltd.	**8,192,625**	6,900,000
Masteel Heavy Machinery Manufacturing Co., Ltd.	**100,000**	–
	202,169,827	133,408,880
Joint venture of the Group		
Ma Steel Jinxi Rail	**17,300,000**	1,800,000
	17,300,000	1,800,000
Associate of the Group		
Henan JinMa Energy	**–**	3,700,000
	–	3,700,000

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Accounts payable:		
The Holding and its subsidiaries		
The Holding	**11,189,996**	–
Xinchuang Economize Resource	**45,141,666**	100,378,632
Masteel Engineering Technology	**106,696,086**	108,927,470
Masteel Metallurgy Construction Co., Ltd.	**115,517,235**	96,570,736
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**32,004,943**	24,976,530
Maanshan Harbour Group Co., Ltd.	**17,239,383**	14,544,157
Masteel Automation and Information Technology Co., Ltd	**15,077,242**	19,446,257
Masteel Automobile Transportation Service Co., Ltd.	**22,706,589**	17,969,410
Masteel Equipment Maintenance Engineering Co., Ltd.	**34,279,512**	21,428,275
Masteel Shen Ma Metal Co., Ltd.	**39,582,938**	17,256,514
Masteel Heavy Machinery Manufacturing Co., Ltd.	**28,793,993**	490,011
Others entities controlled by the Holding	**26,086,305**	16,201,973
	494,315,888	438,189,965
Associates and joint ventures of the Group		
BOC-Ma Steel	**48,450,879**	19,775,394
Shenglong Chemical	**207,497**	2,861,804
	48,658,376	22,637,198

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Advance from customers:		
The Holding and its subsidiaries		
The Holding	**119,081**	325,464
Maanshan Gang Chen Industry Co., Ltd.	**81,976,436**	252,843,752
Masteel Metallurgy Construction Co., Ltd.	**29,605,981**	–
Anhui BRC & Masteel Weldmesh Co., Ltd.	**15,705,613**	11,463,556
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**–**	53,177,931
Others entities controlled by Holding	**6,874,734**	6,657,640
	134,281,845	324,468,343
Associates and joint ventures of the Group		
Henan Jinma Energy	**121,475**	56,992
Ma Steel Jinxi Rail	**–**	97,995
Shenglong Chemicals	**–**	176,142
	121,475	331,129

* As at December 31 2014, among the current assets and current liabilities, the company's trade receivables from, account payables subsidiaries are RMB732,584,993 (2013: RMB759,322,537) and RMB6,103,757,192 (2013: RMB4,474,831,616) respectively. All these receivables and payables bear no interest, no pledge and will be paid in the future.

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Other payables		
The Holding and its subsidiaries		
The Holding	**1,000**	50,000
Masteel Automobile Transportation Service Co., Ltd.	**9,012,556**	7,564,881
Masteel Equipment Maintenance Engineering Co., Ltd.	**7,576,686**	1,711,559
Masteel Engineering Technology	**5,122,585**	160,000
Xinchuang Economize Resource	**4,774,704**	10,103,233
Masteel Metallurgy Construction Co., Ltd.	**2,551,706**	1,896,133
Maanshan Masteel Steel Structure Technology Co., Ltd.	**1,936,153**	629,977
Maanshan Masteel Electric Repair Co., Ltd.	**1,924,365**	1,472,522
Maanshan Gang Chen Industry Co., Ltd.	**1,148,836**	62,500
Other entities controlled by the Holding	**653,824**	1,398,543
	34,702,415	25,049,348
Joint ventures of the Group		
BOC-Ma Steel	**70,000**	70,000
	70,000	70,000

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2014	2013
Loans and advances to customers:		
The Holding and its subsidiaries		
The Holding	**130,000,000**	390,000,000
Luohe Mining	**125,208,138**	50,000,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	**40,000,000**	19,854,500
Masteel International Trade	**–**	35,393,015
Other entities controlled by the Holding	**354,900,000**	726,844
	650,108,138	495,974,359
Customer deposits:		
The Holding and its subsidiaries		
The Holding	**661,677,218**	727,097,584
Masteel Engineering Technology	**86,435,768**	91,822,260
Masteel Metallurgy Construction Co., Ltd.	**–**	88,964,413
Maanshan Gang Chen Industry Co., Ltd.	**18,228,651**	79,141,617
Other entities controlled by the Holding	**343,868,215**	403,583,984
	1,110,209,852	1,390,609,858
Joint ventures of the Group		
Ma Steel Jinxi Rail	**1,007,522**	5,568
	1,007,522	5,568

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 31 December 2014, the Group did not have significant commitments associated with related parties.

