2016
Interim Report

H Share Code: 323
A Share Code: 600808

MAANSHAN IRON & STEEL COMPANY LIMITED

Content

IMPORTANT NOTICE

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

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

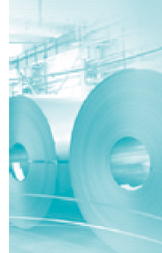
3. **The interim financial reports of the Company are unaudited but reviewed by the Audit Committee of the Company.**

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

5. **Forward-looking statements, including future plans and development strategies, contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.**

6. **During the reporting period, no appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.**

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



I. Definitions

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

Definitions of common terms

The Company and Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	The Company and its subsidiaries
The Group Company	means	Magang (Group) Holding Company Limited
Board of Directors or the Board	means	the board of directors of the Company
Directors	means	the directors of the Company
Supervisory Committee	means	the supervisory committee of the Company
Supervisors	means	the supervisors of the Company
Senior Management	means	the senior management of the Company
Hong Kong Stock Exchange	means	The Stock Exchange of Hong Kong Limited
SSE	means	Shanghai Stock Exchange
A shares	means	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB
H shares	means	the foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars
SD&C Shanghai Branch	means	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi
CSRC	means	China Securities Regulatory Commission
CBRC	means	China Banking Regulatory Commission
MIIT	means	The Ministry of Industry and Information Technology of the People's Republic of China
CISA	means	China Iron and Steel Association
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Masteel Financial	means	Magang Group Finance Co. Ltd.
Environmental Protection Company	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited
Hefei Co	means	Ma Steel (Hefei) Iron & Steel Co., Ltd.
Changjiang Steel	means	Anhui Changjiang Steel Co.,Ltd
Jinma Energy	means	Henan Jinma Energy Co. Ltd.
Magang Investment Limited	means	Magang Group Investment Limited, a wholly owned subsidiary of the Group Company
reporting period	means	From 1 January 2016 to 30 June 2016

II. Company Introduction

1. COMPANY PROFILE

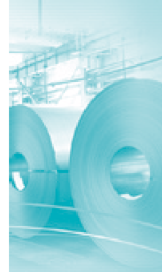
Statutory Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Statutory Chinese short name of the Company	馬鋼股份
Statutory English name of the Company	MAANSHANIRON & STEEL COMPANY LIMITED
Statutory English short name of the Company	MASC.L.
Legal representative of the Company	Ding Yi

2. CONTACT PERSONS

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

3. BASIC INFORMATION

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



4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

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

II. Company Introduction (Continued)

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Type of shares	Stock exchange for listing of shares	Short name of stock	Stock code
A Shares	Shanghai Stock Exchange	馬鋼股份	600808
H Shares	The Stock Exchange of Hong Kong Limited	MAANSHAN IRON	323

6. COMPANY REPORT REGISTRATION CHANGES DURING THE PERIOD

Date of registration	1 September 1993
Location of registration	Anhui Administration for Industry & Commerce
Tax registration number	340504610400837

Note: In December 2015, the Company's registration number of business license and organization code were changed to Uniform Social Credit Code：91340000610400837Y.

7. OTHER RELATED INFORMATION

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are production and sales of iron and steel products; the main production processes include iron making, steelmaking, steel rolling, etc. Major product of the Company is steel, which can be roughly divided into three types, i.e. steel plates, long products as well as wheels and axles. Over 90% of these products are sold in the domestic market.

III. Summary of Accounting Data and Financial Indicators

1. THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

(1) MAJOR ACCOUNTING DATA

Unit: RMB

Major accounting data	Reporting period (January to June)	Corresponding period of the previous year	Increase/ (decrease) at the reporting period as compared to the corresponding period of the previous year (%)
Revenue	21,001,162,560	23,447,520,693	–10.4
Net profit/(loss) attributable to equity holders	452,752,971	–1,236,592,427	–
Net profit/(loss) excluding non-recurring gains or losses attributable to equity holders of the Company	469,788,228	–1,345,735,510	–
Net cash flows from operating activities	527,215,501	4,628,267,978	–88.6

	As at the end of the reporting period	As at the end of previous year	Increase/ (decrease) at the end of the reporting period as compared over the end of the previous year (%)
Net assets attributable to equity holders	18,955,533,931	18,455,838,015	Increased by 2.7 percentage points
Total assets	59,565,048,326	62,454,465,955	Deceased by 4.6 percentage points

(2) MAJOR FINANCIAL INDICATORS

Major Financial Indicators	Reporting period (January to June)	Corresponding period of the previous year	Increase/(decrease) at the reporting period as compared to the corresponding period of the previous year (%)
Basic earning/(loss) per share (RMB/share)	0.059	–0.161	–
Diluted earning/(loss) per share (RMB/share)	0.059	–0.161	–
Basic earning/(loss) per share excluding non-recurring gains or losses (RMB/share)	0.061	–0.175	–
Return on net assets (weighted average) (%)	2.42	–5.46	Increased by 7.88 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	2.51	–5.94	Increased by 8.45 percentage points

2. ITEMS AND AMOUNT OF NON-RECURRING GAINS OR LOSSES

Unit: RMB

Items of non-recurring gains or losses	Amount
Profit/(loss) from disposal of non-current assets	–822,485
Government subsidies recognized in current gains/losses (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	138,966,140
In addition to effective hedging business related to normal operations of the Company, changes in fair value of trading financial assets and trading financial liabilities held, as well as the return on investment generated from the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	12,812,290
Non-operating income and expenses other than the above items	499,505
Other profit and losses items in line with the definition of non-recurring gains or losses	–152,568,484
Impact of minority interests	363,284
Impact of income tax	–16,285,507
Total	–17,035,257

IV. Report of the Board

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

1. THE MACRO ENVIRONMENT FOR PRODUCTION AND OPERATION

During the period under review, China's overall national economic performance remained steady. GDP grew by 6.7%, down 0.3 percentage point compared with the same period of last year; while fixed asset investment across the country grew by 9%, down 2.4 percentage points compared with the same period of last year. Although both production volume of and demand for steel products in China decreased, as the reformation in the supply side started to show initial results, gradual improvement could be seen in the balance between the demand and supply in some parts of the country, leading to a significant increase in steel price. At the end of April, due to a rapid increase in crude steel output, steel price declined rapidly thereafter. The consolidated price index for domestic steel products as at the end of June was 68.69 points, up 3% compared with the same period of last year, or 12.32 points up over that as at the end of last year, representing an increase of 21.86%. According to China Iron and Steel Association (CISA), member companies posted an average profit margin of 0.97% in the first half of this year, indicating a year-on-year improvement, but it was still at a relatively low level in the industrial sector.

As for imports and exports, according to CISA, exported steel products during the first half of 2016 amounted to 57,120,000 tonnes, an increase of 9% compared with the same period of last year, while imported steel products amounted to 6,460,000 tonnes, a decrease of 2.8% compared with the same period of last year. The net export of equivalent crude steel amounted to 52,550,000 tonnes, an increase of 10.7% compared with the same period of last year.

2. PRODUCTION AND OPERATION OF THE COMPANY

During the reporting period, the Company has seized the favorable market opportunity, vigorously adjusted our product structure, looked into the potential to increase cost efficiency, enhanced the level of lean operation and achieved a turnaround in our results.

During the reporting period, the Company's main work included:

➢ Through the implementation of blast furnace checkup system and external security early-warning mechanism, the blast furnace was in stable and smooth operation for a long period of time. And through optimizing the division of work of production lines, specialized production levels of the steel rolling system was enhanced. During the reporting period, the Group produced 8,430,000 tonnes of pig iron, 8,920,000 tonnes of crude steel, 8,470,000 tonnes of steel products, representing a year-on-year decrease of 2.88%, 2.55% and 4.94% respectively (in which the Company produced 6,590,000 tonnes of pig iron and 7,010,000 tonnes of crude steel, representing a year-on-year increase of 1.52% and 1.16% respectively, and 6,560,000 tonnes of steel products, representing a year-on-year decrease of 2.74%).

IV. Report of the Board (Continued)

- ➢ Continued setting benchmarks for and tapping potentials in our production process, adjusting our product structure, and implementing red and yellow card quality early-warning mechanism and accountable system. With these measures, customer satisfaction has been further improved.

- ➢ Our sales division has placed more effort to explore end-users and market, with direct supply ratio of steel plates reaching 65%, representing a year-on-year increase of 10 percentage points; our automotive plates have been certified by a number of key OEMs. Our procurement division has optimized its procurement cost reduction strategy: through expanding the scope of bulk purchasing and focusing on specific tender, the overall efficiency of our procurement and supply chain has significantly improved. During the reporting period, the Group's total sales of steel products amounted to 8,440,000 tonnes, among which 4,000,000 tonnes are long products, 4,370,000 tonnes are steel plates and 70,000 tonnes are wheels and axles.

- ➢ Promotion of performance excellence management with application of "National Quality Award" achieving substantive results of qualifying for on-site appraisal.

3. FINANCIAL POSITION AND EXCHANGE RISKS

As at 30 June 2016, the total loans of the Group amounted to RMB15,287 million, including short-term loans of RMB5,458 million and long-term loans of RMB9,829 million. Except for foreign currency loans amounting to US$389 million and Euro 10 million, all other loans were denominated in Renminbi. Among the Renminbi-denominated loans of the Group, loans amounting to RMB3,108 million carried fixed interest rates and loans amounting to RMB9,526 million carried floating interest rates. Among the foreign currency loans, loans amounting to US$346 million carried fixed interest rates and US$43 million and Euro 10 million carried floating interest rates. In addition, for the corporate bonds amounting to RMB5.5 billion issued in 2011, the Group has repaid RMB3.16 billion in 2014 and will repay the rest of RMB2.34 billion in the second half of 2016. In 2015, the Company issued the medium-term note with a registration amount of RMB4 billion. The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. The Group had no overdue loans in the reporting period, except for Masteel Shanghai Trading's short-term bank loans amounting to RMB100 million.

At present, the Company is financing its capital projects primarily via its own funds. As at the end of the reporting period, banking facilities available to the Group amounted to approximately RMB44,424 million.

As at 30 June 2016, the Group's cash and bank balances amounted to RMB3,829 million and bills receivable amounted to RMB3,254 million, the majority of which derived from sales proceeds.

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

4. STATUS OF INTERNAL CONTROL

Pursuant to the "Basic Standards for Internal Control of Enterprises" jointly published by the Ministry of Finance in conjunction with the China Securities Regulatory Commission (CSRC), the National Audit Office, the China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (the "five ministries and commissions"), the Company has established an internal control system that covers the whole process of production and operation management. The system ensures orderly conduct of various functions of the Company, enabling effective identification and control over operating risks.

During the reporting period, the Company compiled and published the "Self-evaluation Report on Internal Control for Year 2015". The Company enhanced control measures to improve the internal control policy and continued to improve the internal control system to ensure that its internal control always remains effective.

IV. Report of the Board (Continued)

5. THE ENVIRONMENT FOR PRODUCTION AND OPERATION AND COPING STRATEGIES

In the second half of the year, China will continue to adhere to the keynote of seeking progress in stability, maintain continuity and stability of macroeconomic policies, moderately expand aggregate demand and continue to implement active fiscal policy and prudent monetary policy. For the iron and steel industry, the downstream demand exhibited an overall downward trend. With the exception of infrastructure, real estate and automotive industries, major steel-consuming industries will likely to continue the downward trend since the first half of the year. As overcapacity of steel production has not been resolved, the situation of production and operation for the iron and steel companies will remain difficult.

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

- ➢ Strengthen the operation of the "two markets", and continue to promote setting of benchmarks. Vigorously develop high-end and strategic users, enhance the proportion of high-end products, and further enhance the added value and competitiveness of products.

- ➢ Work out various preparatory work of new blast furnace production at later stage, ensuring that the Company achieves its production and performance targets as scheduled. Optimize balance of resources, coordinate maintenance and repair cycle of furnace machines, strengthen protection of equipment and public ancillary facilities, and enhance operating efficiency of the manufacturing system.

- ➢ Continue to promote the optimization of human resources to stimulate team vitality.

- ➢ Vigorously promote brand-building. Enhance full brand awareness and create a strong brand environment, support product upgrades, quality improvement and value-added services.

- ➢ Leverage the bridgehead role of overseas companies, exert more efforts in developing overseas markets and increase the margin of export products.

(1) ANALYSIS OF PRINCIPAL OPERATIONS

1. ANALYSIS OF THE CHANGE IN ITEMS OF THE FINANCIAL STATEMENTS

Unit:RMB'000

Items	Amount of the reporting period	Corresponding period of the previous year	Change
			(%)
Revenue	21,001,163	23,447,521	–10.4
Cost of sales	18,177,307	22,624,291	–19.7
Selling expenses	317,939	299,730	6.1
Administrative expenses	1,048,469	822,972	27.4
Financial expenses	407,254	565,859	–28.0
Net cash flows from operating activities	527,216	4,628,268	–88.6
Net cash flows (used in)/from investing activities	–589,987	–1,578,859	–
Net cash flows from/(used in) financing activities	–739,537	531,009	–239.3
Research and development expenditure	346,000	253,760	36.35
Impairment losses	672,332	367,276	83.1
Business tax and surcharges	105,587	126,215	–16.3
Investment income	78,698	44,104	78.4
Non-operating income	140,392	171,643	–18.2
Non-operating expenses	1,749	14,159	–87.6
Income tax	62,157	203,069	–69.4
Non-controlling interests	–21,835	–123,711	
Net profit/(loss) attributable to the equity holders of the Company	452,753	–1,236,592	136.6
Effect of foreign exchange rate changes on cash and cash equivalents	55,157	–23,055	339.2

Changes in revenue and the reasons therefor: mainly attributable to the lower selling price of steel products during the reporting period when compared with the corresponding period last year, together with the production suspension of long products at Hefei Co.

Changes in cost of sales and the reasons therefor: mainly attributable to the decrease in fuel procurement costs during the reporting period; operation cost reduction due to the Company's efforts of lowering costs and boosting efficiency and the impact of the production halt of long products at Hefei Co.

IV. Report of the Board (Continued)

Changes in selling expenses and the reasons therefor: mainly attributable to a sharp increase in Changjiang Steel's production and sales of steel and by-products during the reporting period as compared to the corresponding period last year, hence driving up costs of loading and unloading, truck and rail transportation, and port service charges year-on-year.

Changes in administrative expenses and the reasons therefor: mainly attributable to the production suspension of long products at Hefei Co; employee salary being fully transferred from production cost to administrative costs during the reporting period, and compensations for former employees also being transferred to administrative costs.

Changes in financial expenses and the reasons therefor: mainly attributable to a fall in benchmark interest rate in the second half of 2015 and a reduction in the average balance of loans from banks during the reporting period.

Changes in net cash flows from operating activities and the reasons therefor: mainly attributable to the increase in operating receivables and a decrease in operating payables.

Changes in net cash flows from investing activities and the reasons therefor: mainly attributable to an increase in net cash inflow received from financial assets investment through finance companies as well as a reduction in expenses of projects in construction during the reporting period.

Changes in net cash flows from financing activities and the reasons therefor: mainly attributable to a decrease in cash received from borrowings during the reporting period.

Changes in research and development expenditures and the reasons therefor: mainly attributable to the increase in the expenses in scientific research projects during the reporting period as compared to the corresponding period last year.

Changes in assets impairment losses and the reasons therefor: mainly attributable to an increase in inventory impairment provision made by the Company during the reporting period as compared to the corresponding period last year.

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

Changes in Investment income and the reasons therefor: mainly attributable to the increase in net profit of from associates and joint ventures as compared to the corresponding period last year.

Changes in non-operating income and the reasons therefor: mainly attributable to the decrease in government grants during the reporting period as compared to the corresponding period last year.

Changes in non-operating expenses and the reasons therefor: mainly attributable to a reduction in expenditure on compensation, liquidated damages and all other fines during the reporting period.

Changes in income tax expenses and the reasons therefor: mainly attributable to a reduction in deferred tax expenses during the reporting period as compared to the corresponding period last year.

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

Changes in net profit/(loss) attributable to equity holders of the Company and the reasons therefor: mainly attributable to the increase in the gross margin of the products.

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

In the consolidated financial statements, when compared with the interim period last year, the over 30% changes in some related items and the reasons therefor were as follows:

(1) The financial assets at fair value through profit or loss decreased by 47.8% in the reporting period, mainly due to the decreased in gains from a wealth management product with non-guaranteed principal and floating income issued by the Everbright Bank held by Masteel Financial.

(2) Bills receivable decreased by 31%, mainly attributable to the increase use of endorsed bills receivable settlement.

(3) Dividends receivable increased 100% (nil for the end of last year), mainly because of Henan Jinma Energy, a jointly-controlled entities, announced the distribution of cash dividend.

(4) Loans and advances to customers increased 46.09%. It is mainly due to the increase in the amount of discounted bills provided by Masteel Financial to its member units of the Group.

(5) The available-for-sale financial assets increased 159.38%. It is mainly because Masteel Financial purchased local government bonds and policy financial bonds.

(6) Construction in progress increased by 31.6% as compared with the same period last year. It is mainly contributed by increased capital expenditure in projects related to new products, quality improvements, energy saving and environmental protection.

(7) Proceeds from disposal of repurchased financial assets increased 100% (nil for the end of last year). It is mainly due to an increase in rediscounted bills to the People's Bank of China by Masteel Financial during the reporting period.

(8) Bills payable decreased by 33.37%, mainly because of the increasing use of bills receivable endorsed transfer, lowering the issue of bills payable.

(9) Taxes payable decreased by 34.77%, mainly because the taxes payable at the end of the reporting period decreased when compare with the corresponding period last year.

(10) Interest payable increased by 106.9%, mainly because accrued interests from the five-year corporation bonds and medium term note issued in previous years.

(11) Special reserve increased by 53.54%, mainly because the amount of accrual safety production fee exceeded usage.

(12) Accumulated loss decreased by 33.08%, mainly because of the Group's profit-making for the period.

2. DETAILED EXPLANATION ON SIGNIFICANT CHANGES IN THE COMPANY'S PROFIT STRUCTURE OR SOURCES OF PROFIT

During the reporting period, there were no significant changes in the Company's profit structure or sources of profit.

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

1. PRINCIPAL OPERATION BY INDUSTRY AND PRODUCTS

Unit: RMB million

Principal operation by industry

Industry	Revenue	Cost of sales	Gross profit margin (%)	Y-O-Y increase/ (decrease) of revenue (%)	Y-O-Y increase/ (decrease) of cost of sales (%)	Y-O-Y Increase/ (decrease) of gross profit margin (%)
Iron and steel	20,077	17,150	14.58	–9.49	–19.98	Increased by 11.21 percentage points

Principal operation by product

Product	Revenue	Cost of sales	Gross profit margin (%)	Y-O-Y increase/ (decrease) of revenue (%)	Y-O-Y increase/ (decrease) of cost of sales (%)	Y-O-Y Increase/ (decrease) of gross profit margin (%)
Steel plates	11,315	9,697	14.30	–8.87	–18.08	Increased by 9.63 percentage points
Long products	7,742	6,579	15.02	–10.91	–23.91	Increased by 14.52 percentage points
Wheels and axles	649	524	19.26	–14.72	–19.88	Increased by 5.2 percentage points

Explanation on principal operation by industry and products

During the reporting period, the group's principal operating income was RMB20,610 million, in which income from iron and steel was RMB20,077 million, accounting for 97% of the principal operation income.

2. PRINCIPAL OPERATION BY REGION

Unit: RMB million

Region	Revenue	Y-O-Y increase/ (decrease) in revenue (%)
Anhui	8,246	–1.08
Shanghai	3,640	11.38
Jiangsu	2,821	–21.29
Zhejiang	901	–38.20
Guangdong	851	–32.51
Other PRC regions	2,408	–29.03
Overseas and Hong Kong	1,743	–11.57

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

During the reporting period, there was no material change in the Company's core competitiveness.

(4) INVESTMENT ANALYSIS

1. GENERAL ANALYSIS OF EXTERNAL EQUITY INVESTMENT

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

Name of the Invested Company	Main Business	Shareholding Ratio
MASTEEL AMERICA INC.	Pre-sale, in-sales and after-sales services in relation to exports of Magang's train wheels and H-shaped steel products to the markets in Americas	100%
MASCOMETAL Co., Ltd	Development, manufacturing and sales of steel wire rods and bars used in automobile industry and finished iron and steel products, the provisions of after-sales services and related technical services, as well as trading businesses (excluding distribution)	75%
Ma-Steel OCI Chemical	Production, storage and sales of coal tar highly processed products, including but not limited to, dephenollized phenol oil, carbon black oil, washing oil, asphalt,industrial naphthalene, etc., as well as research & development of relevant technologies	40%

2. ENTRUSTED FINANCIAL MANAGEMENT AND DERIVATIVES INVESTMENT OF NON-FINANCIAL COMPANIES

Entrusted loan

Unit: RMB100 million

The name of the borrower	The amount of entrusted loan	Length of maturity	Loan rate	The usage of the loan	Collateral or guarantee	Overdue	Connected transaction	Extendible	Involved in appeal	Source of funding	Incidence relation
Changzhou Runhe Real Estate Development Co., Ltd.	1.44	2 years	7%/year	Return the borrowing and management	No	No	No	No	No	Own funds, not from fund raising proceeds	Other

3. ANALYSIS OF THE GROUP'S MAJOR SUBSIDIARIES AND INVESTEES

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by– products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB431 million. As at the end of the reporting period, it had total assets amounting to RMB4,193 million and net assets of RMB2,246 million.

- Anhui Changjiang 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. During the reporting period, it recorded net profit of RMB192 million, as at the end of the reporting period, it recorded total assets of RMB5,953 million and net assets of RMB2,404 million.

- Magang Group Finance Co., Ltd. has a registered capital of RMB1,000 million and 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include interlending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB51 million. At the end of the reporting period, its total asset value was RMB5,660 million and net asset value RMB1,529 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 RMB71.5 million. As at the end of the reporting period, it had total assets amounting to RMB590 million and net assets of RMB547 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 profit for the reporting period amounted to RMB6.66 million. As at the end of the reporting period, it had total assets amounting to RMB122 million and net assets of RMB77 million.

4. PROJECTS FINANCED BY OTHER THAN FUNDRAISING PROCEEDS

Unit: RMB million

Project name	Project amount	Project progress
Port Raw Material Plant Adaptability Renovation Project	253	Equipment debugging and project conclusion
4# Blast Furnace Project of No.2 Ironmaking Factory	1,150	Equipment debugging and project conclusion
4# Blast Furnace Public and Auxiliary Supporting Project	441	Equipment debugging and project conclusion
Total	1,844	/

2. THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

(1) IMPLEMENTATION OR ADJUSTMENT OF PROFIT DISTRIBUTION PLAN IN REPORTING PERIOD

In view of the relatively large loss suffered by the Company in 2015, the Board suggests that no dividends shall be distributed for the year of 2015 and no capital surplus shall be transferred to share capital. The distribution plan was approved by the Annual General Meeting held on 15 June 2016 with no adjustments.

(2) PROFIT DISTRIBUTION PLAN AND TRANSFER OF PUBLIC RESERVE TO COMMON SHARES DECIDED HALF-YEARLY

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

3. OTHER RELEVANT MATTERS

(1) ALERT AND EXPLANATION ON A POSSIBLE ACCUMULATIVE NET LOSS OR A SIGNIFICANT CHANGE OF THE COMPANY'S PROFIT FOR THE PERIOD STARTING FROM THE BEGINNING OF THE YEAR TO THE END OF NEXT REPORTING PERIOD

The Company expects an accumulative net profit for the period staring from the beginning of the year to the end of next reporting period, making a turnaround compared with the corresponding period of the previous year. The major reasons are as following. The Company turned around for the first half of this year. In addition, operating environment of the iron and steel industry will improve in the third quarter on the back of the supply side reform, compared to the corresponding period of the previous year.

(2) OTHER RELEVANT MATTERS

➢ **Purchase, sale or redemption of listed securities of the company**
During the reporting period, the Company did not redeem any of its listed stocks, nor did the Group purchase or resale any of the listed stocks.

➢ **Pre-emptive rights**
According to Chinese laws and the Articles of Association of the Company, it is not required that the current shareholders shall purchase new shares based on their holding currencies before the Company issues news shares.

V. Significant Events

1. MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

During the reporting period, there were no major litigation and arbitration cases and media controversies.

2. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

During the reporting period, there were no insolvency or restructuring related matters.

3. ASSET TRANSACTIONS AND MERGER OF COMPANIES

During the reporting period, there were no asset transactions and merger of companies.

4. THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

During the reporting period, no equity incentives were planned or implemented.

5. MATERIAL CONNECTED TRANSACTIONS

(1) CONNECTED TRANSACTIONS RELATED TO NORMAL OPERATIONS

1. The normal business transactions between the Group and the Group Company

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

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

During the reporting period, the payment made by the Company to the Group Company in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2015, was as follows (RMB'000):

	Amount Paid	**Proportion of transaction of the same category** (%)
Purchase of iron ore, limestone and dolomite	1,168,258	21

(2) During the reporting period, businesses under the "Finance Services Agreement" between Masteel Financial and the Group Company

Business nature		Amount of loan or deposit	Interest income/ expenses
		RMB'000	RMB'000
Deposit	Maximum daily deposit	2,914,785	7,384
	Monthly average maximum daily deposit	1,891,467	
Loan	Maximum daily loan	352,000	14,971
	Monthly average maximum daily loan	352,000	

Other income	
Net income from handling fee and commission (RMB'000)	838
Income from discount interest (RMB'000)	6,569

(3) Business transactions between the Group and Environmental Protection Company

During the reporting period, amounts of the transactions for the Group under the "Energy Saving and Environmental Protection Agreement" entered in 2015 (in RMB'000) were as follows:

	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	161,754	5
Purchase of wastes and other services by Environmental Protection Company from the Group	43,960	9
Total	205,714	/

(4) During the reporting period, transactions between the Group and the Group Company conducted under the "Continuing Connected Transactions Agreement" entered in 2015 were as follows (in RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
To sell water, electricity and gas to the Group Company by the Company	–	–
To sell finished products and related commodities to the Group Company by the Company	55,339	–
To provide services to the Group Company by the Company	4,170	3
To purchase spare-parts, fittings and related products from the Group Company by the Company	519,862	9
To accept the Group Company's infrastructure technical and renovation engineering services by the Company	300,248	18
To accept the Group Company's water and land transportation and related services by the Company	552,042	44
Total	1,431,661	/

(5) During the reporting period, transactions between the Group and the Group Company conducted under the "Integrated Support Services Agreement" were as follow (in RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
To sell Finished Products and Related Commodities to the Group Company by the Company	1,188	–
To provide services to the Group Company by the Company	57,786	12
To purchase raw materials and related products from the Group Company by the Company	1,505	–
To accept Services for Fixed Assets and Construction from the Group Company by the Company	23,502	7
To accept Integrated services and professional services from the Group Company by the Company	38,280	3
Total	122,261	/

6. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1. ENTRUSTMENT, CONTRACTING AND LEASING

During the reporting period, there were no entrustment, contracting and leasing or ones that had happened in the previous periods and postponed to the reporting period.

2. GUARANTEES

Unit: RMB, million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	0
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	0
Guarantees Offered to Subsidiaries	
Total amount of guarantees newly offered to subsidiaries during the reporting period	250
Total ending balance of guarantees offered to subsidiaries (B)	250
Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	250
Total amount of guarantees as a percentage of net assets of the Company (%)	1.2
Of which：	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	0
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	0
The portion of total guarantees in excess of 50% of net assets (E)	0
Total amount of the preceding three types of guarantees (C+D+E)	0
Explanations on outstanding guarantee which may undertake joint liability for satisfaction	
Explanation on guarantees	During the reporting period, the Company provided MG-Valdunes S.A.S., its wholly-owned subsidiary a guarantee totalled RMB250 million. Additionally, at the end of the reporting period, Changjiang Steel (as a controlling subsidiary of the Company) provided RMB45 million to its wholly-owned subsidiary Anhui Changjiang Iron & Steel Trading Hefei Co., Ltd.

7. PERFORMANCE OF UNDERTAKINGS

UNDERTAKINGS OF THE LISTED COMPANY, SHAREHOLDERS HOLDING MORE THAN 5% EQUITY INTERESTS, CONTROLLING SHAREHOLDER(S) AND DE FACTO CONTROLLER THAT TOOK PLACE DURING OR CONTINUED IN THE REPORTING PERIOD

Background of undertaking	Type of undertaking	Undertaker	Content of undertaking	Time of making the undertaking and its term	Deadline for the fulfillment of undertaking	Undertaking fulfilled on a timely basis	Reasons for nonfulfillment of undertaking	Next step to be taken after nonfulfillment of undertaking
Other undertaking	Other	The Group Company	To further acquire A Shares of the Company for not less than RMB409 million at an appropriate price through Magang Investment Limited in a way of complying with applicable laws and regulations, and not sell the newly acquired shares within six months after the completion of the increasing shareholding plan.	24 July 2015	No	No	The production and operation during the reporting period of the Group improved and achieved a turnaround. However, as a result of influence in depth of factors including slower growth in macro-economy and serious overcapacity in steel industry, its earnings base is still vulnerable with insufficient capital raised for increasing shareholding.	The Group aims to enhance its fundraising and implement increasing shareholding scheme in compliance with the requirements of the laws and regulations under the proper operation of its funds, and comply with relevant disclosure obligations.

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

During the reporting period, none of the Company, its Directors, Supervisors, senior management, shareholders holding more than 5% of shareholding, and actual controller were punished by the authorities.

9. CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clear and unambiguous.

The Company has, to the best knowledge of the Board of Directors, complied with the requirements of the Code on Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on Hong Kong Stock Exchange during the reporting period, and no deviation from the code provisions was found.

10. OTHER SIGNIFICANT EVENTS

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

In accordance with the CAS 4 – Fixed Assets and CAS 28 – Changes in Accounting Policy and Estimate and Correction of Errors, the subsidiary of the Company, Anhui Changjiang Iron and Steel Co., Ltd. adjusted the useful life of fixed assets to ensure the adjusted useful life to meet the estimates on the period that the future economic benefits by considering actual useful life of the fixed assets accordingly. On 14 March 2016, the change was approved by the board of directors in "Resolution of the Board of Directors of Changjiang Iron and Steel [2016] No.2". The above changes of accounting estimates performed from 1 April 2016 has resulted in an increase of its net profit amounting to RMB18.46 million for the first half of 2016.

Items	Estimated useful life before adjustment (number of years)	Estimated useful life after adjustment (number of years)	Remark
Buildings	20	30	Increased 10 years
Plant and machinery	10	15	Increased 5 years
Motor vehicles	5	8	Increased 3 years
Office (electronic) equipment	10	5	Decreased 5 years

During the reporting period, there were no corrections of material prior period errors.

VI. Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

During the reporting period, there was no change in the total number of shares and the share capital structure.

2. SHAREHOLDERS

(1) TOTAL NUMBER OF SHAREHOLDERS:

Total number of shareholders at the end of the reporting period 283,941

(2) TABLE ON SHAREHOLDING OF THE TOP TEN SHAREHOLDERS, SHAREHOLDING OF TOP TEN PUBLIC SHAREHOLDERS (OR SHAREHOLDERS WITHOUT SELLING RESTRICTIONS) AT THE END OF THE REPORTING PERIOD

Unit: Share

Holding of top ten shareholders							
Name of shareholder (Full name)	Increase/ decrease in the reporting period	Number of shareholding at the end of the reporting period	Percentage (%)	Number of shares under restricted condition for sales	Number of pledged or frozen shares		Type of shareholders
					Status	Volume	
Magang (Group) Holding Co., Limited	0	3,506,467,456	45.54	0	Nil	0	State-owned shareholder
Hong Kong Securities Clearing Company Nominees Limited	–64,000	1,710,144,900	22.21	0	Unknown	Unknown	Foreign shareholder
Central Huijin Investment Ltd.	0	142,155,000	1.85	0	Unknown	Unknown	State-owned shareholder
China Securities Finance Corporation Limited	0	88,096,538	1.14	0	Unknown	Unknown	State-owned shareholder
Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown
GF Fund Management – ABC – GF China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown
ICBCCS – ABC – ICBCCS China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown
Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown
Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown
E Fund – ABC – E Fund China Securities Finance Asset Management Plan	0	33,609,200	0.44	0	Unknown	Unknown	Unknown

Shareholding of top ten shareholders without restricted conditions for sales

Name of shareholder	Number of shares without restricted conditions for sales	Type and number of shares	
		Type	Number
Magang (Group) Holding Co., Limited	3,506,467,456	RMB-denominated ordinary shares	3,506,467,456
Hong Kong Securities Clearing Company Nominees Limited	1,710,144,900	Overseas-listed shares	1,710,144,900
Central Huijin Investment Ltd.	142,155,000	RMB-denominated ordinary shares	142,155,000
China Securities Finance Corporation Limited	88,096,538	RMB-denominated ordinary shares	88,096,538
Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
GF Fund Management – ABC – GF China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
ICBCCS – ABC – ICBCCS China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
E Fund – ABC – E Fund China Securities Finance Asset Management Plan	33,609,200	RMB-denominated ordinary shares	33,609,200
Notes on the above shareholders' affiliated relation or concerned action	Magang (Group) Holding Co., Ltd. has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerned action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerned action.		

VI. Movements in Share Capital and Shareholders (Continued)

During the reporting period, no shares held by the Group Company were pledged, held in lien or placed in custody, but the Company is not aware whether or not shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody during the reporting period.

Hong Kong Securities Clearing Company Nominees Limited held 1,710,144,900 H shares of the Company on behalf of multiple clients.

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

3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS

During the reporting period, there was no change in the Company's substantial shareholders and actual holders.

VII. Directors, Supervisors and Senior Management

1. CHANGES IN SHAREHOLDING

(1) CHANGES IN SHAREHOLDING HELD BY EXISTING AND OUTGOING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the reporting period, no directors, supervisors, or senior management resigned. None of the current directors, supervisors and senior management of the Company held any shares of the Company.

(2) NO SHARE INCENTIVES WERE GRANTED TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

2. DURING THE PERIOD, THERE WERE NO CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

3. OTHER NOTES

To the best knowledge of the Company, as at 30 June 2016, none of the directors, supervisors, senior Management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

During the reporting period, none of the Company's directors, supervisors, senior Management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

The Articles of Association of the Company has set out clearly the code of behaviour for the Company's directors, supervisors and senior management in dealing with the securities of the Company. All directors of the Company have confirmed in writing that during the Reporting period, directors of the Company complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

VIII. Corporation Bonds and Related Conditions

1. BASIC CONDITIONS ABOUT CORPORATION BONDS

Unit: RMB100 million

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

The payment of the above bond was completed on 25 August 2016.

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

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

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

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

4. SITUATIONS OF CREDIT RATING AGENCY OF CORPORATION BONDS

China Chengxin Security Rating Co., Ltd has issued the latest coverage ratings on the Company and its corporation bonds on 26 April 2016 and the rating results was disclosed on the website of Shanghai Stock Exchange (www.sse.com.cn). Please pay attention.

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

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

1. Net Assets Volume: RMB27.32 billion

2. Asset-liability ratio: 65.97%

3. Return on equity: 0.49%

4. Liquidity ratio: 0.66

5. Quick ratio: 0.38

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

7. Accumulative balance of the Company's outside guarantee: 3.78 billion

8. The proportion of accumulative balance of the Company's outside guarantee to Net Assets Volume: 13.84%

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

6. CORPORATE BONDS HOLDER MEETING

During the reporting period, no meetings were held by corporate bonds holder.

VIII. Corporation Bonds and Related Conditions (Continued)

7. PERFORMANCE DUTY OF CORPORATE BONDS TRUSTEE

In April 2016, CITIC Securities Co., Ltd. announced the Reports (in the year of 2015) of Corporation Bonds Trustee of Maanshan Iron & Steel Company Limited in 2011 and disclosed it on the website of Shanghai Stock Exchange (www.sse.com.cn). Please pay attention.

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

Unit: RMB

Main Indicators	The end of the reporting period	As at the end of previous year	Increase/ decrease compared to the previous year (%)
Liquidity ratio	0.66	0.68	–3
Quick ratio	0.41	0.48	–15
Gearing ratio	64%	67%	decreased by 3 percentage points
Debt service coverage ratio	99%	99%	–

	Reporting period (January to June)	Corresponding period of the previous year (%)	Increase/ decrease compared to the corresponding period of the previous year
EBITDA-to-interest coverage ratio	5.61	1.94	189
Interest coverage ratio	100%	100%	–

9. CORPORATE ASSETS AT THE END OF THE REPORTING PERIOD

In the first half of 2016, the restricted monetary fund of the Company amounted to RMB1,966 million, mainly including RMB319.22 million deposited by the finance company in the Central Bank, and fixed deposite of USD1 million equivalent to RMB6.67 million has been pleged to banks to issue letters of credit. A bank deposit of RMB704.13 million has been used as margin notes. A bank acceptance of RMB924.81 has been pledged to obtain bank loans for blocked inventories of RMB10.86 million due to trade disputes.

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

No interest payment or encashment of other bonds or other debt financing instruments were made in the reporting period.

11. BANK CREDIT OF THE COMPANY IN THE REPORTING PERIOD

Bank loans were repaid capital and interest on time in the reporting period. In the first half of 2016, the Company obtained the bank credit totally amounted to RMB44.42 billion, with RMB23.69 billion used.

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

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

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

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

IX. Financial Statements

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INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SUPPLEMENTARY INFORMATION APPENDICES

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.