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital commitments		
Contracted, but not provided for	**6,102,529**	5,119,014
Authorised, but not contracted for	**6,734,321**	1,858,618
	12,836,850	6,977,632
Investment commitments		
Contracted, but not contributed	**–**	–
Contracted, but not fully contributed	**159,143**	60,000

The group did not exist matters that be accounted in the joint venture capital commitment this year. (2013:nil).

2. CONTINGENCIES

Difference of corporate income tax

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

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

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.

XI. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

2. CONTINGENCIES *(CONTINUED)*

Pending litigation

As of 31 December 2014, the significant pending litigation of the Group and the Company was as follows:

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Shanghai Trading regarding a dispute over steel trading, and the relevant claim amounts were RMB10,219,694 and RMB30,571,458, respectively. The lawsuits are currently pending for a judicial decision by the court.

A natural person sub-contractor of Qiu Guo launched litigation against Ma Steel (Hefei) regarding a dispute over an engineering service payment, and the relevant claim amount was RMB8,173,579. The project was sub-contracted by China MMC 17 Group Co., Ltd., and was executed finally by the natural person sub-contractor of Qiu Guo. Ma Steel (Hefei) has settled all the liabilities relevant to the project. The lawsuit is currently pending for a judicial decision by the court.

Zhejiang Wukuangyuda Import and Export Co., Ltd launched litigation against Ma Steel (Jinhua) Steel Processing and Distribution Co., Ltd. regarding dispute over losses in transaction, and the relevant claim amounts was RMB7,680,000. This lawsuit was heard by the Court of Xiacheng District of Hangzhou in June 2014, which is pending for judicial decision by the court so far.

Xinxing Development (Ningbo) Metal Resources Co., Ltd. launched litigation against Shanghai Trading Co., Ltd. over purchase and sales contract disputes, and the relevant claim amounts was RMB11,481,692. The claim of the plaintiff was dismissed by the Intermediate Court of Ma'anshan Municipality. The plaintiff then appealed to the High Court of Anhui Province, and the lawsuit is currently in the second instance trial.

XII. EVENT AFTER THE REPORTING PERIOD

On 25 Marth 2015, the Company was approved by the board that bid for the 50% equity of Ma Steel Jinxi Rail transferred by Jinxi axle Company Limited and the bid price was determined by the listing price.

As of the date of approval of the financial statements, the group had no other disclosure of events after the balance sheet date except the mentioned issues above.

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rent is fixed during the operating lease periods.

	2014	2013
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,250,000
1 to 2 years, inclusive	**1,250,000**	1,250,000
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**6,407,534**	7,657,534
	10,157,534	11,407,534

2. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services into two operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for Masteel Financial

- Financial service: Masteel Financial

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

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Other information

Product and service information

External principal operation income

	2014	2013
Sale of steel products	**55,585,856,267**	62,297,934,327
Sale of steel billets and pig iron	**858,707,345**	748,130,427
Sale of coke by-products	**857,921,647**	976,386,077
Others	**965,040,749**	2,280,300,125
	58,267,526,008	66,302,750,956

Geographical information

External principal operation income

	2014	2013
The PRC	**55,338,273,936**	64,487,713,563
Overseas	**2,929,252,072**	1,815,037,393
	58,267,526,008	66,302,750,956

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Other information *(Continued)*

Non-current assets

	2014	2013
The PRC	**42,622,288,089**	42,267,826,947
Overseas	**229,068,752**	201,626,423
	42,851,356,841	42,469,453,370

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

Major customer information

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

3. OTHER FINANCIAL INFORMATION*

	Group		**Company**	
	2014	2013	**2014**	2013
Current assets	**24,885,202,986**	28,596,789,876	**19,513,095,013**	20,543,837,159
Less: Current liabilities	**32,704,550,056**	37,088,333,872	**25,444,155,376**	26,556,726,601
Net current liabilities	**(7,819,347,070)**	(8,491,543,996)	**(5,931,060,363)**	(6,012,889,442)

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. OTHER FINANCIAL INFORMATION* *(CONTINUED)*