Consolidated Statement of Financial Position

30 June 2016
Renminbi Yuan

ASSETS	Note V	30 June 2016 Unaudited	31 December 2015 Audited
CURRENT ASSETS			
Cash and bank balances	1	**3,829,272,917**	5,142,711,482
Financial assets at fair value through profit or loss	2	**524,718,544**	1,005,271,054
Bills receivable	3	**3,254,150,613**	4,689,129,290
Trade receivables	4	**880,464,995**	796,986,661
Dividends receivable	5	**17,280,000**	–
Interest receivable		**1,128,498**	1,600,176
Prepayments	6	**578,708,358**	634,407,421
Other receivables	7	**243,167,329**	190,348,070
Inventories	8	**6,756,239,053**	6,018,495,505
Loans and advances to customers	9	**1,070,687,975**	732,913,869
Other current assets	10	**676,746,828**	948,518,258
Total current assets		**17,832,565,110**	20,160,381,786
NON-CURRENT ASSETS			
Available-for-sale financial investments	11	**334,432,425**	128,934,410
Long term equity investments	12	**1,067,423,663**	1,029,853,507
Investment properties	13	**59,667,626**	62,356,583
Property, plant and equipment	14	**32,517,591,868**	34,605,411,096
Construction in progress	15	**5,587,319,593**	4,245,762,868
Intangible assets	16	**1,859,901,564**	1,891,358,160
Deferred tax assets	17	**306,146,477**	330,407,545
Total non-current assets		**41,732,483,216**	42,294,084,169
TOTAL ASSETS		**59,565,048,326**	62,454,465,955

Consolidated Statement of Financial Position (Continued)

30 June 2016
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	30 June 2016 Unaudited	31 December 2015 Audited
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	19	**1,659,042,801**	1,901,390,488
Repurchase agreements	20	**125,266,272**	–
Short term loans	21	**5,458,387,496**	6,791,359,472
Bills payable	22	**3,560,512,833**	5,343,906,398
Accounts payable	23	**5,567,240,066**	6,144,664,281
Advances from customers	24	**2,394,266,979**	2,602,554,258
Payroll and employee benefits payable	25	**275,101,936**	274,614,723
Taxes payable	26	**97,775,125**	149,898,321
Interest payable	27	**312,066,266**	150,829,308
Dividends payable	28	**6,525,534**	6,525,534
Other payables	29	**1,308,192,017**	1,258,463,513
Non-current liabilities due within one year	30	**6,068,072,262**	5,084,859,415
Accrued liabilities	31	**25,718,538**	22,232,713
Total current liabilities		**26,858,168,125**	29,731,298,424
NON-CURRENT LIABILITIES			
Long term loans	32	**6,099,819,712**	6,655,171,584
Bonds payable	33	**3,983,666,667**	3,979,666,667
Deferred income	34	**1,333,679,751**	1,285,164,299
Long-term employee benefits payable	25	**30,522,903**	28,857,389
Deferred tax liabilities	17	**36,383,574**	32,704,732
Total non-current liabilities		**11,484,072,607**	11,981,564,671
Total liabilities		**38,342,240,732**	41,712,863,095

Consolidated Statement of Financial Position (Continued)

30 June 2016
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)	Note V	30 June 2016 Unaudited	31 December 2015 Audited
SHAREHOLDERS' EQUITY			
Share capital	35	**7,700,681,186**	7,700,681,186
Capital reserve	36	**8,329,067,663**	8,329,067,663
Other comprehensive income	49	**(126,202,933)**	(165,450,551)
Special reserve	37	**22,069,540**	14,374,213
Surplus reserve		**3,843,231,617**	3,843,231,617
General reserve		**102,539,024**	102,539,024
Accumulated loss		**(915,852,166)**	(1,368,605,137)
Equity attributable to owners of the parent company		**18,955,533,931**	18,455,838,015
Non-controlling interests		**2,267,273,663**	2,285,764,845
Total shareholders' equity		**21,222,807,594**	20,741,602,860
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**59,565,048,326**	62,454,465,955

The financial statements are signed by the following persons:

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016
Renminbi Yuan

	Note V	For the six months ended 30 June **2016** **Unaudited**	2015 Unaudited
Revenue	38	**21,001,162,560**	23,447,520,693
Less: Cost of sales	38	**18,177,307,489**	22,624,291,030
Business taxes and surcharges	39	**105,586,947**	126,214,959
Selling expenses	40	**317,938,952**	299,730,118
General and administrative expenses	41	**1,048,469,131**	822,972,196
Financial expenses	42	**407,254,444**	565,859,338
Impairment losses	43	**672,332,416**	367,276,117
Add: Gain on the changes in fair value		**3,461,591**	–
Investment income	44	**78,697,625**	44,104,484
including: share of profit of associates and joint ventures		**69,346,926**	41,114,047
Operating profit/(loss)		**354,432,397**	(1,314,718,581)
Add: Non-operating income	45	**140,391,902**	171,642,968
Including: gain on disposal of non-current assets		**154,474**	660,487
Less: Non-operating expenses	46	**1,748,742**	14,159,425
including: loss on disposal of non-current assets		**976,959**	–
Profit/(loss) before tax		**493,075,557**	(1,157,235,038)
Less: Income tax expense	47	**62,157,221**	203,068,501
Net profit/(loss)		**430,918,336**	(1,360,303,539)
Net profit/(loss) attributable to the owners of the parent company		**452,752,971**	(1,236,592,427)
Non-controlling interests		**(21,834,635)**	(123,711,112)

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the six months ended 30 June 2016
Renminbi Yuan

	Note V	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
Other comprehensive income, net of tax			
Total other comprehensive income attributable to owners of the parent company, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	49	**39,247,618**	(42,104,235)
Total other comprehensive income attributable to non-controlling interests, net of tax		**372,801**	890,641
Total comprehensive income		**470,538,755**	(1,401,517,133)
Attributable to:			
Owners of the parent company		**492,000,589**	(1,278,696,662)
Non-controlling interests		**(21,461,834)**	(122,820,471)
EARNINGS/(LOSS) PER SHARE:			
Basic	48	**5.88 cents**	(16.06) cents
Diluted	48	**5.88 cents**	(16.06) cents

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016
Renminbi Yuan

30 June 2016 (Unaudited)

	Attributable to owners of the parent									
	Share capital (Note V 35)	Capital reserve (Note V 36)	Other comprehensive income (Note V 49)	Special reserve (Note V 37)	Surplus reserve	General reserve	Accumulated loss	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2016	7,700,681,186	8,329,067,663	(165,450,551)	14,374,213	3,843,231,617	102,539,024	(1,368,605,137)	18,455,838,015	2,285,764,845	20,741,602,860
2. Increase/(decrease) during the period										
(1) Total comprehensive income	-	-	39,247,618	-	-	-	452,752,971	492,000,589	(21,461,834)	470,538,755
(2) Capital contribution and withdrawal										
(i) Capital contribution/(withdrawal)	-	-	-	-	-	-	-	-	-	-
(3) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
(4) Special reserve										
(i) Additions	-	-	-	34,164,575	-	-	-	34,164,575	5,203,395	39,367,970
(ii) Utilization	-	-	-	(27,792,724)	-	-	-	(27,792,724)	(2,232,743)	(30,025,467)
(iii) Changes in the share of associates and JV's special reserve, net	-	-	-	1,323,476	-	-	-	1,323,476	–	1,323,476
3. At 30 June 2016	7,700,681,186	8,329,067,663	(126,202,933)	22,069,540	3,843,231,617	102,539,024	(915,852,166)	18,955,533,931	2,267,273,663	21,222,807,594

30 June 2015 (Unaudited)

	Attributable to owners of the parent									
	Share capital (Note V 35)	Capital reserve (Note V 36)	Other comprehensive income (Note V 49)	Special reserve (Note V 37)	Surplus reserve	General reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2015	7,700,681,186	8,329,067,663	(137,159,480)	21,511,442	3,831,458,700	98,706,649	3,451,299,829	23,295,565,989	2,593,831,998	25,889,397,987
2. Increase/(decrease) during the period										
(1) Total comprehensive income	–	–	(42,104,235)	–	–	–	(1,236,592,427)	(1,278,696,662)	(122,820,471)	(1,401,517,133)
(2) Capital contribution and withdrawal										
(i) Capital contribution/(withdrawal)	–	–	–	–	–	–	–	–	–	–
(3) Profits appropriation										
(i) Distribution to shareholders	–	–	–	–	–	–	–	–	(21,000)	(21,000)
(4) Special reserve										
(i) Additions	–	–	–	48,189,337	–	–	–	48,189,337	5,678,348	53,867,685
(ii) Utilization	–	–	–	(52,426,744)	–	–	–	(52,426,744)	(10,362,564)	(62,789,308)
3. At 30 June 2015	7,700,681,186	8,329,067,663	(179,263,715)	17,274,035	3,831,458,700	98,706,649	2,214,707,402	22,012,631,920	2,466,306,311	24,478,938,231

Consolidated Statement of Cash Flows

For the six months ended 30 June 2016
Renminbi Yuan

		Note V	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
1.	Cash flows from operating activities			
	Cash received from sale of goods and rendering of services		**24,635,525,466**	28,679,828,977
	Net increase in customer deposits and deposits from banks		**–**	792,439,406
	Cash received for interest charges, fees and commissions		**28,465,276**	43,954,490
	Tax refunds received		**49,351,264**	82,804,766
	Net decrease in deposits in central bank		**71,727,130**	444,798,960
	Net increase in repurchase agreements of financial assets		**125,266,272**	90,896,113
	Cash received relating to other operating activities	50	**197,671,817**	24,534,334
	Sub-total of cash inflows		**25,108,007,225**	30,159,257,046
	Cash paid for purchase of goods and services		**(20,570,374,534)**	(21,801,936,322)
	Cash paid to or on behalf of employees		**(1,953,551,894)**	(2,002,927,520)
	Taxes and surcharges paid		**(1,040,145,583)**	(1,314,805,102)
	Net decrease in customer deposits and deposits from banks		**(242,347,687)**	–
	Net increase in loans and advances to customers		**(337,774,106)**	(6,427,320)
	Cash paid for interest charges, fees and commissions		**(8,715,820)**	(12,947,822)
	Cash paid relating to other operating activities	50	**(427,882,100)**	(391,944,982)
	Sub-total of cash outflows		**(24,580,791,724)**	(25,530,989,068)
	Net cash flows from operating activities	51(1)	**527,215,501**	4,628,267,978
2.	Cash flows from investing activities			
	Cash received from disposal of investments		**492,416,498**	1,073,490
	Cash received from investment income		**79,000,000**	50,709,380
	Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets		**1,265,196**	9,481,536
	Cash received relating to other investing activities	50	**135,488,506**	32,445,774
	Sub-total of cash inflows		**708,170,200**	93,710,180

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2016
Renminbi Yuan

		Note V	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
2.	Cash flows from investing activities *(Continued)*			
	Purchase of property, plant and equipment, intangible assets and other non-current assets		**(1,030,427,781)**	(1,331,018,080)
	Increase in restricted cash		**–**	(211,824,701)
	Cash paid for investments		**(267,729,467)**	(56,537,594)
	Acquisitions of a subsidiary and operating units	51(2)	**–**	(73,188,523)
	Sub-total of cash outflows		**(1,298,157,248)**	(1,672,568,898)
	Net cash flows used in investing activities		**(589,987,048)**	(1,578,858,718)
3.	Cash flows from financing activities			
	Cash received from borrowings		**7,178,827,357**	9,272,965,108
	Cash received relating to other financing activities		**494,559,399**	–
	Sub-total of cash inflows		**7,673,386,756**	9,272,965,108
	Repayment of borrowings		**(8,003,623,315)**	(8,341,959,971)
	Cash paid for distribution of dividends or profits and for interest expenses		**(409,300,794)**	(399,995,657)
	Including: dividends paid to non-controlling interests by subsidiaries		**–**	–
	Sub-total of cash outflows		**(8,412,924,109)**	(8,741,955,628)
	Net cash flows (used in)/from financing activities		**(739,537,353)**	531,009,480
4.	Effect of foreign exchange rate changes on cash and cash equivalents		**55,156,864**	(23,055,203)
5.	Net (decrease)/increase in cash and cash equivalents	51(3)	**(747,152,036)**	3,557,363,537
	Add: Cash and cash equivalents at the beginning of the period		**3,546,410,358**	2,709,836,299
6.	Cash and cash equivalents at the end of the period	51(3)	**2,799,258,322**	6,267,199,836

Statement of Financial Position

30 June 2016
Renminbi Yuan

ASSETS	Note XIV	30 June 2016 Unaudited	31 December 2015 Audited
CURRENT ASSETS			
Cash and bank balances		**3,671,253,982**	4,531,034,025
Financial assets at fair value through profit or loss		**16,800,679**	3,145,560
Bills receivable		**3,087,876,022**	3,751,615,186
Trade receivables	1	**1,530,950,708**	1,563,775,000
Dividends receivable		**24,505,723**	7,225,723
Prepayments		**376,610,832**	371,248,500
Other receivables	2	**284,516,086**	246,097,801
Inventories	3	**4,894,201,054**	4,348,287,858
Other current assets		**321,714,086**	557,052,098
Total current assets		**14,208,429,172**	15,379,481,751
NON-CURRENT ASSETS			
Available-for-sale financial investments		**126,722,160**	126,722,160
Long term equity investments	4	**6,869,683,003**	6,830,479,397
Investment properties		**74,818,134**	75,681,866
Property, plant and equipment		**24,188,074,979**	25,954,686,393
Construction in progress		**5,260,414,329**	4,025,657,145
Intangible assets		**956,247,146**	971,003,316
Deferred tax assets		**235,631,443**	314,216,637
Total non-current assets		**37,711,591,194**	38,298,446,914
TOTAL ASSETS		**51,920,020,366**	53,677,928,665

Statement of Financial Position (Continued)

30 June 2016
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2016 Unaudited	31 December 2015 Audited
CURRENT LIABILITIES		
Short term loans	**2,117,295,002**	831,000,000
Bills payable	**2,799,690,818**	3,981,623,516
Accounts payable	**5,861,902,404**	8,853,140,561
Advances from customers	**1,938,108,382**	2,132,448,152
Payroll and employee benefits payable	**185,618,746**	180,534,218
Taxes payable	**21,977,013**	50,206,106
Interest payable	**310,283,930**	147,852,499
Dividends payable	**6,525,534**	6,525,534
Other payables	**961,086,725**	1,001,923,405
Non-current liabilities due within one year	**6,068,072,262**	5,084,859,415
Total current liabilities	**20,270,560,816**	22,270,113,406
NON-CURRENT LIABILITIES		
Long term loans	**8,835,230,320**	9,289,847,408
Bonds payable	**3,983,666,667**	3,979,666,667
Deferred income	**611,841,352**	596,438,001
Total non-current liabilities	**13,430,738,339**	13,865,952,076
Total liabilities	**33,701,299,155**	36,136,065,482
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,338,358,399**	8,338,358,399
Special reserve	**(193,708)**	(1,517,185)
Surplus reserve	**2,993,175,001**	2,993,175,001
Accumulated loss	**(813,299,667)**	(1,488,834,218)
Total shareholders' equity	**18,218,721,211**	17,541,863,183
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**51,920,020,366**	53,677,928,665

Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016
Renminbi Yuan

	Note XIV	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
Revenue	6	**18,058,111,721**	20,388,093,240
Less: Cost of sales	6	**15,757,662,387**	20,004,309,727
Business taxes and surcharges		**72,958,537**	89,467,436
Selling expenses		**151,013,725**	173,050,371
General and administrative expenses		**460,865,245**	594,983,290
Financial expenses		**415,400,334**	465,694,135
Impairment losses		**621,092,726**	303,920,195
Loss on the changes in fair value		**3,658,207**	–
Add: Investment income	7	**67,093,792**	41,306,373
Including: share of profits of associates and joint ventures		**69,346,926**	40,540,565
Operating profit/(loss)		**642,554,352**	(1,202,025,541)
Add: Non-operating income		**112,567,459**	145,158,786
Including: gain on disposal of non-current assets		**–**	396,328
Less: Non-operating expenses		**1,002,066**	460,459
Including: loss on disposal of non-current assets		**615,211**	–
Profit/(loss) before tax		**754,119,745**	(1,057,327,214)
Less: Income tax expense		**78,585,194**	110,472,155
Net profit/(loss)		**675,534,551**	(1,167,799,369)
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**675,534,551**	(1,167,799,369)

Statement of Changes in Equity

For the six months ended 30 June 2016
Renminbi Yuan

30 June 2016 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Accumulated loss	Total shareholders' equity
1. At 1 January 2016	7,700,681,186	8,338,358,399	(1,517,185)	2,993,175,001	(1,488,834,218)	17,541,863,183
2. Increase/(decrease) during the period						
(1) Total comprehensive income	–	–	–	–	675,534,551	675,534,551
(2) Capital contribution and withdrawal						
(i) Capital contribution/(withdrawal) by shareholders	–	–	–	–	–	–
(3) Profits appropriation						
(i) Distribution to shareholders	–	–	–	–	–	–
(4) Special reserve						
(i) Additions	–	–	19,224,132	–	–	19,224,132
(ii) Utilization	–	–	(19,224,131)	–	–	(19,224,131)
(iii) Changes in the share of associates and JV's special reserve, net	–	–	1,323,476	–	–	1,323,476
3. At 30 June 2016	7,700,681,186	8,338,358,399	(193,708)	2,993,175,001	(813,299,667)	18,218,721,211

30 June 2015 (Unaudited)

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

Statement of Cash Flows

For the six months ended 30 June 2016
Renminbi Yuan

	Note XIV	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		**19,027,163,959**	21,941,090,591
Tax refunds received		**24,507,200**	82,173,800
Cash received relating to other operating activities		**26,804,127**	1,234,001
Sub-total of cash inflows		**19,078,475,286**	22,024,498,392
Cash paid for purchase of goods and services		**(18,457,067,126)**	(18,527,918,410)
Cash paid to or on behalf of employees		**(1,362,383,561)**	(1,570,105,083)
Cash paid for all taxes		**(717,278,852)**	(892,123,679)
Cash paid relating to other operating activities		**(321,627,636)**	(318,878,721)
Sub-total of cash outflows		**(20,858,357,175)**	(21,309,025,893)
Net cash flows (used in) from operating activities	8	**(1,779,881,889)**	715,472,499
2. Cash flows from investing activities			
Cash received from disposal of investments		**–**	1,075,180
Cash received from investment income		**79,000,000**	37,169,145
Net cash received from disposal of items of property, plant and equipment, intangible assets and other long term assets		**718,080**	6,735,969
Cash received relating to other investing activities		**100,451,487**	25,650,000
Sub-total of cash inflows		**180,169,567**	70,630,294
Purchase of property, plant and equipment, intangible assets and other non-current assets		**(744,599,152)**	(956,013,669)
Cash paid for investments		**(82,746,213)**	(56,537,594)
Acquisitions of a subsidiary and operating units		**(1,633,450)**	(170,087,995)
Increase in restricted cash		**–**	(366,595,693)
Sub-total of cash outflows		**(828,978,815)**	(1,549,234,951)
Net cash flows used in investing activities		**(648,809,248)**	(1,478,604,657)

Statement of Cash Flows (Continued)

For the six months ended 30 June 2016
Renminbi Yuan

	Note XIV	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
3. Cash flows from financing activities			
Cash received from borrowings		**3,877,525,413**	6,669,892,000
Cash received relating to other financing activities		**213,511,565**	–
Sub-total of cash inflows		**4,091,036,978**	6,669,892,000
Repayment of borrowings		**(2,073,057,489)**	(4,335,820,300)
Cash paid for distribution of dividends or profits and for interest expenses		**(284,981,145)**	(267,438,717)
Sub-total of cash outflows		**(2,358,038,634)**	(4,603,259,017)
Net cash flows from financing activities		**1,732,998,344**	2,066,632,983
4. Effect of foreign exchange rate changes on cash and cash equivalents		**49,424,315**	4,701,480
5. Net (decrease)/increase in cash and cash equivalents		**(646,268,478)**	1,308,202,305
Add: Cash and cash equivalents at the beginning of the period		**4,025,186,295**	4,807,119,543
6. Cash and cash equivalents at the end of the period		**3,378,917,817**	6,115,321,848

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited company incorporated after the reorganization of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business license is Qi Gu Wan Zong Zi No. 340000400002545. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 30 June 2016, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,750,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.35 to the financial statements.

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

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

The financial statements were approved by the board of directors on 30 August 2016.

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

II. BASIS OF PREPARATION

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

The consolidated financial statements are prepared on going concern basis.

As of 30 June 2016, the net current liabilities of the Group were RMB9,025,603,015. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking credit quota of RMB20.7 billion obtained on 30 June 2016. 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 interim financial statements for the six months ended 30 June 2016 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. STATEMENT OF COMPLIANCE WITH THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 30 June 2016, and the results of their operations and their cash flows for the six months ended 30 June 2016.

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.

5. CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements is determined on the control basis, which consists of financial statements of the Company and its subsidiaries for the six months ended 30 June 2016. 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.

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

5. CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

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

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

6. JOINT ARRANGEMENT AND JOINT OPERATIONS

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

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

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

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

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

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 recognised as other comprehensive income, and are presented separately in the shareholders' equity in the statement of financial position. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the statement of profit or loss and other comprehensive income in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the statement of profit or loss.

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

9. FINANCIAL INSTRUMENTS

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

Recognition and derecognition of financial instruments

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

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

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Recognition and derecognition of financial instruments *(Continued)*

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

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

Classification and measurement of financial assets

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

The subsequent measurement of financial assets depends on their classification：

Financial assets at fair value through profit or loss

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

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.

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Classification and measurement of financial assets (Continued)

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 issued by banks.

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Offsetting of financial instruments

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial guarantee contracts

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortized cost (Continued)

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

Available-for-sale financial assets

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

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

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

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

Financial assets carried at cost

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Transfer of financial assets

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

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

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

10. RECEIVABLES, LOANS AND ADVANCES TO CUSTOMERS

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

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

(3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at 3.7% (2015: 3.8%) of the balance as of the year end.

11. INVENTORIES

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

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

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

11. INVENTORIES *(CONTINUED)*

Inventories are accounted for using the perpetual inventory system.

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

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

12. LONG TERM EQUITY INVESTMENTS

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

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

investments in the acquiree involve other comprehensive income prior to the acquisition date, when disposing the investments, the relevant other comprehensive income will be accounted for on the same basis as would have been required if the investee had directly disposed of related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long term equity investment. For those partially disposed equity investments, gains or loss upon disposal are proportionately recognised in profit or loss when they still constitutes long term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: For a long term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price has been paid plus those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long term equity investment; for those acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

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

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

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

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

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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

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

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

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

13. INVESTMENT PROPERTIES

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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.

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

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

Depreciation is calculated on the straight-line basis. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value (%)	Annual depreciation rate (%)
Buildings	10 – 30 years	3	3.2 – 9.7
Plant and machinery	10 – 15 years	3	6.5 – 9.7
Office equipment	5 – 10 years	3	9.7 – 19.4
Motor vehicles	5 – 8 years	3	12.1 – 19.4

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

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

15. CONSTRUCTION IN PROGRESS

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

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

16. BORROWING COSTS

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

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

16. BORROWING COSTS *(CONTINUED)*

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.

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

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

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

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

17. INTANGIBLE ASSETS

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

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

17. INTANGIBLE ASSETS *(CONTINUED)*

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

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

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

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

For internally generated plants and other buildings, the land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets if it is difficult to allocate reasonably.

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

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

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

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

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

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.

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

19. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

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

Short-term employee benefits payable

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

Post-employment benefit (Defined contribution plans)

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

Post-employment benefit (Defined benefit plans)

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

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

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

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

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

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

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

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

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

Termination benefits

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

Other long-term employee benefits

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

20. PROVISIONS

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

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

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

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

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

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

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

21. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

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

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

22. REVENUE

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

Revenue from the sale of goods

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

Revenue from the rendering of services

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

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

22. REVENUE *(CONTINUED)*

Revenue from the rendering of services *(Continued)*

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

Interest income

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

Royalty income

Royalty income is recognised according to the agreed contract terms.

Lease income

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

23. GOVERNMENT GRANTS

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

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

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

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

24. INCOME TAX

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

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

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

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

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

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

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

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

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

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

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

24. INCOME TAX *(CONTINUED)*

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

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

25. LEASES

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

As lessee in operating leases

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

As lessor in operating leases

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

26. PROFIT DISTRIBUTION

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

27. SAFETY PRODUCTION RESERVE

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

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

28. GENERAL RESERVE

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

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

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 recognised in the financial statements:

Continuous operation

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

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

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

Judgments *(Continued)*

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

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Estimation of fixed assets' useful life

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

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

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

Estimation uncertainty *(Continued)*

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 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 subsidiary of the Company, Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Changjiang Iron and Steel") adjusted the useful life of fixed assets to ensure the adjusted useful life to meet the estimates on the period that the future economic benefits by considering actual useful life of the fixed assets accordingly. The new useful life applied from 1 April 2016 by adopting prospective method. On 14 March 2016, the change was approved by the board of directors in "Resolution of the Board of Directors of Changjiang Iron and Steel [2016] No.2".

Since 1 April 2016, Anhui Changjiang Iron and Steel has made the following adjustments to the depreciable life of fixed assets:

Items	Estimated useful life before adjustment	Estimated useful life after adjustment	Remark
Buildings	20	30	Increased 10 years
Plant and machinery	10	15	Increased 5 years
Motor vehicles	5	8	Increased 3 years
Office (electronic) equipment	10	5	Decreased 5 years

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

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

Changes in accounting estimates *(Continued)*

The above changes of accounting estimates have the following impacts on the financial statement of the six months period ended 30 June 2016:

The Group:

January-June 2016	Before changes in accounting estimates	Changes in useful life	After changes in accounting estimates
	Closing balance/ transaction amount during current period		Closing balance/ transaction amount during current period
Carrying amount of fixed assets	32,492,974,069	24,617,799	32,517,591,868
Depreciation	1,693,060,395	(24,617,799)	1,668,442,596
Total profit	468,457,758	24,617,799	493,075,557
Income tax	56,002,771	6,154,450	62,157,221
Net profit	412,454,987	18,463,349	430,918,336
Accumulated loss	(934,315,515)	18,463,349	(915,852,166)

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. Certain subsidiaries are subject to preferential income tax. Maanshan Iron & Steel (HK) Limited was established and registered at HongKong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited was established and registered at Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH was established and registered at Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered at France, the applicable income tax rate is 33.3%. MASTEEL AMERICA INC was established and registered at America, the applicable income tax rate is 30%.
Land appreciation tax	Payable based on appreciation of land use right and building at a progressive tax rate of 30%-60% as a result of the transfer of ownership.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
Real estate tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

IV. TAX *(CONTINUED)*

2. TAX BENEFITS AND APPROVAL DOCUMENTS

(1) In 2015, the New and High Technology Enterprises certification of the Group's subsidiary, Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd., was renewed by the subsidiary's application to authority and the entity was recognised by local authority as New and High Technology Enterprises. The period of validity is three years from 1 January 2015. In 2016, the applicable income tax rate is 15% accordingly.

(2) In 2014, the New and High Technology Enterprises certification of the Group's subsidiary, Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial"), was renewed by the subsidiary's application to authority and the entity was recognised by local authority as New and High Technology Enterprises. The period of validity is three years from 1 January 2014. In 2016, the applicable income tax rate is 15% accordingly.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	30 June 2016 Unaudited	31 December 2015 Audited
Cash on hand	**119,148**	138,929
Bank balances	**2,805,805,834**	3,552,764,882
Other monetary assets	**704,128,249**	1,198,860,855
Mandatory reserves deposited in central bank of Masteel Financial	**319,219,686**	390,946,816
	3,829,272,917	5,142,711,482

As of 30 June 2016 the Group's other monetary assets amounting to RMB704,128,249 have been pledged to banks as security (31 December 2015: RMB1,198,860,855) for bank acceptance bill and performance guarantee. As for bank deposits, a time deposits amounting to USD1,000,000, which is equivalent as RMB6,666,660 (31 December 2015: USD1,000,000,which is equivalent to RMB6,493,453) have been pledged to banks to issue letters of credit, of which the term is one year.

As of 30 June 2016, the Group had cash and bank balances amounting to RMB268,800,128 that have been deposited outside the PRC (31 December 2015: RMB342,704,351).

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

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

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016 Unaudited	31 December 2015 Audited
Those that are designated as at fair value through profit or loss upon initial recognition Investments in equity instruments	**524,718,544**	1,005,271,054

As of 30 June 2016 and 31 December 2015, the equity instruments were mainly financial products issued by banks held by Masteel Financial.

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

3. BILLS RECEIVABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Bank acceptance bills	**3,254,046,613**	4,689,129,290
Commercial acceptance bill	**104,000**	–
	3,254,150,613	4,689,129,290

The pledged bills receivable were as follows：

	30 June 2016 Unaudited	31 December 2015 Audited
Bank acceptance bills	**924,810,344**	1,277,158,488

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

3. BILLS RECEIVABLE *(CONTINUED)*

As of 30 June 2016, the undue bills discounted or endorsed were as follows：

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance bills	**3,073,316,092**	**123,337,649**	1,892,413,242	243,602,664

As of 30 June 2016 and 31 December 2015, there was no trade receivables transferred from bills receivable because of the drawers' inability to pay.

4. TRADE RECEIVABLES

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

The aging of trade receivables is analyzed as follows:

	30 June 2016 Unaudited	31 December 2015 Audited
Within one year	**725,773,053**	665,862,003
One to two years	**86,475,214**	116,554,717
Two to three years	**75,828,080**	22,417,902
Over three years	**12,397,059**	11,348,434
	900,473,406	816,183,056
Less: Provisions for bad debts	**20,008,411**	19,196,395
	880,464,995	796,986,661

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

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

4. TRADE RECEIVABLES *(CONTINUED)*

The balances of trade receivables are analysed as follows:

	30 June 2016 (Unaudited)				31 December 2015 (Audited)			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Amount (%)	**Ratio (%)**	**Amount (%)**	**Ratio (%)**	Amount (%)	Ratio (%)	Amount (%)	Ratio (%)
Individually significant and assessed for impairment Individually	**828,420,032**	**92**	**(6,927,040)**	**1**	768,962,510	94	(6,927,040)	1
Other insignificant but assessed for impairment Individually	**72,053,374**	**8**	**(13,081,371)**	**18**	47,220,546	6	(12,269,355)	26
	900,473,406	**100**	**(20,008,411)**		816,183,056	100	(19,196,395)	

As of 30 June 2016, those individually significant and assessed for impairment individually were as follows:

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

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

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

During the current period, provision for bad debts was RMB812,016 (In 2015: RMB2,638,179).

During the current period, there were no trade receivables that had been reversed or written off (2015: nil).

As of 30 June 2016 and 31 December 2015, there were no trade receivables that were derecognised due to the transfer of financial assets.

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

5. DIVIDENDS RECEIVABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Henan Jinma Energy Co., Ltd.	**17,280,000**	–

6. PREPAYMENTS

Aging analysis of the prepayments is as follows:

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Balance	**Ratio (%)**	Balance	Ratio (%)
Within one year	**559,582,629**	**97**	612,475,882	96
One to two years	**6,743,285**	**1**	12,687,989	2
Two to three years	**4,791,327**	**1**	2,180,048	1
Over three years	**7,591,117**	**1**	7,063,502	1
	578,708,358	**100**	634,407,421	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.

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

7. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

	30 June 2016 Unaudited	31 December 2015 Audited
Within one year	**151,043,976**	139,319,969
One to two years	**52,832,707**	5,774,543
Two to three years	**2,075,729**	9,780,275
Over three years	**628,774,181**	627,032,547
	834,726,593	781,907,334
Less: Provision for bad debts	**591,559,264**	591,559,264
	243,167,329	190,348,070

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

Other receivables balance is analyzed as follows:

	30 June 2016 (Unaudited)				31 December 2015 (Audited)			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**791,081,193**	**95**	**(585,248,448)**	**74**	757,221,665	97	(585,248,448)	77
Other insignificant but assessed for impairment individually	**43,645,400**	**5**	**(6,310,816)**	**14**	24,685,669	3	(6,310,816)	26
	834,726,593	**100**	**(591,559,264)**		781,907,334	100	(591,559,264)	

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

7. OTHER RECEIVABLES *(CONTINUED)*

As of 30 June 2016, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio	Reason
Company 1	60,939,960	(60,939,960)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	37,243,732	(37,243,732)	100	(i)
Company 4	132,058,434	(132,058,434)	100	(i)
Company 5	92,302,582	(55,302,582)	60	(iv)
Company 6	76,821,224	(76,821,224)	100	(ii)
Company 7	17,079,513	(17,079,513)	100	(ii)
Company 8	34,783,463	(34,783,463)	100	(ii)
Company 9	4,069,419	(4,069,419)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	10,056,058	(10,056,058)	100	(ii)
Company 14	5,143,596	(5,143,596)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
	622,248,448	(585,248,448)		

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

7. OTHER RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio	Reason
Company 1	60,939,960	(60,939,960)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	37,243,732	(37,243,732)	100	(i)
Company 4	132,058,434	(132,058,434)	100	(i)
Company 5	92,302,582	(55,302,582)	60	(iv)
Company 6	76,821,224	(76,821,224)	100	(ii)
Company 7	17,079,513	(17,079,513)	100	(ii)
Company 8	34,783,463	(34,783,463)	100	(ii)
Company 9	4,069,419	(4,069,419)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	10,056,058	(10,056,058)	100	(ii)
Company 14	5,143,596	(5,143,596)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
	622,248,448	(585,248,448)		

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

7. OTHER RECEIVABLES *(CONTINUED)*

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

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

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

(iv) For purpose of protecting the Company's interest as the creditor, Maanshan Iron and Steel (Wuhu) Processing and Distribution Co., Ltd. (" Ma Steel (Wuhu)"), a subsidiary of the Company, signed an equity interest transfer agreement and its supplementary agreement (collectively known as "Agreements") with this debtor's original shareholder, pursuant to which to acquire its 60% equity interest at a purchase consideration of RMB1. The Agreements stipulated that Ma Steel (Wuhu) would sell all the holding interest to the original shareholders at the original purchase consideration once the debtor repay all the debts to Ma Steel (Wuhu) before 31 December 2014, and Ma Steel (Wuhu) would not participate the daily operation and share the profit or loss before 31 December 2014. In December 2015, Ma Steel (Wuhu) signed a memorandum with the debtor, agreeing to postpone the settlement date to 31 December 2016 and other terms retain unchanged. From 1 January to 30 June in 2016, Ma Steel (Wuhu) did not participate the daily operation of the debtor and shared no profit or loss. Therefore, the management has made the judgement that the Company does not exert control over it during the time period from January 2016 to June 2016.

As of 30 June 2016, the book value of the receivables due from the debtor is RMB92,302,582, and the accumulated amount of the provision is RMB55,302,582. As of 30 June 2016, management had assessed that no more provision need to be made for the receivables.

During the current period, there was no provision for bad debt (2015: RMB35,052,464) and there was no recovery or reversal of provision for bad debt (2015: RMB128,000).

No other receivables was written off during the current period (2015: nil).

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

7. OTHER RECEIVABLES *(CONTINUED)*

Other receivables were analyzed by nature as follows：

	30 June 2016 Unaudited	31 December 2015 Audited
Prepayment for trading	**619,848,448**	607,861,547
Payment on behalf of other companies	**50,733,791**	50,733,791
Prepaid guarantee for steel futures	**85,456,708**	42,768,562
Prepayment of custom duties and VAT	**7,314,186**	13,022,912
Tax refunds	**5,237,911**	6,437,911
Others	**66,135,549**	61,082,611
	834,726,593	781,907,334
Less: Provision for bad debts	**591,559,264**	591,559,264
	243,167,329	190,348,070

As of 30 June 2016，the top five largest other receivables were as follows:

	Balance	**Ratio in other receivables (%)**	**Nature**	**Aging**	**Balance of provision**
Company 1	**132,058,434**	**16**	**Prepayment for trading**	**More than 3 years**	**132,058,434**
Company 2	**127,685,367**	**15**	**Prepayment for trading**	**More than 3 years**	**127,685,367**
Company 3	**92,302,582**	**11**	**Prepayment for trading**	**More than 3 years**	**55,302,582**
Company 4	**76,821,224**	**9**	**Prepayment for trading**	**More than 3 years**	**76,821,224**
Company 5	**60,939,960**	**8**	**Prepayment for trading**	**More than 3 years**	**60,939,960**
	489,807,567	**59**			**452,807,567**

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

7. OTHER RECEIVABLES *(CONTINUED)*

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

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

As of 30 June 2016, the government grants receivable were as follows:

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

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

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

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

7. OTHER RECEIVABLES *(CONTINUED)*

Note: The balance is the government grant owned by a subsidiary named Anhui Changjiang Iron and Steel in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. During this period, the government grant had been recovered partly. After communicating with the government, the rest of amount is expected to be received in 2016.

The balances of other receivables as of 30 June 2016 and 31 December 2015 did not contain any amount derecognised due to transfer of financial assets.

Other receivable due from either shareholders who held 5% or above of the Company's equity interests or other related parties as of 30 June 2016 and 31 December 2015 are stated in Note X.6. to the financial statements.

8. INVENTORIES

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	2,772,410,487	(103,745,152)	2,668,665,335	2,804,238,500	(350,365,789)	2,453,872,711
Spare parts	1,323,021,877	(59,429,812)	1,263,592,065	1,403,342,682	(59,572,961)	1,343,769,721
Finished goods	2,213,487,078	(82,295,216)	2,131,191,862	1,893,162,625	(491,923,981)	1,401,238,644
Work in progress	746,725,766	(53,935,975)	692,789,791	921,849,186	(102,234,757)	819,614,429
	7,055,645,208	(299,406,155)	6,756,239,053	7,022,592,993	(1,004,097,488)	6,018,495,505

The movements of impairment provision against inventories for the period 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 the current period, the Group had no reversal of impairment provision against inventories (for the six months ended 30 June 2015: nil).

As of 30 June 2016, the inventories amounting to RMB10,859,823 of the Group's subsidiary, Ma Steel (Jinhua) Processing and Distribution Co., Ltd. had been frozen temporarily due to trade dispute.

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

9. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2016 Unaudited	31 December 2015 Audited
Loans	**489,060,000**	488,500,000
Discounted bills	**598,532,836**	261,318,730
	1,087,592,836	749,818,730
Less: Bad debt provision for loans and advances	**16,904,861**	16,904,861
	1,070,687,975	732,913,869

The movement of the provision for bad debts against loans and advances to customers for the current period is disclosed in Note V.18.

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 3.7% of its closing balance (2015: 3.8%). As of 30 June 2016, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as of 30 June 2016 and 31 December 2015 are stated in Note X.6 to the financial statements.

10. OTHER CURRENT ASSETS

	30 June 2016 Unaudited	31 December 2015 Audited
Prepaid income tax	**319,650,450**	310,923,428
Accumulated deductible value added tax input	**330,555,274**	637,594,830
Others	**26,541,104**	–
Total	**676,746,828**	948,518,258

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

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2016 Unaudited	31 December 2015 Audited
Available-for-sale debt instruments	**205,498,015**	–
Available-for-sale equity instruments measured at cost	**128,934,410**	128,934,410
	334,432,425	128,934,410

Available-for-sale equity instruments measured at cost:

30 June 2016 (Unaudited)

	Book value				Provision for impairment					
	Opening balance	Addition	Decrease	Ending balance	Opening balance	Addition	Decrease	Ending balance	Equity Interests (%)	Cash dividend during the period
Henan Longyu Energy Co., Ltd.	10,000,000	-	-	10,000,000	-	-	-	-	0.66	-
China MCC17 Group Co., Ltd.	8,554,800	-	-	8,554,800	-	-	-	-	1.56	-
Shanghai Luojing Ore Quay Co., Ltd.	88,767,360	-	-	88,767,360	-	-	-	-	12.00	-
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	-	-	1,000,000	-	-	-	-	3.40	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5.00	-
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd. (Note)	15,000,000	-	-	15,000,000	-	-	-	-	15.00	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co. Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.90	-
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited	2,212,250	-	-	2,212,250	-	-	-	-	8.94	-
	128,934,410	-	-	128,934,410	-	-	-	-		-

Note: According to the investment agreement, the capital contribution of the Company is RMB30 million. As of 30 June 2016, the Company has contributed RMB15 million.

As of 30 June 2016, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment value at the end of each reporting period, and their fair values would not be disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group has no intention to dispose of the investments.