	Group		Company	
	2014	2013	**2014**	2013
Total assets	**68,511,174,810**	71,821,618,000	**58,467,539,306**	59,452,618,001
Less: Current liabilities	**32,704,550,056**	37,088,333,872	**25,444,155,376**	26,556,726,601
Total assets minus current liabilities	**35,806,624,754**	34,733,284,128	**33,023,383,930**	32,895,891,400

4. EMPLOYEE COSTS (EXCLUDING DIRECTORS AND SUPERVISORS' REMUNERATION (NOTE X.5)*

	2014	2013
Wages and salaries	**2,890,824,414**	2,699,515,678
Welfare	**782,300,023**	828,728,794
Pension scheme contributions (i)	**737,025,341**	692,933,460
	4,410,149,778	4,221,177,932

(i) As at 31 December 2014 and 31 December 2013, no contribution was capitalized or waived to reduce the Group's liability to pay pension scheme contributions in the future.

5. COMPARATIVE DATA

The pre-paid corporate income tax and VAT input tax deductible are reclassified to other current assets at the year end. Please refer to Note V.10 and V.27 for the details.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

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

An aged analysis of trade receivables is as follows:

	2014	2013
Within one year	**1,261,672,931**	1,270,738,192
One to two years	**34,257,970**	25,760,955
Two to three years	**10,394,544**	602,210
Over three years	**8,364,459**	8,314,031
	1,314,689,904	1,305,415,388
Less: Provisions for bad debts	**13,382,203**	13,382,203
	1,301,307,701	1,292,033,185

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

1. TRADE RECEIVABLES *(CONTINUED)*

Trade receivable balance is analyzed as follows:

	2014				2013			
	Book value		Provision for bad debts		Book value		Provision fo bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**1,300,365,130**	**99**	**(6,927,040)**	**1**	1,284,187,506	98	(6,927,040)	1
Other insignificant but assessed for impairment individually	**14,324,774**	**1**	**(6,455,163)**	**45**	21,227,882	2	(6,455,163)	30
	1,314,689,904	**100**	**(13,382,203)**		1,305,415,388	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the year are disclosed in Note XIV.5.

As at 31 December 2014, trade receivable that use individually significant and assessed for impairment individually were as follow:

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

1. TRADE RECEIVABLES *(CONTINUED)*

As at 31 December 2013, trade receivable that use individually significant and assessed for impairment individually were as follow:

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

In 2014, there was no provision for bad debts (2013: None), and there was no recovery or reversal of provision for bad debts (2013: None).

In 2014, there were no trade receivables that had been written off (2013: None).

2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2014	2013
Within one year	**37,591,747**	1,524,776,171
One to two years	**19,302,449**	545,040,813
Two to three years	**483,867,376**	130,000
Over three years	**6,350,420**	6,259,137
	547,111,992	2,076,206,121
Less: Provisions for bad debts	**385,288,989**	310,044,429
	161,823,003	1,766,161,692

The movements of provision for bad debts against other receivables for the year are disclosed in Note XIV.5.

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

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivable balance is analyzed as follows:

	2014				2013			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Rate (%)**	**Amount**	**Rate (%)**	Balance	Rate (%)	Amount	Rate (%)
Individually significant and assessed for impairment individually	**527,576,896**	**96**	**(380,758,075)**	**72**	2,044,668,677	98	(305,513,515)	15
Other insignificant but assessed for impairment individually	**19,535,096**	**4**	**(4,530,914)**	**23**	31,537,444	2	(4,530,914)	14
	547,111,992	**100**	**(385,288,989)**		2,076,206,121	100	(310,044,429)	

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

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

2. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2013, other receivables that were individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Percentage	Reason
Company 1	60,939,960	(60,939,960)	100%	Note
Company 2	127,685,367	(64,790,807)	51%	Note
Company 3	37,243,732	(24,893,732)	67%	Note
Company 4	132,186,434	(132,186,434)	100%	Note
Company 5	92,302,582	(20,302,582)	22%	Note
Company 6	2,400,000	(2,400,000)	100%	Note
	452,758,075	(305,513,515)	67%	

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

In 2014, provision for bad debts of expected uncollected other receivables is RMB75,244,560 (2013: None), there was no recovery or reversal of provision for bad debts (2013: RMB29,668,168).

In 2014, there was no other receivables had been written off (2013: None).