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

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

Available-for-sale equity instruments measured at cost：

31 December 2015 (Audited)

	Book value				Provision for impairment					
	Opening balance	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance	Equity interests (%)	Cash dividend during the year
Henan Longyu Energy Co., Ltd.	10,000,000	–	–	10,000,000	–	–	–	–	0.66	5,303,867
China MCC17 Group Co., Ltd.	8,554,800	–	–	8,554,800	–	–	–	–	1.56	–
Shanghai LuoJing Ore Quay Co., Ltd.	88,767,360	–	–	88,767,360	–	–	–	–	12.00	7,630,961
Beijing Lianye Parameter Monitoring Company （Note 1）	50,000	–	(50,000)	–	–	–	–	–	6.10	–
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	–	–	1,000,000	–	–	–	–	3.40	–
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	–	–	400,000	–	–	–	–	5.00	60,000
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	–	–	15,000,000	–	–	–	–	15.00	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	–	–	3,000,000	–	–	–	–	6.90	–
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited (Note 2)	–	2,212,250	–	2,212,250	–	–	–	–	8.94	–
	126,772,160	2,212,250	(50,000)	128,934,410	–	–	–	–		12,994,828

Note 1: The company was liquidated in early 2015.

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

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

12. LONG TERM EQUITY INVESTMENTS

30 June 2016 (Unaudited)

	Opening Balance	Movements during the period: Increase	Decrease/ transfer Out	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 period
Joint venture										
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	316,030,791	-	-	35,757,062	-	941,238	(79,000,000)	-	273,729,091	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	539,342	-	-	(528)	-	-	-	-	538,814	-
Mascometal Co., Ltd.(Mascometal) (Note 1)	-	40,665,960	-	(329,482)	-	-	-	-	40,336,478	-
Associate										
Henan Jinma Energy Co., Ltd. ("Henan Jinma Energy")	241,098,393	-	-	20,769,074	-	-	(17,280,000)	-	244,587,467	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	242,402,338	-	-	9,694,021	-	271,094	-	-	252,367,453	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	26,604,521	-	-	2,203,534	-	-	-	-	28,808,055	-
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	35,539,691	-	-	2,683,444	-	111,144	-	-	38,334,279	-
Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical")	72,000,000	-	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical") (Note 2)	95,638,431	22,513,794	-	(1,430,199)	-	-	-	-	116,722,026	-
	1,029,853,507	63,179,754	-	69,346,926	-	1,323,476	(96,280,000)	-	1,067,423,663	-

Note 1: In 2016, the Company jointly established Mascometal, a joint venture with foreign invested enterprise (FIE), in which the Group and the FIE contributed 75% and 25% of the capital injection respectively. The Company holds three seats in total of four seats of Board of Directors. According to the rights and obligations in which states in the Articles of Association of Mascometal, the Company does not exert absolute control over Mascometal. Thus, the long term equity investment in Mascometal is accounted as a joint venture under equity method.

Note 2: The Company completed the final round of capital contribution according to the requirement of the Articles of Association of Ma-Steel OCI Chemical.

* The above joint ventures and associates on which we apply equity method are all unlisted investments.

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

31 December 2015 (Unaudited)

		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	Impairment at the end of the year
Joint ventures										
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	311,422,276	–	–	81,325,413	–	(3,216,898)	(73,500,000)	–	316,030,791	–
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	542,669	–	–	(3,327)	–	–	–	–	539,342	–
Associates										
Henan Jinma Energy Co., Ltd. ("Henan Jinma Energy") (Note 1)	207,497,916	37,623,600	–	(4,023,123)	–	–	–	–	241,098,393	–
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	245,813,223	–	–	(2,786,831)	–	(624,054)	–	–	242,402,338	–
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	30,977,774	–	–	1,626,747	–	–	(6,000,000)	–	26,604,521	–
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	30,967,723	–	–	5,055,768	–	(483,800)	–	–	35,539,691	–
Maanshan Jinxi Rail Transit Equipment Co., Ltd. (Note 2)	171,476,241	–	(165,930,369)	(5,545,872)	–	–	–	–	–	–
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical") (Note 1)	45,794,148	–	(44,961,228)	(832,920)	–	–	–	–	–	–
Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical") (Note 3)	43,200,000	28,800,000	–	–	–	–	–	–	72,000,000	–
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical") (Note 4)	–	95,235,280	–	403,151	–	–	–	–	95,638,431	–
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking") (Note 5)	1,893,043	–	(2,212,250)	319,207	–	–	–	–	–	–
	1,089,585,013	161,658,880	(213,103,847)	75,538,213	–	(4,324,752)	(79,500,000)	–	1,029,853,507	–

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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

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

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

Note 4: In February 2015, the Company jointly established Ma-Steel OCI Chemical with the registered capital of USD47,125,000, among which the Company committed to contribute the capital in cash and land use right. According to the Articles of Association of Ma-Steel OCI Chemical, the capital contribution of the Company is USD18,850,000, and both the proportion of capital contribution and shareholding is 40%. On 11 March 2015, the Company contributed RMB27,737,594. On 4 August 2015, the Company contributed RMB27,548,464.3 in cash. On 25 September 2015, the Company contributed land use rights of RMB23,651,700; On 2 December 2015, the Company contributed RMB16,297,522 in cash. The total capital contribution was RMB95,235,280.

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

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

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

13. INVESTMENT PROPERTIES

Investment properties measured under the cost method:

30 June 2016 (Unaudited)

	Buildings
Cost:	
At 1 January 2016	67,649,781
Addition	–
Transferred into fixed assets (Note)	(2,574,402)
At 30 June 2016	65,075,379
Accumulated depreciation:	
At 1 January 2016	5,293,198
Provided	874,842
Transferred into fixed assets (Note)	(760,287)
At 30 June 2016	5,407,753
Provision for impairment:	
At 1 January 2016 and 30 June 2016	–
Net carrying amount:	
At 30 June 2016	59,667,626
At 1 January 2016	62,356,583

Note: In the current period, Holly Industrial transferred the office leased to Masteel Auto Parking and the vacant plant with an area of 2,373 square meters leased to Ma'anshan Jiaheng Storage and Transportation Co., Ltd. from investment properties to own-used fixed assets.

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

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

13. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties measured under the cost method *(Continued)*

31 December 2015 (Audited)

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

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

30 June 2016 (Unaudited)

	Plants and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land Ownership (Note)	Total
Cost:						
At 1 January 2016	26,337,817,814	52,433,784,044	388,260,936	353,968,343	10,265,796	79,524,096,933
Addition	2,392,315	10,492,131	3,287,065	549,238	–	16,720,749
Transfer from construction in progress (Note V.15)	43,008,349	247,860,828	576,795	–	–	291,445,972
Reclassifications	(130,516,985)	130,516,985	–	–	–	–
Disposal	(4,264,635)	(12,333,955)	(6,637,287)	(3,599)	–	(23,239,476)
Transferred from investment properties	2,574,402	–	–	–	–	2,574,402
Exchange realignment	974,901	2,195,817	162,707	130,539	–	3,463,964
Estimated adjustments for construction	(330,000,000)	(400,000,000)	–	–	–	(730,000,000)
At 30 June 2016	25,921,986,161	52,412,515,850	385,650,216	354,644,521	10,265,796	79,085,062,544
Accumulate depreciation:						
At 1 January 2016	12,245,942,502	32,017,310,492	312,099,544	343,333,299	–	44,918,685,837
Provided	458,860,387	1,198,261,127	9,916,907	1,404,175	–	1,668,442,596
Reclassifications	(8,930,131)	8,930,131	–	–	–	–
Disposal	(3,728,485)	(11,062,767)	(6,357,052)	(3,491)	–	(21,151,795)
Transferred from investment properties	760,287	–	–	–	–	760,287
Exchange realignment	59,427	574,169	66,560	33,595	–	733,751
At 30 June 2016	12,692,963,987	33,214,013,152	315,725,959	344,767,578	–	46,567,470,676
Impairment:						
At 1 January 2016 and 30 June 2016	–	–	–	–	–	–
Net carrying amount:						
At 30 June 2016	13,229,022,174	19,198,502,698	69,924,257	9,876,943	10,265,796	32,517,591,868
At 1 January 2016	14,091,875,312	20,416,473,552	76,161,392	10,635,044	10,265,796	34,605,411,096

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

14. FIXED ASSETS *(CONTINUED)*

31 December 2015 (Audited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land ownership	Total
Cost:						
At 1 January 2015	26,083,777,337	51,931,863,074	393,384,036	237,114,334	10,787,241	78,656,926,022
Addition	12,520,307	31,633,695	2,595,226	4,307,170	–	51,056,398
Acquisition	–	17,794,606	1,805,199	306,760	–	19,906,565
Transfer from construction in progress (Note V.14)	140,873,740	644,444,493	18,025,270	112,300,591	–	915,644,094
Reclassifications	123,748,458	(124,248,265)	499,807	–	–	–
Disposal (Note)	(17,852,582)	(67,428,660)	(28,048,602)	(60,512)	(521,445)	(113,911,801)
Transferred to investment properties	(2,186,709)	–	–	–	–	(2,186,709)
Other transfer out	(3,062,737)	(274,899)	–	–	–	(3,337,636)
At 31 December 2015	26,337,817,814	52,433,784,044	388,260,936	353,968,343	10,265,796	79,524,096,933
Accumulated depreciation:						
At 1 January 2015	11,231,030,025	29,844,694,588	316,767,843	223,076,706	–	41,615,569,162
Acquisition	–	609,725	311,599	119,934	–	1,041,258
Provided	1,026,098,256	2,232,362,765	21,714,559	120,146,623	–	3,400,322,203
Disposal (Note)	(9,865,106)	(60,140,645)	(26,694,457)	(9,964)	–	(96,710,172)
Transferred to investment properties	(670,729)	–	–	–	–	(670,729)
Other transfer out	(649,944)	(215,941)	–	–	–	(865,885)
At 31 December 2015	12,245,942,502	32,017,310,492	312,099,544	343,333,299	–	44,918,685,837
Impairment:						
At 1 January 2015 and 31 December 2015	–	–	–	–	–	–
Net carrying amount:						
At 31 December 2015	14,091,875,312	20,416,473,552	76,161,392	10,635,044	10,265,796	34,605,411,096
At 1 January 2015	14,852,747,312	22,087,168,486	76,616,193	14,037,628	10,787,241	37,041,356,860

As of 30 June 2016, certificates of ownership in respect of 43 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,299,068,241 (31 December 2015: RMB1,343,143,878), 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.

Note: The land ownership in fixed assets was obtained by the subsidiary of the Company, MG-Valdunes S.A.S., in France.

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

15. CONSTRUCTION IN PROGRESS

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Product quality projects	**1,969,608,289**	**–**	**1,969,608,289**	1,201,603,354	–	1,201,603,354
Energy-saving and environment protection projects	**1,783,316,791**	**–**	**1,783,316,791**	1,206,463,445	–	1,206,463,445
Equipment advancement and other modification projects	**1,585,134,256**	**–**	**1,585,134,256**	1,651,195,135	–	1,651,195,135
Other projects	**249,260,257**	**–**	**249,260,257**	186,500,934	–	186,500,934
	5,587,319,593	**–**	**5,587,319,593**	4,245,762,868	–	4,245,762,868

The movements of significant projects are as follows:

30 June 2016 (Unaudited)

Name of projects	**Budget RMB'000**	**Opening balance RMB**	**Addition RMB**	**Transferred to fixed assets** (Note V.14) **RMB**	**Closing balance RMB**	**Source of fund**	**Average percentage of completion (%)**
Product quality projects	**3,054,070**	**1,201,603,354**	**795,918,307**	**(27,913,372)**	**1,969,608,289**	**Internally financed/loan**	**65**
Energy-saving and environment protection projects	**2,404,173**	**1,206,463,445**	**642,026,797**	**(65,173,451)**	**1,783,316,791**	**Internally financed/loan**	**77**
Equipment advancement and other modification projects	**2,212,581**	**1,651,195,135**	**107,038,443**	**(173,099,322)**	**1,585,134,256**	**Internally financed/loan**	**79**
Other projects	**N/A**	**186,500,934**	**88,019,150**	**(25,259,827)**	**249,260,257**	**Internally financed/loan**	**N/A**
		4,245,762,868	**1,633,002,697**	**(291,445,972)**	**5,587,319,593**		
Less: Provision for impairment		**–**	**–**	**–**	**–**		
		4,245,762,868	**1,633,002,697**	**(291,445,972)**	**5,587,319,593**		

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

The movements of significant projects are as follows:

31 December 2015 (Audited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.14) RMB	Closing balance RMB	Source of fund	Average percentage of completion (%)
Product quality projects	5,376,735	804,193,624	672,080,460	(274,670,730)	1,201,603,354	Internally financed/loan	74
Energy-saving and environment protection projects	2,426,082	436,691,290	894,818,600	(125,046,445)	1,206,463,445	Internally financed/loan	59
Equipment advancement and other modification projects	2,208,182	1,505,024,955	561,759,062	(415,588,882)	1,651,195,135	Internally financed/loan	77
Other projects	N/A	85,140,313	201,698,658	(100,338,037)	186,500,934	Internally financed/loan	N/A
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868		
Less: Provision for impairment		–	–	–	–		
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868		

From January 2016 to June 2016, the movements of construction in progress were as follows:

Name of projects	**Percentage of completion (%)**	**Accumulated interest capitalization RMB** (Note)	**The capitalized interest in current period RMB**	**The interest capitalization rate (%)**
Product quality projects	**65**	**8,831,335**	**1,300,036**	**4.6**
Energy-saving and environment protection projects	**77**	**2,210,058**	**154,626**	**4.6**
Equipment advancement and other modification projects	**79**	**6,223,080**	**281,140**	**4.6**
Other projects	**N/A**	**4,654,104**	**2,268,627**	**4.6**
		21,918,577	**4,004,429**	

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

In 2015, the movements of construction in progress were as follows:

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

Note: The balance represents capitalization of borrowing costs contained by construction in process at 30 June 2016 and 31 December 2015 respectively.

16. INTANGIBLE ASSETS

30 June 2016 (Unaudited)

	Concession assets (Note 1)	Land use rights*	Mining rights	Patent	Total
Cost:					
At 1 January 2016	136,979,410	2,296,421,463	137,120,350	587,217	2,571,108,440
Addition	–	81,838	–	–	81,838
Other decrease	–	–	(5,382,947)	–	(5,382,947)
Exchange realignment	–	–	6,190,223	23,157	6,213,380
At 30 June 2016	136,979,410	2,296,503,301	137,927,626	610,374	2,572,020,711
Accumulated depreciation:					
At 1 January 2016	24,305,184	614,246,226	41,097,193	101,677	679,750,280
Provided	2,956,721	24,260,199	3,085,199	101,729	30,403,848
Exchange realignment	–	–	1,961,009	4,010	1,965,019
At 30 June 2016	27,261,905	638,506,425	46,143,401	207,416	712,119,147
Impairment:					
At 1 January 2016 and At 30 June 2016	–	–	–	–	–
Net carrying amount:					
At 30 June 2016	109,717,505	1,657,996,876	91,784,225	402,958	1,859,901,564
At 1 January 2016	112,674,226	1,682,175,237	96,023,157	485,540	1,891,358,160

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

16. INTANGIBLE ASSETS *(CONTINUED)*

31 December 2015 (Audited)

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

Note 1: 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 recognised. According to the agreement, the payment for the project during the construction was recognised as intangible assets. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.

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

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

17. DEFERRED TAX ASSETS/LIABILITIES

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Deductible temporary differences	**Deductible tax assets**	Deferred temporary differences	Deferred tax assets
Deferred tax assets:				
Assets impairment provisions	**186,668,968**	**46,667,242**	609,033,044	152,258,261
Sales incentive	**405,569,624**	**101,392,406**	130,156,316	32,539,079
Payroll payable	**38,574,224**	**9,643,556**	28,346,060	7,086,515
Government grants	**436,200,196**	**109,050,049**	403,793,240	100,948,310
Deductible tax losses	**1,209,024**	**302,256**	1,163,156	290,789
Others	**156,363,872**	**39,090,968**	149,138,364	37,284,591
	1,224,585,908	**306,146,477**	1,321,630,180	330,407,545

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combination not under common control	**123,651,800**	**30,912,950**	129,461,225	32,365,306
Changes in fair value of financial products	**1,357,705**	**339,426**	1,357,705	339,426
Others	**20,524,789**	**5,131,198**	–	–
	145,534,294	**36,383,574**	130,818,930	32,704,732

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

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

As of 30 June 2016 and 31 December 2015, unrecognised deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Deductible temporary differences	**661,974,579**	642,204,401
Deductible tax losses	**10,352,196,873**	10,096,630,655
	11,014,171,452	10,738,835,056

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

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
To expire in 2016	**53,675,345**	233,247,027
To expire in 2017	**4,043,686,509**	4,043,686,509
To expire in 2018	**483,216,836**	483,216,836
To expire in 2019	**781,213,612**	781,213,612
To expire in 2020	**4,555,266,671**	4,555,266,671
To expire in 2021	**435,137,900**	–

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

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

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

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

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

18. ASSET IMPAIRMENT PROVISIONS

30 June 2016 (Unaudited)

			Decrease during the period			
	Opening balance	Increase during the period	Reversal	Write-back/ Write-off	Other changes	Closing balance
Provisions for bad debts	627,660,520	812,016	–	–	–	628,472,536
Including: Trade receivables	19,196,395	812,016	–	–	–	20,008,411
Other receivables	591,559,264	–	–	–	–	591,559,264
Loans and advances to customers	16,904,861	–	–	–	–	16,904,861
Inventory impairment provision (i)	1,004,097,488	671,520,400	–	(1,376,211,733)	–	299,406,155
Including: Raw materials	350,365,789	300,219,508	–	(546,840,145)	–	103,745,152
Work in progress	102,234,757	138,241,752	–	(186,540,534)	–	53,935,975
Finished goods	491,923,981	233,059,140	–	(642,687,905)	–	82,295,216
Spare parts	59,572,961	–	–	(143,149)	–	59,429,812
	1,631,758,008	672,332,416	–	(1,376,211,733)	–	927,878,691

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

18. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

31 December 2015 (Audited)

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

(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.

19. CUSTOMER DEPOSITS

	30 June 2016 Unaudited	31 December 2015 Audited
Demand deposits	**1,365,887,410**	1,626,727,988
Notice deposit	**103,800,000**	74,500,000
Time deposits	**189,355,391**	200,162,500
	1,659,042,801	1,901,390,488

The details of customer deposits of Masteel Financial related to shareholders who held 5% or more of voting shares and the related parties at 30 June 2016 and 31 December 2015 are disclosed in Note X.6.

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

20. REPURCHASE AGREEMENTS

	30 June 2016 Unaudited	31 December 2015 Audited
Bills	**125,266,272**	–

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

21. SHORT TERM LOANS

	30 June 2016 Unaudited	31 December 2015 Audited
Pledged loans (i)	**34,607,221**	100,000,000
Inward documentary bills and usance letter of credit (ii)	**1,931,822,740**	4,292,909,836
Unsecured loans	**3,491,957,535**	2,398,449,636
	5,458,387,496	6,791,359,472

(i) As of 30 June 2016, the Group had a short-term pledged loan amounting to RMB34,607,221 which is secured by bank bills (31 December 2015: RMB100,000,000).

(ii) As of 30 June 2016, the outstanding letter of credit of the Group amounted to RMB1.93 billion (31 December 2015: RMB4.29 billion).

As of 30 June 2016, the interest rates of the above short-term loans ranged from 1.628% to 6.000% (31 December 2015: 1.310% to 6.000%).

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

21. SHORT TERM LOANS *(CONTINUED)*

As of 30 June 2016, the Group had overdue short term loans 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	2014.12.31	6.00%	Business borrowing	Financial strain	Extension
Bank of Nanjing Shanghai Branch	29,757,036	Principal and interest overdue	2015.01.03	5.60%	Business borrowing	Financial strain	Extension
Maanshan Rural Commercial Bank	22,000,000	Principal and interest overdue	2015.06.17	6.00%	Business borrowing	Financial strain	Extension

As of 30 June 2016, the overdue amount of short term loan is RMB100,257,536, which is unsecured loans borrowed by the Group's subsidiary of Masteel Shanghai Trading. Masteel Shanghai Trading is applying for bankruptcy liquidation, and will settle claims and debts under the leading of the court.

The details of pledge and collateral for pledged loans and guaranteed loans are disclosed in Note V.53.

22. BILLS PAYABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Bank acceptance bills	**3,531,869,044**	5,325,406,398
Commercial acceptance bills	**28,643,789**	18,500,000
	3,560,512,833	5,343,906,398

As of 30 June 2016 and 31 December 2015, the ageing of the Group's bills payable was all within six months.

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

23. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	30 June 2016 Unaudited	31 December 2015 Audited
Within one year	**5,219,773,017**	5,942,180,843
One to two years	**271,957,031**	127,899,157
Two to three years	**19,612,085**	21,240,086
Over three years	**55,897,933**	53,344,195
	5,567,240,066	6,144,664,281

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

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balances of accounts payable as of 30 June 2016 and 31 December 2015 are stated in Note X.6 to the financial statements.

As of 30 June 2016, the material accounts payables aged over one year were as follows:

Name of the company	**Amount due**	**Reason for non-settlement**
Company 1	**65,548,940**	Note
Company 2	**34,625,080**	Note
Company 3	**26,331,036**	Note
Company 4	**19,000,000**	Note
Company 5	**17,000,000**	Note
	162,505,056	

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)*

24. ADVANCES FROM CUSTOMERS

	30 June 2016 Unaudited	31 December 2015 Audited
Advances from customers	**2,394,266,979**	2,602,554,258

At 30 June 2016, the material deposits received aged over one year were as follows:

	Amount receivable	**Reason for outstanding**
Company 1	**35,926,045**	Note
Company 2	**6,340,000**	Note
Company 3	**6,250,000**	Note
Company 4	**5,560,000**	Note
Company 5	**5,240,000**	Note
	59,316,045	

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

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

30 June 2016 (Unaudited)

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Short-term employee benefits	**263,336,940**	**1,709,740,169**	**(1,700,475,524)**	**272,601,585**
Post-employment benefits (defined contribution plans)	**10,057,259**	**245,964,455**	**(254,096,613)**	**1,925,101**
Supplementary retirement benefits (i)	**1,220,524**	**215,097**	**(860,371)**	**575,250**
	274,614,723	**1,955,919,721**	**(1,955,432,508)**	**275,101,936**

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

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

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

Short-term employee benefits:

30 June 2016 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	211,386,627	1,340,761,686	(1,366,156,681)	185,991,632
Welfare	21,019,222	81,300,271	(59,142,347)	43,177,146
Social insurance	15,911	109,267,592	(104,941,310)	4,342,193
Including: Medical insurance	(3,693)	84,889,836	(84,475,153)	410,990
Work-related injury insurance	13,004	19,407,174	(16,281,716)	3,138,462
Maternity insurance	6,600	4,970,582	(4,184,441)	792,741
Housing fund	25,661,454	144,340,084	(147,343,662)	22,657,876
Labor union fee and employee education fee	5,253,726	34,070,536	(22,891,524)	16,432,738
	263,336,940	1,709,740,169	(1,700,475,524)	272,601,585

Defined contribution plans:

30 June 2016 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	365,178	211,725,168	(210,694,118)	1,396,228
Unemployment insurance	184,483	15,621,154	(15,813,495)	(7,858)
Supplementary pension scheme	9,507,598	18,618,133	(27,589,000)	536,731
	10,057,259	245,964,455	(254,096,613)	1,925,101

As of 30 June 2016 and 31 December 2015, the balance of payroll and employee benefits payable had not included performance-based wages.

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

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

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 bases of social insurance premiums as their deposit base. The deposit rate of the Group and employee are 5% and 1%, respectively. From 1 January 2016 to 30 June 2016, the Group had pay an annuity amount of RMB27,589,000, and the final balance of provisions but unpaid annuity was RMB536,731.

Long-term compensation:

	30 June 2016 Unaudited	31 December 2015 Audited
Supplementary retirement benefit	**31,098,153**	30,077,913
Less: Supplementary retirement benefit due within one year	**575,250**	1,220,524
	30,522,903	28,857,389

26. TAXES PAYABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Value-added tax	**17,064,970**	21,109,732
Corporate income tax	**16,954,674**	30,194,469
City construction and maintenance tax	**12,461,568**	23,263,501
Other taxes	**51,293,913**	75,330,619
	97,775,125	149,898,321

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

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

27. INTEREST PAYABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Interest payables for short-term loans	**4,894,954**	4,011,073
Installment interest payables for long-term loans repay at due date	**7,298,426**	11,897,022
Interest payables for corporate bond	**114,131,902**	47,340,885
Interest payables for medium term note	**185,740,984**	87,580,328
	312,066,266	150,829,308

As of 30 June 2016, the Group had overdue interest payable of RMB629,907 (31 December 2015: RMB629,907). It was incurred by the Group's subsidiary Masteel Shanghai Trading due to the shortage of cash. Refer to Note V.21.

28. DIVIDENDS PAYABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Other shareholders	**6,525,534**	6,525,534

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

29. OTHER PAYABLES

	30 June 2016 Unaudited	31 December 2015 Audited
Payable for construction, maintenance and inspection fee	**207,470,421**	207,933,025
Sales incentives	**157,842,642**	80,592,053
Service fees payable	**19,433,912**	17,926,119
Technology project fund received	**34,742,183**	34,750,947
Withholding social welfare and housing fund payable	**40,092,178**	43,903,216
Accrued interest expense for letters of credit	**55,950,702**	152,354,842
Payable for forfaiting	**520,105,000**	460,668,886
Others	**272,554,979**	260,334,425
	1,308,192,017	1,258,463,513

At 30 June 2016, significant other payables aged over one year are as follows:

	Amount due	**Reason for non-settlement**
Company 1	**2,000,000**	Note
Company 2	**1,200,952**	Note
Company 3	**1,000,000**	Note
	4,200,952	

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

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

30. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	30 June 2016 Unaudited	31 December 2015 Audited
Long term loans due within one year (Note V.32)	**3,728,805,632**	2,747,792,896
Bonds payable due within one year (Note V.33)	**2,339,266,630**	2,337,066,519
	6,068,072,262	5,084,859,415

31. ACCRUED LIABILITIES

30 June 2016 (Unaudited)

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Pending litigation or arbitration	**3,415,629**	**2,185,620**	**(140,799)**	**5,460,450**
Pending onerous contract (note)	**18,601,341**	**10,341,400**	**(12,719,479)**	**16,223,262**
Others	**215,743**	**4,034,369**	**(215,286)**	**4,034,826**
	22,232,713	**16,561,389**	**(13,075,564)**	**25,718,538**

Note: The accrued liabilities of pending onerous contract represents expected loss from executing some sales orders entered by the Group's subsidiary MG-VALDUNES S.A.S. The management estimated the cost of executing those orders would exceed agreed price. Therefore the accrued liabilities were estimated at RMB16,223,262 at the end of 30 June 2016.

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

32. LONG TERM LOANS

	30 June 2016 Unaudited	31 December 2015 Audited
Guaranteed loans	**370,819,712**	1,973,971,584
Unsecured loans	**4,929,000,000**	3,711,200,000
Pledged loans (Note)	**800,000,000**	970,000,000
	6,099,819,712	6,655,171,584

Note: As of 30 June 2016, the Group had a pledged loan amounting to RMB800,000,000 which is secured by bank notes (31 December 2015: RMB970,000,000).

As of 30 June 2016, the interest rates of the above long-term loans ranged from 1.2% to 5.35% (31 December 2015: 1.2% – 6.00%)

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

	30 June 2016 Unaudited	31 December 2015 Audited
*Due within one year or on demand (Note V. 30)	**3,728,805,632**	2,747,792,896
One to two years (inclusive)	**4,696,805,632**	6,243,992,896
Two to three years (inclusive)	**1,233,805,632**	238,292,896
Three to five years (inclusive)	**73,208,448**	117,585,792
Over five years	**96,000,000**	55,300,000
	9,828,625,344	9,402,964,480

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

33. BONDS PAYABLE

	30 June 2016 Unaudited	31 December 2015 Audited
Medium-term note payable	**3,983,666,667**	3,979,666,667
Corporate bonds – 5 years	**2,339,266,630**	2,337,066,519
	6,322,933,297	6,316,733,186
Less: Bonds payable due within one year (Note V.30)		
Including:		
Corporate bonds	**2,339,266,630**	2,337,066,519
	3,983,666,667	3,979,666,667

As of 30 June 2016, the bonds payable balance is as follows:

Unaudited	**Issue date**	**Term to maturity**	**Amount on offer**	**Opening balance**	**Current period issuance**	**Amortization of discount**	**Current period repayment**	**Closing balance**	**Current period accured interest**
Medium-term note payable – 2015 first issue	**2015/07**	**3 years**	**2,000,000,000**	**1,990,000,000**	**-**	**2,000,000**	**-**	**1,992,000,000**	**50,159,016**
2015 second issue	**2015/08**	**3 years**	**2,000,000,000**	**1,989,666,667**	**-**	**2,000,000**	**-**	**1,991,666,667**	**48,001,639**
Corporate bonds – 5 years	**2011/08**	**5 years**	**2,340,000,000**	**2,337,066,519**	**-**	**2,200,111**	**-**	**2,339,266,630**	**66,791,016**
			6,340,000,000	**6,316,733,186**	**-**	**6,200,111**	**-**	**6,322,933,297**	**164,951,671**

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

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

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

33. BONDS PAYABLE *(CONTINUED)*

Medium-term note payable

In June 2015, the Company obtained the approval of the National Association of Financial Market Institutional Investors regarding the issuance of a medium-term note with a registration amount of RMB4 billion, which will expire within two years. The medium-term note is allowed to be issued by stages in its registration period of validity.

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

Corporate bonds

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

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

34. DEFERRED INCOME

Deferred income refers to the government grants received for designated projects and the movement for current period is as follows.

	30 June 2016 Unaudited	31 December 2015 Audited
At 1 January 2016	**1,285,164,299**	1,186,358,849
Addition	**135,488,506**	186,448,184
Decrease	**(86,973,054)**	(87,642,734)
At 30 June 2016	**1,333,679,751**	1,285,164,299

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

35. SHARE CAPITAL

30 June 2016 (Unaudited)

Registered, issued and fully paid	At 1 January 2016 Number of shares	At 1 January 2016 Percentage (%)	Increase/(decrease) during the period Shares issued	Increase/(decrease) during the period Others	Increase/(decrease) during the period Sub-total	At 30 June 2016 Number of shares	At 30 June 2016 Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	–	–	–	–	–	–	–
2. State-owned legal person shares	–	–	–	–	–	–	–
3. Other domestically owned shares	–	–	–	–	–	–	–
Including: Shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	–	–	–	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	–	–	–	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0

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

31 December 2015 (Audited)

Registrered, issued and fully paid	At 1 January 2015 Number of shares	At 1 January 2015 Percentage (%)	Increase/(decrease) during the year Shares issued	Increase/(decrease) during the year Others	Increase/(decrease) during the year Sub-total	At 31 December 2015 Number of shares	At 31 December 2015 Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	–	–	–	–	–	–	–
2. State-owned legal person shares	–	–	–	–	–	–	–
3. Other domestically owned shares	–	–	–	–	–	–	–
Including: Shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	–	–	–	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	–	–	–	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0

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

36. CAPITAL RESERVE

30 June 2016 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	**8,338,358,399**	**–**	**–**	**8,338,358,399**
Business combination involving entities under common control	**(9,290,736)**	**–**	**–**	**(9,290,736)**
Total	**8,329,067,663**	**–**	**–**	**8,329,067,663**

31 December 2015 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	–	–	8,338,358,399
Business combination involving entities under common control	(9,290,736)	–	–	(9,290,736)
Total	8,329,067,663	–	–	8,329,067,663

37. SPECIAL RESERVE

30 June 2016 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safety fund	**14,374,213**	**35,488,051**	**(27,792,724)**	**22,069,540**
	14,374,213	**35,488,051**	**(27,792,724)**	**22,069,540**

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

37. SPECIAL RESERVE *(CONTINUED)*

31 December 2015 (Audited)

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

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.

38. REVENUE AND COST OF SALES

	For the six months ended 30 June			
	2016 (Unaudited)		2015 (Unaudited)	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**20,610,123,498**	**17,779,983,575**	22,932,692,635	22,086,428,702
Other operating income	**391,039,062**	**397,323,914**	514,828,058	537,862,328
	21,001,162,560	**18,177,307,489**	23,447,520,693	22,624,291,030

* Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

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

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

Revenue is stated as follows:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Sale of products	**20,916,000,131**	23,363,065,541
Rendering service	**56,925,591**	41,343,241
Others	**28,236,838**	43,111,911
	21,001,162,560	23,447,520,693

39. BUSINESS TAXES AND SURCHARGES

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
City construction and maintenance tax	**56,331,483**	65,964,309
Education surcharge	**41,583,924**	29,645,796
Other taxes	**7,671,540**	30,604,854
	105,586,947	126,214,959

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

40. SELLING EXPENSES

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Employee benefits	**24,704,492**	20,665,700
Transportation fees	**262,331,109**	247,545,979
Insurance premium	**6,697,636**	6,814,523
Others	**24,205,715**	24,703,916
	317,938,952	299,730,118

41. GENERAL ADMINISTRATIVE EXPENSES

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Employee benefits	**352,586,717**	274,452,591
Employee termination compensation	**152,568,484**	–
Other taxes other than business taxes and surcharges and income tax	**157,403,072**	218,549,328
Office expenses	**139,812,452**	115,030,154
Rental fees	**15,239,301**	10,128,950
Depreciation of property, plant and equipment	**78,481,910**	16,909,872
Amortization of intangible assets	**20,092,136**	27,331,745
Research and development expenses	**30,233,610**	14,896,852
Travel and entertainment expenses	**11,720,984**	12,303,235
Maintenance expenses	**11,061,937**	14,104,882
Auditors' remuneration	**4,837,087**	3,485,507
Others	**74,431,441**	115,779,080
	1,048,469,131	822,972,196

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

42. FINANCIAL EXPENSES

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Interest expenses (note)	**474,490,153**	614,530,384
Less: Interest income	**39,698,595**	50,105,262
Less: Capitalised interest	**4,004,429**	5,776,735
Exchange gain	**(50,883,197)**	(10,923,858)
Others	**27,350,512**	18,134,809
	407,254,444	565,859,338

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.

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Interest expense:		
Interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years	**473,987,833**	614,036,619
Interest on bank loans which will not expire within five years	**502,320**	493,765
	474,490,153	614,530,384

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

43. ASSET IMPAIRMENT LOSS

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Provision/(reversal) of bad debts	**812,016**	(3,394,553)
Including: Trade receivables	**812,016**	397,808
Other receivables	**–**	–
Loans and advances	**–**	(3,792,361)
Provision for inventories impairment	**671,520,400**	370,670,670
	672,332,416	367,276,117

44. INVESTMENT INCOME

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Investment income from long term equity investment under the equity method	**69,346,926**	41,114,047
Investment income from the fair-value measurement of the newly acquired subsidiary's interests held before acquisition	**–**	2,413,629
Investment income from available-for-sale financial assets	**948,303**	–
Investment income from disposal of available for sale financial assets	**–**	(48,310)
Investment income from disposal of financial assets measured at fair value through profit or loss	**8,402,396**	625,118
	78,697,625	44,104,484

* During the current period, the Group's investment income from unlisted companies were RMB78,697,625 (30 June 2015: the investment income from listed companies and unlisted companies were RMB625,118 and RMB43,479,366, respectively).

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

45. NON-OPERATING INCOME

	For the six months ended 30 June		
	2016	2015	**Included in non-recurring gains and losses**
	Unaudited	Unaudited	
Gain on disposal of non-current assets	**154,474**	660,487	154,474
Including: Gain on disposal of fixed assets	**154,474**	660,487	154,474
Gain on disposal of intangible assets	**–**	–	–
Government grants	**138,966,140**	169,969,651	138,966,140
Others	**1,271,288**	1,012,830	1,271,288
	140,391,902	171,642,968	140,391,902

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

	For the six months ended 30 June	
	2016	2015
	Unaudited	Audited
Government grants related to assets	**86,681,426**	63,643,381
Government grants related to income:		
– Tax refund	**48,151,264**	82,804,766
– Others	**4,133,450**	23,521,504
	138,966,140	169,969,651

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

46. NON-OPERATING EXPENSES

	For the six months ended 30 June		
	2016	2015	**Included in non-recurring gains and losses**
	Unaudited	Unaudited	
Loss on disposal of non-current assets	**976,959**	–	976,959
Including: Loss on disposal of fixed assets	**976,959**	–	976,959
Loss on disposal of intangible assets	**–**	–	–
Public relief donation	**278,650**	140,000	278,650
Penalty expenditure	**100,816**	13,685,163	100,816
Others	**392,317**	334,262	392,317
	1,748,742	14,159,425	1,748,742

47. INCOME TAX

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
*Mainland China:		
Current income tax expense	**25,256,271**	22,397,313
Adjustments in respect of current tax of previous periods	**733**	230,764
Deferred tax income	**27,630,599**	169,913,039
*Hong Kong current income tax expense	**–**	–
*Overseas current income tax expense	**8,960,307**	6,167,787
*Overseas deferred income tax expense	**309,311**	4,359,598
	62,157,221	203,068,501

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

47. INCOME TAX *(CONTINUED)*

Relationship between income tax and profit/(loss) before tax:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Profit/(loss) before tax	**493,075,557**	(1,157,235,038)
Tax at the applicable tax rate of 25% (i)	**123,268,889**	(289,308,760)
Effect of different tax rates of subsidiaries	**(4,216,531)**	(2,471,494)
Nondeductible expenses	**38,380,394**	38,576,541
Adjustments in respect of current tax of previous periods	**733**	230,764
Other tax preference	**(5,878,193)**	(2,276,530)
Income not subject to tax	**(59,514)**	(1,089,398)
Unrecognised deductible temporality difference and tax losses	**107,569,857**	471,376,926
Tax losses utilized	**(179,571,682)**	–
Profits and losses attributable to joint ventures and associates	**(17,336,732)**	(11,969,548)
Tax charge at the Group's effective rate	**62,157,221**	203,068,501

(i) The Group income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

48. 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 period. Shares are usually included in the weighted average number of shares from the date of their issue.

The calculations of basic and diluted earnings per share amounts are based on:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**452,752,971**	(1,236,592,427)
Number of shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	**7,700,681,186**	7,700,681,186

During the first half of 2016 and the first half of 2015, there was no dilutive item to adjust the Group's basic earnings per share.