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

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables classified by nature:

	2014	2013
Prepayment for trading	**434,070,112**	404,661,023
Prepaid guarantee for steel futures transaction	**63,733,481**	63,733,481
Prepayment of customs duties and VAT	**22,575,508**	29,593,595
Receivables for sales of equity and assets	**–**	1,569,539,285
Others	**26,732,891**	8,678,737
Provision for bad debts	**(385,288,989)**	(310,044,429)
	161,823,003	1,766,161,692

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

	Balance	Ration (%)	Nature	Aging	Balance of Balance of
Company 1	132,186,434	24	ii	2-3 years	132,186,434
Company 2	127,685,368	23	ii	2-3 years	127,685,368
Company 3	92,302,582	17	ii	2-3 years	20,302,582
Company 4	60,939,960	11	ii	2-3 years	60,939,960
Company 5	37,243,732	7	ii	2-3 years	37,243,732
	450,358,076	82			378,358,076

2. OTHER RECEIVABLES *(CONTINUED)*

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

	Balance	Ration (%)	Nature	Aging	Balance of Balance of
Company 1	1,569,539,285	76	i	Within 1 year	–
Company 2	132,186,434	6	ii	1-2 years	132,186,434
Company 3	127,685,368	6	ii	1-2 years	64,790,807
Company 4	92,302,582	4	ii	1-2 years	20,302,582
Company 5	60,939,960	3	ii	1-2 years	60,939,960
	1,982,653,629	95			278,219,783

i The nature of the other receivable is receivables for sales of equity and assets

ii The nature of the other receivable is prepayment for material

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

3. INVENTORIES

	2014			2013		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**2,308,191,426**	**(90,011,279)**	**2,218,180,147**	3,836,636,266	(509,774,940)	3,326,861,326
Work in progress	**733,093,140**	**(18,362,373)**	**714,730,767**	1,031,457,762	(12,334,950)	1,019,122,812
Finished goods	**1,705,838,405**	**(11,186,556)**	**1,694,651,849**	1,264,499,371	(18,202,582)	1,246,296,789
Spare parts	**1,517,027,185**	**(60,031,494)**	**1,456,995,691**	1,619,816,724	(60,333,681)	1,559,483,043
	6,264,150,156	**(179,591,702)**	**6,084,558,454**	7,752,410,123	(600,646,153)	7,151,763,970

The movements of impairment provision against inventories for the year are disclosed in Note XIV.5.

At the balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the year of 2014 and 2013, there was no reversal of impairment provision against inventories.

4. LONG TERM EQUITY INVESTMENTS

	2014	2013
Long term investments under the equity method		
Joint ventures (i)	**311,964,945**	313,820,736
Associates (i)	**775,727,025**	632,713,324
Long term investments under the cost method		
Subsidiaries (ii)	**5,514,554,521**	5,290,814,490
	6,602,246,491	6,237,348,550
Less: Provision for impairment	**60,000,000**	330,000,000
Subtotal	**6,542,246,491**	5,907,348,550

In the opinion of the directors, there was no material restriction on the realization of investments as at the balance sheet date.

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

The movements of impairment provision for long term investments for the year are disclosed in Note XIV.5.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Joint ventures and Associates

2014

	Opening balance	Movements during the year: Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	313,268,792	-	-	72,066,471	-	2,087,013	(76,000,000)	-	311,422,276	-
MASTEEL-CMI	551,944	-	-	(9,275)	-	-	-	-	542,669	-
Associates										
Helan Jinma Energy	187,806,274	-	-	19,691,642	-	-	-	-	207,497,916	-
Shenglong Chemical	213,088,920	-	-	32,283,993	-	440,310	-	-	245,813,223	-
Shanghai Iron and Steel Electronic	37,966,695	-	-	5,011,079	-	-	(12,000,000)	-	30,977,774	-
Xinchuang Economize Resource	25,530,298	-	-	5,157,181	-	280,244	-	-	30,967,723	-
Ma Steel Jinxi Rail	126,765,329	45,000,000	-	(289,088)	-	-	-	-	171,476,241	-
Jiyuan Jinyuan Chemical	41,555,808	-	-	4,238,340	-	-	-	-	45,794,148	-
Anhui Linhuan Chemical	-	43,200,000	-	-	-	-	-	-	43,200,000	-
	946,534,060	88,200,000	-	138,150,343	-	2,807,567	(88,000,000)	-	1,087,691,970	-

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Joint ventures and Associates

2013

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	315,052,064	-	-	76,216,728	-	-	(78,000,000)	-	313,268,792	-
MASTEEL-CMI	551,193	-	-	751	-	-	-	-	551,944	-
Associates										
Jiyuan JinMa Coke	162,150,444	-	-	44,735,830	-	-	(19,080,000)	-	187,806,274	-
Shenglong Chemical	181,852,159	-	-	31,236,761	-	-	-	-	213,088,920	-
Shanghai Iron and Steel Electronic	37,949,164	-	-	17,531	-	-	-	-	37,966,695	-
Maanshan Harbour	193,936,508	-	(112,500,000)	(79,411,508)	-	-	(2,025,000)	-	-	-
Zhengpu Harbor	34,994,723	35,000,000	(70,000,000)	5,277	-	-	-	-	-	-
Xinchuang Economize Resource	38,345,660	-	(15,000,000)	2,184,638	-	-	-	-	25,530,298	-
Ma Steel Jinxi Rail	84,357,542	30,000,000	-	12,407,787	-	-	-	-	126,765,329	-
Jiyuan Jinyuan Chemical	18,000,000	18,000,000	-	5,555,808	-	-	-	-	41,555,808	-
	1,067,189,457	83,000,000	(197,500,000)	92,949,603	-	-	(99,105,000)	-	946,534,060	-

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries

2014

	Opening balance	Movements during the year: Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
Masteel Jiahua	44,443,067	-	-	-	-	44,443,067	-	(3,080,000)
Masteel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Masteel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	(6,609,865)
Masteel (HK) (i)	4,101,688	17,044,733	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	-	900,000	-	(7,383,853)
Masteel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	(6,934,692)
Masteel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Masteel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Masteel (Hefei) Processing	73,200,000	-	-	-	-	73,200,000	-	-
Masteel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	(6,358,144)
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	(1,231,361)
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Shanghai Trading	-	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	(1,143,730)
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	(21,084,519)
Yuyuan Logistics (ii)	-	-	-	-	-	-	-	-
Masteel Financial	933,172,609	-	-	-	-	933,172,609	-	-
Hefei Materials (iii)	70,000,000	70,000,000	-	-	-	140,000,000	-	-
MG-VALDUNES S.A.S (iv)	-	336,695,298	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Nanjing (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales (v)	-	10,000,000	-	-	-	10,000,000	-	-
	4,960,814,490	493,740,031	-	-	-	5,454,554,521	60,000,000	(53,826,164)

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2014 *(Continued)*

i: In 2014, the Company acquired 11% of shares of Ma Steel HK from Ma Steel International Trade and Economic Corporation, the purchase contribution was around RMB17,040,000.

ii: In 2014, Masteel Yuyuan Logistics was declared bankrupt by the court. Please find the details in Note VII.1.

iii: As at 29 May 2014, the registered capital of Hefei Materials was increased by RMB100,000,000, among which the Company contributed by RMB70,000,000 and Anhui Jianghuai Automobile Co.,Ltd. contributed the rest of RMB30,000,000. After the capital increment, the registered capital of Hefei Materials is RMB200,000,000 and the shareholding remained unchanged.

iv: On 16 May 2014, MG-VALDUNES S.A.S was founded by the Company with the registered capital of EUR200,000 in France. On 11 July 2014, the paid-in capital was increased to EUR40,000,000 due to capital injection by the Company. Please refer to VI.2 for the details.

v: The above subsidiaries were established by the Company in 2014. Please refer to Note VI.1 for the details.

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2013

		Movements during the year						
	Opening balance	Increase during the year	Decrease during the year	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
Masteel International Trade (1)	50,000,000	–	(50,000,000)	–	–	–	–	–
Masteel Group Design and Research Institute Co., Ltd. (1)	7,500,000	–	(7,500,000)	–	–	–	–	11,791,640
Masteel Engineering Technology (1)	7,500,000	–	(7,500,000)	–	–	–	–	–
Masteel Jiahua	44,443,067	–	–	–	–	44,443,067	–	–
Masteel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	–
Masteel (Guangzhou)	80,000,000	–	–	–	–	80,000,000	–	–
Masteel (HK)	4,101,688	–	–	–	–	4,101,688	–	–
MG Trading	1,573,766	–	–	–	–	1,573,766	–	–
Holly Industrial	21,478,316	–	–	–	–	21,478,316	–	–
Huayang Equipment	900,000	–	–	–	–	900,000	–	–
Masteel (Jinhua)	90,000,000	–	–	–	–	90,000,000	–	1,133,701
Masteel (Australia)	126,312,415	–	–	–	–	126,312,415	–	–
Masteel (Hefei)	1,207,000,000	568,000,000	–	–	–	1,775,000,000	–	–
Masteel (Hefei) Processing	73,200,000	–	–	–	–	73,200,000	–	–
Masteel (Yangzhou) Processing	116,462,300	–	–	–	–	116,462,300	–	–
Masteel United Electric Steel Roller Co., Ltd. (1)	106,855,358	–	(106,855,358)	–	–	–	–	–
Maanshan Used Vehicle Trading Centre Co., Ltd. (1)	500,000	–	(500,000)	–	–	–	–	–
Wuhu Technique	106,500,000	–	–	–	–	106,500,000	–	401,843