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

49. OTHER COMPREHENSIVE INCOME

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

	1 January 2015 Audited	Increase/ (decrease)	31 December 2015 Audited	Increase/ (decrease)	**30 June 2016 Unaudited**
Exchange differences arising from foreign currency translation	(137,159,480)	(28,291,071)	(165,450,551)	39,247,618	**(126,202,933)**

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

30 June 2016 (Unaudited)

	Amount before tax	**Company income tax**	**Amount after tax**
Exchange differences arising from foreign currency translation	**39,247,618**	**–**	**39,247,618**

31 December 2015 (Audited)

	Amount before tax	Company income tax	Amount after tax
Exchange differences arising from foreign currency translation	(28,291,071)	–	(28,291,071)

50. NOTE TO THE STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Cash received relating to other operating activities:		
Specific subsidies granted by the government	**4,133,450**	23,521,504
Government-allocated employee relocation compensation	**152,568,484**	–
Others	**40,969,883**	1,012,830
	197,671,817	24,534,334

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

50. NOTE TO THE STATEMENT OF CASH FLOWS *(CONTINUED)*

Cash paid relating to other operating activities:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Supporting services expense	**161,307,228**	104,475,049
Bank charges	**27,350,512**	18,134,809
Safety production reserve	**27,792,724**	52,426,744
Travel and entertainment expense	**22,638,382**	26,146,821
Insurance expenses	**16,689,956**	25,363,791
Environmental improvement fee	**8,832,546**	25,107,688
Research and development fee	**33,584,199**	20,196,349
Others	**129,686,553**	120,093,731
	427,882,100	391,944,982

Cash received relating to other investing activities:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Government special funding	**135,488,506**	32,445,774

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

51. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

(1) Reconciliation of net profit/(loss) to cash flows from operating activities:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Net profit/(loss)	**430,918,336**	(1,360,303,539)
Add: Provision for bad debts	**812,016**	397,808
Provision for inventories	**671,520,400**	370,670,670
Reversal of provision for loans	**–**	(3,792,361)
Depreciation of fixed assets	**1,668,442,596**	1,689,422,077
Amortisation of investment properties	**874,842**	912,360
Amortisation of intangible assets	**30,403,848**	39,368,810
Amortisation of deferred income	**(86,681,426)**	(63,643,381)
Loss/(gain) on disposal of non-current assets	**822,485**	(660,487)
Increase in special reserves	**34,164,575**	48,189,337
Financial expenses	**419,602,527**	547,724,528
Investment income	**(78,697,625)**	(44,104,484)
Gain on fair value changes	**(3,461,591)**	–
Decrease in deferred tax assets	**24,261,068**	174,081,635
Increase in deferred tax liabilities	**3,678,842**	191,002
Increase in inventories	**(1,409,263,947)**	(235,871,547)
Increase/(decrease) in receivables from operating activities	**(1,515,915,570)**	1,811,402,614
Increase in payables from operating activities	**335,734,125**	1,654,282,936
Net cash flows from operating activities	**527,215,501**	4,628,267,978
Endorsements of bank acceptance bills received from sales of goods or rendering of services	**2,915,966,750**	2,078,043,975

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

51. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS *(CONTINUED)*

(2) Acquisition of subsidiaries and other business units:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Acquisition price of subsidiaries and other business units	**–**	170,087,995
Cash on acquisition of subsidiaries and other units	**–**	170,087,995
Less: Cash and cash equivalents held by acquired subsidiaries and other operation units	**–**	96,899,472
Net cash paid on acquisition of subsidiaries and other operating units	**–**	73,188,523

(3) Net movement of cash and cash equivalents:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Closing balance of cash	**2,799,258,322**	6,267,199,836
Less: Opening balance of cash	**3,546,410,358**	2,709,836,299
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net (decrease)/increase of cash and cash equivalents	**(747,152,036)**	3,557,363,537

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Cash		
Include: Cash on hand	**119,148**	172,143
Balances in bank without restriction	**2,799,139,174**	6,267,027,693
Other balances without restriction	**–**	–
Ending balance of cash and cash equivalents	**2,799,258,322**	6,267,199,836

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

52. DIVIDEND*

The board of directors does not recommend the payment of any dividends for the six months ended 30 June 2016 (30 June 2015: nil).

53. RESTRICTED ASSETS

	30 June 2016 Unaudited	31 December 2015 Audited	
Cash and bank balances (Note V.1)	**1,030,014,595**	1,596,301,124	(i)
Bills receivable (Note V.3)	**924,810,344**	1,277,158,488	(ii)
Inventory (Note V.8）	**10,859,823**	10,859,823	(iii)
	1,965,684,762	2,884,319,435	

(i) As of 30 June 2016, the Group's cash and bank balances amounting to RMB1,030,014,595 (31 December 2015: RMB1,596,301,124) have been pledged to banks, including cash deposit as collateral amounting to RMB704,128,249 (31 December 2015: RMB1,198,860,855) pledged as security for trade facilities and performance bonds, and time deposits of USD1,000,000, equivalent to RMB6,666,660 (31 December 2015: USD1,000,000, equivalent to RMB6,493,453) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB319,219,686 (31 December 2015: RMB390,946,816).

(ii) As of 30 June 2016, the Group's bills receivable amounting to RMB924,810,344 (31 December 2015: RMB1,277,158,488) have been pledged to banks, including using bills of RMB890,003,123 in Maanshan Branch of Industrial and Commercial Bank of China pledged as security to obtain bank long-term loans of RMB800,000,000 (31 December 2015: RMB970,000,000), which is disclosed in Note V.32; using bank acceptance bills of RMB34,807,221 pledged as security to obtain bank short-term loans of RMB34,607,221 (31 December 2015: RMB100,000,000), which is disclosed in Note V.21. As of 30 June 2016, there were no Group's bank acceptance bills pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2015: RMB157,001,166).

(iii) As of 30 June 2016, the Group's subsidiary Ma Steel (Jinhua) Processing and Distribution Co., Ltd. had inventories with carrying amount of RMB10,859,823 restricted for use due to trade disputes(31 December 2015: RMB10,859,823).

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

54. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Cash and bank balances						
HKD	32,330,138	0.8547	27,632,569	5,695,550	0.8378	4,771,732
USD	281,331,494	6.6312	1,865,565,403	391,718,720	6.4936	2,543,664,680
EUR	9,474,622	7.3750	69,875,337	12,579,765	7.0952	89,255,949
JPA	87,144	0.0645	5,621	24,050	0.0539	1,296
AUD	12,500,943	4.9452	61,819,663	10,144,811	4.7276	47,960,608
CAD	2,535,634	5.1222	12,988,024	1,476,774	4.6814	6,913,370
GBP	1,389	8.9212	12,392	991	9.6159	9,529
			2,037,899,009			2,692,577,164
Trade receivables						
USD	33,320,885	6.6312	220,957,453	13,167,430	6.4936	85,504,023
EUR	10,808,197	7.3750	79,710,453	9,545,274	7.0952	67,725,628
CAD	186,100	5.1222	953,241	95,316	4.6814	446,212
AUD	3,474,976	4.9452	17,184,451	5,489,661	4.7276	25,952,921
			318,805,598			179,628,784
Other receivables						
HKD	327,389	0.8547	279,819	328,589	0.8378	275,292
EUR	4,422,311	7.3750	32,614,544	1,645,122	7.0952	11,672,470
AUD	26,218	4.9452	129,653	23,244	4.7276	109,888
			33,024,016			12,057,650
Accounts payable						
GBP	–	–	–	1,520	9.6159	14,616
AUD	60,022	4.9452	296,821	39,721	4.7276	187,785
USD	871,500	6.6312	5,779,091	395,445	6.4936	2,567,862
EUR	6,627,370	7.3750	48,876,854	7,408,245	7.0952	52,562,980
HKD	–	–	–	140,665,035	0.8378	117,849,166
			54,952,766			173,182,409

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

54. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCY *(CONTINUED)*

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Other payables						
AUD	354,320	4.9452	1,752,183	3,080,622	4.7276	14,563,949
HKD	65,464,685	0.8547	55,952,666	181,851,088	0.8378	152,354,842
EUR	1,886,257	7.3750	13,911,145	1,674,790	7.0952	11,882,970
			71,615,994			178,801,761
Short term loans						
USD	355,986,510	6.6312	2,360,617,745	641,071,173	6.4936	4,162,859,769
EUR	9,817,694	7.3750	72,405,493	–	–	–
			2,433,023,238			4,162,859,769
Long term loans due within one year						
USD	7,360,000	6.6312	48,805,632	7,360,000	6.4936	47,792,896
Long term loans						
USD	25,760,000	6.6312	170,819,712	29,440,000	6.4936	191,171,584

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARIES

During the first half of 2016, the Company established the following subsidiary, and included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity interest	Investment form	Capital paid as of period end
MASTEEL AMERICA INC.	February 2016	USD500,000	100%	Cash	USD250,000

VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

The details of subsidiaries are as follows:

Subsidiaries acquired by establishment or investment	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Anhui Masteel K.Wah New Building Materials Co., Ltd. (New Build Masteel K. Wah.)	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	–
Ma Steel (Wuhu)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	27.3
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	–	92
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.66	–
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD260,000,000	91	–
Holly Industrial	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	26.39
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,000,000	90	–
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading and Development GmbH ("MG Trading")	Germany	Germany	Trading	EUR153,388	100	–
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia"))	Australia	Australia	Mine production and sale	AUD21,737,900	100	–
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Hefei Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	–	100
Ma Steel (Hefei) Steel Plates Co., Ltd ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	–	100
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	61	25.48
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	–
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	Anhui, PRC	Anhui, PRC	Trading	RMB100,000,000	100	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	–
Shanghai Trading	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	–
Ma Steel (Hefei) materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Maanshan (Guangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Subsidiaries acquired by establishment or investment	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd. ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd. ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Metal Co., Ltd. ("Chang Jiang Iron and Steel Metal")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES S.A.S. (" MG-VALDUNES")	French	French	Manufacturing	EUR40,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America Inc. ("Masteel America") (i)	USA	USA	Service industry	USD500,000	100	–

Subsidiaries acquired not under common control	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Equipment Co., Ltd. ("Ma-Steel Rail Transportation")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB300,000,000	100	–

Subsidiaries acquired under common control	Place of incorporation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Masteel Financial	Anhui, PRC	Anhui, PRC	Financial services	RMB1,000,000,000	91	–

(i): The newly established subsidiary of the company, please refer to Note VI.1.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Subsidiaries including material non-controlling interests are as follows:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
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)	**(125,001,761)**	(186,736,219)
Anhui Chang Jiang Iron and Steel	**86,601,845**	(98,134,232)
Masteel Financial	**4,582,180**	9,668,950
Dividends paid to non-controlling shareholders:		
Anhui Chang Jiang Iron and Steel	**–**	11,426,163
Cumulative balance of non-controlling interests at the end of the reporting period:		
Ma Steel (Hefei)	**651,434,316**	774,849,514
Anhui Chang Jiang Iron and Steel	**1,081,611,711**	993,647,826
Masteel Financial	**137,625,177**	133,042,997

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

The summarized financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before the group elimination.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
30 June 2016 (Unaudited)			
Current assets	460,165,739	1,570,861,231	1,122,499,147
Non-current assets	3,732,958,218	4,382,508,873	4,537,026,926
Total assets	4,193,123,957	5,953,370,104	5,659,526,073
Current liabilities	(1,260,096,460)	(3,520,954,177)	(4,129,468,017)
Non-current liabilities	(686,702,271)	(28,834,350)	(889,426)
Total liabilities	(1,946,798,731)	(3,549,788,527)	(4,130,357,443)
Revenue	1,437,964,902	3,483,828,844	87,623,671
Net (loss)/profit	(431,040,557)	192,448,544	50,913,108
Total comprehensive income	(431,040,557)	192,448,544	50,913,108
Net cash flows from operating activities	22,534,518	122,266,951	1,734,291,919

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
31 December 2015 (Audited)			
Current assets	968,758,036	1,492,741,756	3,116,708,624
Non-current assets	3,814,743,779	4,496,852,295	4,183,250,047
Total assets	4,783,501,815	5,989,594,051	7,299,958,671
Current liabilities	(1,440,874,256)	(3,751,201,063)	(5,821,207,473)
Non-current liabilities	(670,732,682)	(30,286,707)	(495,676)
Total liabilities	(2,111,606,938)	(3,781,487,770)	(5,821,703,149)
Revenue	4,543,085,651	6,531,780,892	232,662,219
Net (loss)/profit	(643,917,997)	(218,076,072)	107,432,775
Total comprehensive income	(643,917,997)	(218,076,072)	107,432,775
Net cash flows from operating activities	18,217,041	316,747,830	1,207,492,849

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	Place of incorporation	Place of registration	Business nature	Registered capital	Percentage of equity (%) Directly	Indirectly	Accounting method
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Mascometal (Note)	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	75	–	Equity method
Associates							
Henan Jinma Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB326,730,000	36	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	32	–	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	–	Equity method
Xinchuang Economize Resource	Anhui, PRC	Anhui, PRC	Service industry	RMB100,000,000	20	–	Equity method
Anhui Linhuan Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	–	Equity method
Ma-steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method

Note: In 2016, the Company jointly established Mascometal, a joint venture with a foreign invested enterprise (FIE), ASCO INDUSTRIES, in which the Company and ASCO INDUSTRIES contributed 75% and 25% of the capital injection respectively. The Company holds four seats in total of five in the Board of Directors.

Given the rights and obligations of the Board of Directors as made by the Company, the Company does not exert absolute control over Mascometal. Thus, the long term equity investment in Mascometal is accounted as a joint venture under equity method.

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. 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 been adjusted for all the accounting policy differences and reconciled to the carrying amount of the financial statements.

	30 June 2016 Unaudited	31 December 2015 Audited
Current assets	**271,093,450**	345,030,431
Including: Cash and cash equivalents	**218,225,179**	284,346,880
Non-current assets	**319,199,994**	343,776,987
Total assets	**590,293,444**	688,807,418
Current liabilities	**42,835,262**	56,745,837
Non-current liabilities	**–**	–
Total liabilities	**42,835,262**	56,745,837
Non-controlling interests	**–**	–
Equity attributable to the parent company	**547,458,182**	632,061,581
The Group's share of net assets	**273,729,091**	316,030,791
The carrying value of the investment	**273,729,091**	316,030,791
Revenue	**262,608,543**	585,082,278
Financial expenses – Interest income	**3,370,019**	5,941,620
Income tax expenses	**23,838,041**	52,750,173
Net profit	**71,514,124**	156,231,473
Total comprehensive income	**71,514,124**	156,231,473
Dividends received	**79,000,000**	73,500,000

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

The financial information of significant associates is as follows, which has been adjusted to all the accounting policies differences and reconciled to the carrying amount of the financial statements:

	Henan Jinma Energy	Shenglong Chemical
30 June 2016 (Unaudited)		
Current assets	1,139,350,421	845,738,891
Non-current assets	933,390,219	1,455,965,703
Total assets	2,072,740,640	2,301,704,594
Current liabilities	1,118,612,449	1,513,056,304
Non-current liabilities	269,079,521	–
Total liabilities	1,387,691,970	1,513,056,304
Non-controlling interests	5,639,039	–
Equity attributable to the parent company	679,409,631	788,648,290
The Group's share of net assets	244,587,467	252,367,453
The carrying value of the investment	244,587,467	252,367,453
Revenue	1,219,617,849	1,097,245,577
Income tax expenses	18,902,887	2,017,157
Net profit	56,708,660	29,816,041
Total comprehensive income	56,708,660	29,816,041
Dividends received	–	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

	Henan Jinma Energy	Shenglong Chemical
31 December 2015 (Audited)		
Current assets	855,063,827	801,789,029
Non-current assets	947,374,354	1,501,617,303
Total assets	1,802,438,181	2,303,406,332
Current liabilities	968,036,241	1,545,899,026
Non-current liabilities	159,357,056	–
Total liabilities	1,127,393,297	1,545,899,026
Non-controlling interests	5,327,126	–
Equity attributable to the parent company	669,717,758	757,507,306
The Group's share of net assets	241,098,393	242,402,338
The carrying value of the investment	241,098,393	242,402,338
Revenue	2,457,137,640	2,757,010,679
Income tax expenses	6,768,602	32,912,362
Net profit/(loss)	15,016,199	(11,233,218)
Other comprehensive income	–	–
Total comprehensive income	15,016,199	(11,233,218)
Dividends received	–	–

VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

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

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Joint ventures		
The carrying value of the Group's investments	**40,875,292**	539,342

	For the six months ended 30 June 2016 (Unaudited)	2015 (Unaudited)
Total shown as below (calculated according to the equity percentage)		
Net loss	**(330,010)**	–
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(330,010)**	–

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Associates		
The carrying value of the Group's investments	**255,864,360**	229,782,643

	For the six months ended 30 June 2016 (Unaudited)	2015 (Unaudited)
Total shown as below (calculated according to the equity percentage)		
Net profit/(loss)	**3,456,779**	(11,452,246)
Net profit from discontinued operations	**–**	–
Other comprehensive income	**111,144**	–
Total comprehensive income	**3,567,923**	(11,452,246)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

30 June 2016 (Unaudited)

Financial Assets

	Financial assetsat fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Total
	Initial recognition	Held for trading			
Cash and bank balances	–	–	3,829,272,917	–	3,829,272,917
Financial assets at fair value through profit or loss	524,718,544	–	–	–	524,718,544
Bills receivable	–	–	3,254,150,613	–	3,254,150,613
Trade receivables	–	–	880,464,995	–	880,464,995
Other receivables	–	–	243,167,329	–	243,167,329
Interest receivable	–	–	1,128,498	–	1,128,498
Dividends receivable	–	–	17,280,000	–	17,280,000
Loans and advances to customers	–	–	1,070,687,975	–	1,070,687,975
Available-for-sale financial assets	–	–	–	334,432,425	334,432,425
	524,718,544	–	9,296,152,327	334,432,425	10,155,303,296

Financial Liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short term loans	–	–	5,458,387,496	5,458,387,496
Customer deposits	–	–	1,659,042,801	1,659,042,801
Repurchase agreements	–	–	125,266,272	125,266,272
Bills payable	–	–	3,560,512,833	3,560,512,833
Accounts payable	–	–	5,567,240,066	5,567,240,066
Interest payable	–	–	312,066,266	312,066,266
Dividends payable	–	–	6,525,534	6,525,534
Other payables	–	–	1,308,192,017	1,308,192,017
Non-current liabilities due within one year	–	–	6,068,072,262	6,068,072,262
Long term loans	–	–	6,099,819,712	6,099,819,712
Bonds payable	–	–	3,983,666,667	3,983,666,667
	–	–	34,148,791,926	34,148,791,926

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as of the end of the reporting period date are as follows *(Continued)* :

31 December 2015 (Audited)

Financial Assets

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Total
	Initial recognition	Held for trading			
Cash and bank balances	–	–	5,142,711,482	–	5,142,711,482
Financial assets at fair value through profit or loss	1,003,684,000	1,587,054	–	–	1,005,271,054
Bills receivable	–	–	4,689,129,290	–	4,689,129,290
Trade receivables	–	–	796,986,661	–	796,986,661
Other receivables	–	–	190,348,070	–	190,348,070
Interest receivable	–	–	1,600,176	–	1,600,176
Loans and advances to customers	–	–	732,913,869	–	732,913,869
Available-for-sale financial assets	–	–	–	128,934,410	128,934,410
	1,003,684,000	1,587,054	11,553,689,548	128,934,410	12,687,895,012

Financial Liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short term loans	–	–	6,791,359,472	6,791,359,472
Customer deposits	–	–	1,901,390,488	1,901,390,488
Bills payable	–	–	5,343,906,398	5,343,906,398
Accounts payable	–	–	6,144,664,281	6,144,664,281
Interest payable	–	–	150,829,308	150,829,308
Dividends payable	–	–	6,525,534	6,525,534
Other payables	–	–	1,258,463,513	1,258,463,513
Non-current liabilities due within one year	–	–	5,084,859,415	5,084,859,415
Long term loans	–	–	6,655,171,584	6,655,171,584
Bonds payable	–	–	3,979,666,667	3,979,666,667
	–	–	37,316,836,660	37,316,836,660

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

2. OFFSETTING OF FINANCIAL INSTRUMENTS

For the six months period ended 30 June 2016, there is no offsetting arrangements for accounts receivable (31 December 2015: nil)

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognised

As of 30 June 2016, the Group endorsed to its suppliers (but not yet fully derecognised) bank acceptance bills and discounted to its banks bank acceptance bills with a carrying amount of RMB93,730,428 and RMB29,607,221 respectively for settlement of accounts payable. As of 30 June 2016, their maturity period ranged from 1 to 12 months. Pursuant to relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if relevant acceptance bank defaults. As the Group is of the opinion that the Group has retained substantially all their risks and rewards, including the default risk associated, the Group continues to recognise them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserves the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 30 June 2016, the carrying amount of accounts payable settled by the Group through them and short terms loans secured amounted to RMB93,730,428 and RMB29,607,221 respectively (31 December 2015: RMB132,410,064 and RMB111,192,600, respectively).