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

2013 *(Continued)*

		Movements during the year						
	Opening balance	Increase during the year	Decrease during the year	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
Maanshan Masteel Electric Repair Co., Ltd. (1)	10,000,000	-	(10,000,000)	-	-	-	-	-
Maanshan Masteel Steel Structure Technology Co., Ltd (1)	530,000,000	-	(530,000,000)	-	-	-	-	-
Maanshan Masteel Surface Engineering Technology Co., Ltd. (1)	275,000,000	-	(275,000,000)	-	-	-	-	-
Masteel Metallurgy Construction Co., Ltd. (1)	100,000,000	-	(100,000,000)	-	-	-	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Shanghai Trading	-	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	-
Yuyuan Logistics	-	-	-	-	-	-	270,000,000	-
Masteel Financial	933,172,609	-	-	-	-	933,172,609	-	-
Hefei Materials	70,000,000	-	-	-	-	70,000,000	-	-
Masteel Powder Metallurgy Co., Ltd. (1)	51,000,000	-	(51,000,000)	-	-	-	-	-
	5,531,169,848	568,000,000	(1,138,355,358)	-	-	4,960,814,490	330,000,000	13,327,184

(1) During 2013, the Company signed an agreement with the Holding and transferred the equity of the above 10 subsidiaries of the non-steel business to the Holding.

5. ASSET IMPAIRMENT PROVISIONS

	2014					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	323,426,632	75,244,560	-	-	-	398,671,192
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	310,044,429	75,244,560	-	-	-	385,288,989
Provisions for inventories (i)	600,646,153	630,282,660	-	1,051,337,111	-	179,591,702
Including: Raw materials	509,774,940	460,248,051	-	880,011,712	-	90,011,279
Semi-finished products	12,334,950	120,349,153	-	114,321,730	-	18,362,373
Finished products	18,202,582	49,685,456	-	56,701,482	-	11,186,556
Spare parts	60,333,681	-	-	302,187	-	60,031,494
Provisions for long term investments	330,000,000	-	-	-	270,000,000	60,000,000
Including: subsidiaries	330,000,000	-	-	-	270,000,000	60,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery- and equipment	-	-	-	-	-	-
	1,254,072,785	705,527,220	-	1,051,337,111	270,000,000	638,262,894

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

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

5. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2013					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	353,094,800	–	29,668,168	–	–	323,426,632
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	339,712,597	–	29,668,168	–	–	310,044,429
Provisions for inventories (i)	347,352,609	1,190,949,479	–	937,655,935	–	600,646,153
Including: Raw materials	219,713,336	957,569,761	–	667,508,157	–	509,774,940
Semi-finished products	49,553,203	66,387,275	–	103,605,528	–	12,334,950
Finished products	17,434,142	166,992,443	–	166,224,003	–	18,202,582
Spare parts	60,651,928	–	–	318,247	–	60,333,681
Provisions for long term investments	330,000,000	–	–	–	–	330,000,000
Including: subsidiaries	330,000,000	–	–	–	–	330,000,000
Impairment of fixed assets	–	–	–	–	–	–
Including: Buildings and structures	–	–	–	–	–	–
Plant, machinery and equipment	–	–	–	–	–	–
	1,030,447,409	1,190,949,479	29,668,168	937,655,935	–	1,254,072,785

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

6. REVENUE AND COST OF SALES

	2014		2013	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**48,886,136,473**	**45,946,752,806**	52,392,006,838	50,238,268,624
Other operating income	**2,397,633,333**	**2,498,790,026**	3,993,715,720	4,260,149,112
	51,283,769,806	**48,445,542,832**	56,385,722,558	54,498,417,736

Principal operating income is stated as follows:

	2014	2013
Sale of products	**51,233,335,450**	55,553,073,953
Rendering of services	**50,434,356**	712,137,102
Others	**–**	120,511,503
	51,283,769,806	56,385,722,558

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

7. ASSET IMPAIRMENT LOSS

	2014	2013
Provision/(reversal) for bad debts	**75,244,560**	(29,668,168)
Including: Trade receivables	**–**	–
Other receivables	**75,244,560**	(29,668,168)
Provision for inventories	**630,282,660**	1,190,949,479
	705,527,220	1,161,281,311

8. INVESTMENT INCOME

	2014	2013
Long term equity investment income under the equity method	**138,150,343**	177,224,960
Long term equity investment income under the cost method	**53,826,164**	449,839,530
Gain from disposal of long-term equity investments	**–**	299,899,679
Investment income from holding available-for-sale financial assets	**13,896,790**	23,154,717
Investment income from holding financial assets at fair value through profit or loss	**17,127**	16,661
Others	**(826,958)**	–
	205,063,466	950,135,547

As at the end of the reporting period, there was no significant restriction imposed upon the remittance of the Company's investment income.

9. CASH FLOWS FROM OPERATING ACTIVITIES

	2014	2013
Net profit	**21,578,607**	268,490,383
Add: Provision /(reversal) for bad debts	**75,244,560**	(29,668,168)
Provision for inventories	**630,282,660**	1,190,949,479
Depreciation of fixed assets	**2,854,134,686**	3,250,662,689
Amortisation of investment properties	**2,063,607**	405,049
Amortisation of intangible assets	**29,601,671**	31,419,994
Amortisation of deferred income	**(98,299,872)**	(89,493,117)
Gain on disposal of non-current assets	**(1,906,614)**	(432,576,296)
Subsidy for carve-out of non-core business	**–**	(280,572,361)
Financial expenses	**895,245,110**	934,994,559
Investment income	**(205,063,466)**	(950,135,547)
(Gains)/Loss on fair value changes of financial assets held for trading	**(564,160)**	77,790
Decrease in deferred tax assets	**140,450,042**	(44,472,452)
Decrease/(increase) in inventories	**436,922,856**	(170,361,494)
Increase in receivables from operating activities	**(922,131,371)**	(32,587,438)
Decrease in payables from operating activities	**244,729,591**	2,130,575,077
Others	**11,361,096**	4,140,000
Net cash flows from operating activities	**4,113,649,003**	5,781,848,147

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.

	2014	2013
Items of non-recurring gains or losses		
Gain on disposal of non-current assets	**1,915,776**	433,638,305
Loss on disposal of non-current assets	**(84,095,373)**	–
Subsidy income	**438,439,583**	359,274,671
Amortisation of deferred income	**100,182,129**	93,435,954
Other non-operating expense and income items	**(2,407,250)**	(5,894,377)
Profit/(loss) on fair value changes of financial assets held for trading	**564,160**	(77,790)
Other investment loss/(income)	**(809,831)**	16,661
	453,789,194	880,393,424
Less: Income tax effect of non-recurring gains	**77,336,960**	277,237,195
Non-recurring gains attributable to non-controlling shareholders	**869,063**	205,668
Net effect of non-recurring gains	**375,583,171**	602,950,561
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit attributable to owner of the Parent	**220,616,025**	157,220,198
Less: net effect of non-recurring gains	**375,583,171**	602,950,561
Net loss attributable to owner of the Parent excluding non-recurring gains or losses	**(154,967,146)**	(445,730,363)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2014	**Return on net assets (%)**	**Earnings per share (RMB)**	
		Basic	**Diluted**
Net profit attributable to owner of the Company	**0.95**	**0.029**	**0.029**
Net loss attributable to owner of the Company excluding non-recurring gains or losses	**(0.67)**	**(0.020)**	**(0.020)**

2013	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owner of the Company	0.68	0.020	0.020
Net loss attributable to owner of the Company excluding non-recurring gains or losses	(1.93)	(0.058)	(0.058)

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by the CSRC.

XI. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department
2. Original copy of the audited accounts prepared under the China Accounting Standards, sealed by Ernst & Young Hua Ming and signed by Ms. Zhong Li and Mr. Wang Yinfeng, certified public accountants in the PRC.
3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period
4. Annual report announced on the website of the Hong Kong Stock Exchange
5. The Articles of Association of the Company

Chairman: **Ding Yi**

Submission date approved by the Board of Directors: 2015-3-25