Transferred financial assets fully derecognised but with continuing involvement

As of 30 June 2016, the Group endorsed to its suppliers (and fully derecognised) bank acceptance bills and discounted to its banks bank acceptance bills with a carrying amount of RMB2,915,966,750, and RMB157,349,342 respectively (31 December 2015: RMB1,488,128,608 and RMB404,284,634 respectively) for settlement of accounts payable. As of 30 June 2016, their maturity period ranged from 1 to 12 months. Pursuant to relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if relevant acceptance bank defaults. As the Group is of the opinion that the Group has transferred substantially all their risks and rewards, the Group has derecognised them and the settled accounts payable associated therewith.

For the six months ended 30 June 2016, no gains or losses were recognised on the dates of transfer. No income or expenses were recognised for the current period or on an accumulative basis as a result of the Group's Continuing Involvement in derecognised financial assets. Endorsements were incurred basically evenly during the period.

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

4. FINANCIAL INSTRUMENTS RISK

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

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

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit risk is managed in accordance with customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had a certain concentration of credit risk as 5% (2015: 22%) and 24% (2015: 44%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables, respectively. The Group does not hold any collateral or credit enhancement for the balance of trade receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.4 and Note V.7 to the financial statements.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

As of 30 June 2016, the aging analysis of the Group's financial assets that are not considered to be impaired is as follows:

			Overdue	
	Total	**Not overdue**	**Less than six months**	**Over six months**
Trade receivables	**880,464,995**	**720,691,078**	**91,331,013**	**68,442,904**
Bills receivable	**3,254,150,613**	**3,254,150,613**	**–**	**–**
Available-for-sale financial investments	**334,432,425**	**334,432,425**	**–**	**–**
Interest receivable	**1,128,498**	**1,128,498**	**–**	**–**
Other receivables	**204,070,837**	**151,028,976**	**52,329,211**	**712,650**
Loans and advances to customers	**1,070,687,975**	**1,070,687,975**	**–**	**–**
Dividends receivable	**17,280,000**	**17,280,000**	**–**	**–**

As of 31 December 2015, the aging analysis of the Group's financial assets that are not considered to be impaired is as follows:

			Overdue	
	Total	Not overdue	Less than six months	Over six months
Trade receivables	796,986,661	494,583,497	221,067,740	81,335,424
Bills receivable	4,689,129,290	4,689,129,290	–	–
Available-for-sale financial investments	128,934,410	128,934,410	–	–
Interest receivable	1,600,176	1,600,176	–	–
Other receivables	190,348,070	151,306,871	29,028,874	10,012,325
Loans and advances to customers	732,913,869	732,913,869	–	–

As of 30 June 2016, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group.

Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable as of 30 June 2016.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk

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

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. The Group's policy is that no more than 80% of the borrowings should be due within 12 months according to the book value in the financial statements. As of 30 June 2016, 70% of the Group's debts are due within 12 months (31 December 2015: 59%).

The maturity profile of the Group's financial liabilities is as of the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2016 (Unaudited)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	5,458,387,496	–	–	–	–	5,458,387,496
Customer deposits	1,659,042,801	–	–	–	–	1,659,042,801
Bills payable	3,560,512,833	–	–	–	–	3,560,512,833
Trade payables	5,567,240,066	–	–	–	–	5,567,240,066
Dividends payable	6,525,534	–	–	–	–	6,525,534
Other payables	1,308,192,017	–	–	–	–	1,308,192,017
Repurchase agreements	125,266,272	–	–	–	–	125,266,272
Bonds payable due within one year	2,339,266,630	–	–	–	–	2,339,266,630
Long term loans due within one year	3,728,805,632	–	–	–	–	3,728,805,632
Long term loans	–	4,696,805,632	1,233,805,632	73,208,448	96,000,000	6,099,819,712
Bonds payable	–	–	4,000,000,000	–	–	4,000,000,000
Interest payable for interests bearing liabilities	904,463,017	240,280,224	36,530,325	2,690,904	5,345,247	1,189,309,717
Total	24,657,702,298	4,937,085,856	5,270,335,957	75,899,352	101,345,247	35,042,368,710

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(Continued)*

31 December 2015 (Audited)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	6,791,359,472	–	–	–	–	6,791,359,472
Customer deposits	1,901,390,488	–	–	–	–	1,901,390,488
Bills payable	5,343,906,398	–	–	–	–	5,343,906,398
Trade payables	6,144,664,281	–	–	–	–	6,144,664,281
Dividends payable	6,525,534	–	–	–	–	6,525,534
Other payables	1,258,463,513	–	–	–	–	1,258,463,513
Bonds payable due within one year	2,340,000,000	–	–	–	–	2,340,000,000
Long term loans due within one year	2,747,792,896	–	–	–	–	2,747,792,896
Long term loans	–	6,243,992,896	238,292,896	117,585,792	55,300,000	6,655,171,584
Bonds payable	–	–	4,000,000,000	–	–	4,000,000,000
Interest payable for interests bearing liabilities	930,909,303	239,885,087	121,033,016	4,823,867	1,994,487	1,298,645,760
Total	27,465,011,885	6,483,877,983	4,359,325,912	122,409,659	57,294,487	38,487,919,926

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

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 (through the impact on floating rate borrowings) and equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in net profit**
For the six months ended 30 June 2016 (Unaudited)		
RMB	**50**	**(13,715,692)**
USD	**50**	**(456,789)**
RMB	**(50)**	**13,715,692**
USD	**(50)**	**456,789**
2015 (Audited)		
RMB	50	(27,945,438)
USD	50	(2,809,479)
RMB	(50)	27,945,438
USD	(50)	2,809,479

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.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Exchange rate risk (Continued)

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.54 to the financial statements.

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

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
30 June 2016 (Unaudited)			
Depreciation of RMB to USD	(1%)	(3,808,976)	16,578
Depreciation of RMB to EUR	(1%)	103,173	2,077,091
Depreciation of RMB to JPY	(1%)	42	–
Depreciation of RMB to AUD	(1%)	–	649,811
Depreciation of RMB to HKD	(1%)	101	1,639,267
Depreciation of RMB to CAD	(1%)	104,559	–
Depreciation of RMB to GBP	(1%)	93	–
Appreciation of RMB to USD	1%	3,808,976	(16,578)
Appreciation of RMB to EUR	1%	(103,173)	(2,077,091)
Appreciation of RMB to JPY	1%	(42)	–
Appreciation of RMB to AUD	1%	–	(649,811)
Appreciation of RMB to HKD	1%	(101)	(1,639,267)
Appreciation of RMB to CAD	1%	(104,559)	–
Appreciation of RMB to GBP	1%	(93)	–

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Exchange rate risk (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
31 December 2015 (Audited)			
Depreciation of RMB to USD	(1%)	(14,486,189)	–
Depreciation of RMB to EUR	(1%)	203,932	2,463,376
Depreciation of RMB to JPY	(1%)	10	–
Depreciation of RMB to AUD	(1%)	84,833	1,537,796
Depreciation of RMB to HKD	(1%)	(2,024,373)	1,492,866
Depreciation of RMB to CAD	(1%)	55,197	–
Depreciation of RMB to GBP	(1%)	(38)	–
Appreciation of RMB to USD	1%	14,486,189	–
Appreciation of RMB to EUR	1%	(203,932)	(2,463,376)
Appreciation of RMB to JPY	1%	(10)	–
Appreciation of RMB to AUD	1%	(84,833)	(1,537,796)
Appreciation of RMB to HKD	1%	2,024,373	(1,492,866)
Appreciation of RMB to CAD	1%	(55,197)	–
Appreciation of RMB to GBP	1%	38	–

Note: Except for the surplus reserve is not included.

5. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. During the first half of 2016 and the year of 2015, the capital management objectives, policies or procedures of the Group did not change.

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

5. CAPITAL MANAGEMENT *(CONTINUED)*

During the first half of 2016 and the year of 2015, the selling price of the main product adversely influenced the Group's operating profit. In addition, the Group ensures sufficient operating cash flow through bank loan.

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes deposits, amounts from selling of financial assets, bank loans, bill payable, bonds payable, accounts payable, payroll, interest payable, dividends payable and other payables, minus cash and bank balances. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period is as follows:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Customer deposits	**1,659,042,801**	1,901,390,488
Repurchase agreements of financial assets	**125,266,272**	–
Short term loans	**5,458,387,496**	6,791,359,472
Bills payable	**3,560,512,833**	5,343,906,398
Accounts payable	**5,567,240,066**	6,144,664,281
Payroll and benefits payable	**275,101,936**	274,614,723
Interest payable	**312,066,266**	150,829,308
Dividends payable	**6,525,534**	6,525,534
Other payables	**1,308,192,017**	1,258,463,513
Non-current liabilities due within one year	**6,068,072,262**	5,084,859,415
Long term loans	**6,099,819,712**	6,655,171,584
Bonds payable	**3,983,666,667**	3,979,666,667
Long-term employee benefits payable	**30,522,903**	28,857,389
Less: Cash and bank balances	**3,829,272,917**	5,142,711,482
Net liabilities	**30,625,143,848**	32,477,597,290
Capital attributable to owners of the parent	**18,955,533,931**	18,455,838,015
Adjusted capital	**18,955,533,931**	18,455,838,015
Capital and net liabilities	**49,580,677,779**	50,933,435,305
Gearing ratio	**62%**	64%

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE

30 June 2016 (Unaudited)

	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	**524,718,544**	**–**	**–**	**524,718,544**
Available-for-sale financial assets investments in debt instruments	**205,498,015**	**–**	**–**	**205,498,015**

31 December 2015 (Audited)

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss	1,005,271,054	–	–	1,005,271,054

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. FINANCIAL LIABILITIES DISCLOSED AT FAIR VALUE

30 June 2016 (Unaudited)

	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	–	6,295,015,161	–	6,295,015,161
Bonds payable	–	4,005,483,333	–	4,005,483,333

31 December 2015 (Audited)

	Inputs used by fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Long term loans	–	6,475,332,986	–	6,475,332,986
Bonds payable	–	3,976,000,000	–	3,976,000,000

3. VALUATION OF FAIR VALUE

Fair value of financial instruments

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

	Carrying amounts		Fair values	
	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Financial liabilities				
Long term loans	6,099,819,712	6,655,171,584	6,295,015,161	6,475,332,986
Bonds payable	3,983,666,667	3,979,666,667	4,005,483,333	3,976,000,000

IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE *(CONTINUED)*

Fair value of financial instruments *(Continued)*

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

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

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

The method of discounted cash flows is adopted to determine the fair value of long term loans and medium-term note payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 30 June 2016, the default risk for the long term loans is evaluated as not significant; for corporate bonds payable, quoted market prices are adopted to determine their fair value.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

Name of parent	Place of Registration	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)
The Holding	Anhui, PRC	Manufacturing	6,298,290,000	45.535	45.535

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

2. SUBSIDIARIES

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

3. ASSOCIATES AND JOINT VENTURES OF THE GROUP

Further details on balances with associates and joint ventures of the Group are sated in Note VII.2 to the financial statements.

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd.	Controlled by Holding
Magang (Group) Logistics Co., Ltd.	Controlled by Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by Holding
Masteel Engineering Technology (Group) Co., Ltd.	Controlled by Holding
Masteel Automation and Information Technology Co., Ltd.	Controlled by Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding
Masteel Group Mapping Co., Ltd.	Controlled by Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	**Relationship with the Company**
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding
Masteel Green Energy Technology Development	Controlled by Holding
Tongling Yuanda Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Steel Logistics Park Co., Ltd.	Controlled by Holding
Maanshan Gang Chen Hydrogen Industry Co., Ltd.	Controlled by Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by Holding
Masteel Refractory Materials Co., Ltd.	Controlled by Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding
Xinchuang Economize Resource	Controlled by Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by Holding
Hefei Dianbu River Harbour Co., Ltd.	Controlled by Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by Holding
Ma Steel United Electric Steel Roller Co., Ltd.	Controlled by Holding
Anhui Masteel Xinba Environmental Co., Ltd. (i)	Controlled by Holding

(i) The newly established companies are controlled by the Holding.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES

(1) Purchases of iron ore from related parties

	Note	For the six months ended 30 June **2016** Unaudited Amount RMB	2015 Unaudited Amount RMB
The Holding	(i)	**1,081,236,119**	1,194,385,109
Ma Steel International Trade and Economic Co., Ltd. ("Masteel International Trade")	(i)	**68,483,092**	106,648,389
Tongling Yuanda Co., Ltd. ("Tongling Yuanda")	(i)	**16,723,217**	32,873,054
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	**1,815,419**	–
		1,168,257,847	1,333,906,552

(i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 10 September 2015 entered into between the Company and the Holding. The agreement stipulated that the price should be determined basing on the Platts Index. The Group purchased iron ore from Tongling Yuanda and Masteel International Trade, and the price is subject to negotiation.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

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

	Note	For the six months ended 30 June **2016** **Unaudited** **Amount** **RMB**	2015 Unaudited Amount RMB
The Holding	(ii)	**42,680,667**	2,641,519
Masteel Refractory Materials Co., Ltd.	(ii)	**311,489,554**	282,969,379
Xinchuang Economize Resource.	(ii)	**139,113,059**	117,797,625
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**98,628,803**	105,310,040
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**126,109,589**	100,506,779
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	**240,826,607**	77,607,775
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	**75,881,042**	76,887,078
Ma Steel International Trade	(ii)	**19,389,803**	41,291,946
Masteel Automation and Information Technology Co., Ltd.	(ii)	**70,477,169**	39,632,590
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**36,946,832**	32,759,260
Maanshan Gang Chen Industry Co., Ltd.	(ii)	**2,011,285**	2,236,126
Others	(ii)	**88,194,189**	134,102,553
		1,251,748,599	1,013,742,670

(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, telecommunication service, contract of carriage service, equipment repair and maintenance services, engineering design services, were determined in accordance with a service agreement between the Group and the Holding.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(3) Agency fees paid to related parties

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**509,977**	981,489
Masteel Shen Ma Metal Co., Ltd.	(iii)	**2,320**	34,150
		512,297	1,015,639

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties.

(4) Rental expenses

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
The Holding	(iv)	**21,182,169**	24,264,900

(iv) The Holding leased a building to the Group in the current period and the rent is determined by the terms mutually agreed between the Group and the related parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(5) Purchases of fixed assets and construction services

	Note	For the six months ended 30 June **2016** Unaudited Amount RMB	2015 Unaudited Amount RMB
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**263,776,746**	158,692,829
Xinchuang Economize Resource	(iii)	**22,640,457**	49,815,703
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**–**	20,632,064
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	**–**	7,033,774
Masteel Automation and Information Technology Co., Ltd.	(iii)	**36,060,822**	5,053,376
Masteel Group Kang Cheng Building and Installing Co., Ltd.	(iii)	**861,385**	264,394
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**–**	235,499
Maanshan Masteel Electric Repair Co., Ltd.	(iii)	**402,479**	–
Others	(iii)	**7,884**	–
		323,749,773	241,727,639

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

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

	Note	For the six months ended 30 June **2016** Unaudited Amount RMB	2015 Unaudited Amount RMB
The Holding	(iii)	**1,943,674**	2,767,026
Xinchuang Economize Resource	(iii)	**43,959,957**	26,502,947
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**4,623,036**	15,487,144
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**9,542,416**	15,133,274
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	**5,715,689**	6,807,917
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**14,600,123**	5,504,858
Masteel Refractory Materials Co., Ltd.	(iii)	**3,758,009**	4,720,432
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	**2,531,304**	2,957,484
Masteel Automation and Information Technology Co., Ltd.	(iii)	**2,459,750**	2,086,531
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**990,792**	1,343,980
Masteel Group Kang Cheng Building and Installing Co., Ltd.	(iii)	**437,749**	784,666
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	**6,436**	99,749
Shanghai Masteel International Trade and Economic Co., Ltd.	(iii)	**6,242,294**	–
Others	(iii)	**9,105,080**	4,418,630
		105,916,309	88,614,638

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(7) Sale of steel products and related products

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**54,182,623**	92,279,075
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**597,979**	10,633,056
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**1,187,711**	2,918,810
Masteel International Trade	(iii)	**558,607**	901,066
		56,526,920	106,732,007

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(8) Financial service costs paid to related parties

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
The Holding	(v)	**4,190,907**	6,008,655
Masteel Engineering Technology (Group) Co., Ltd.	(v)	**625,762**	732,114
Maanshan Gang Chen Industry Co., Ltd.	(v)	**2,874**	574,004
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	**863,243**	572,405
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	**–**	550,573
Masteel International Trade	(v)	**173,359**	396,138
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(v)	**336,248**	–
Others	(v)	**1,191,877**	2,062,666
		7,384,270	10,896,555

(v) Masteel Financial took deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranged from 0.42% to 3.30% for the six months ended 30 June 2016 (for the six months ended 30 June 2015: 0.42% – 3.30%).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(9) Financial service income received from related parties

	Note	For the six months ended 30 June **2016** Unaudited Amount RMB	2015 Unaudited Amount RMB
The Holding	(vi)	**4,009,309**	1,971,500
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	**6,183,592**	9,589,200
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	**2,521,875**	2,225,764
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	**261,664**	950,472
Maanshan Gang Chen Industry Co., Ltd.	(vi)	**1,286,367**	613,600
Xinchuang Economize Resource	(vi)	**135,402**	109,506
Masteel Engineering Technology (Group) Co., Ltd.	(vi)	**67,786**	75,360
Ma Steel International Trade	(vi)	**299,388**	75,000
Others	(vi)	**205,769**	–
		14,971,152	15,610,402

(vi) Masteel Financial realizes financial service income for the financial services it rendered to the Holding and its subsidiaries, including granting loans, bank acceptance bill discounting and entrusted loan. The lending rate were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was no lower than the benchmark charge issued by the People's Bank of China.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(10) Rental income from associates

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Masteel Auto-parking	(vii)	**–**	59,270

(vii) Ma Steel (HK) entered into 'Agreement on capital injection of Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited on 26 November 2015, stating that the company would not participate in the capital injection. Therefore, the company's equity share was diluted from 25% to 8.9367%. As the company was no longer able to exercise significant influence over the investee, the investee is not an associated enterprise anymore.

(11) Rental expenses paid to associates

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Masteel Auto-parking	(vii)	**–**	7,476

(vii) Ma Steel (HK) entered into 'Agreement on capital injection of Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited on 26 November 2015, stating that the company would not participate in the capital injection. Therefore, the company's equity share was diluted from 25% to 8.9367%. As the company was no longer able to exercise significant influence over the investee, the investee is not an associated enterprise anymore.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(12) Purchases of coke from associates

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Shenglong Chemical	(viii)	**–**	47,398,176

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

(13) Sales of wheel product to associates

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
Jinxi Axle Company Limited	(ix)	**–**	1,199,500

(ix) On 28 May 2015, the Company acquired another 50% equity interests of Ma-Steel Rail Transportation from Jinxi Axle Company Limited. After the deal, the Company owns 100% equity interests in Ma-Steel Rail Transportation. Therefore, the Company begins to account Ma-Steel Rail Transportation as a subsidiary rather than as an associate.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(14) Rental income from a joint venture

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**1,250,000**	1,250,000

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

(15) Fee received for the supply of electricity from a joint venture

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**122,578,450**	142,164,333

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

(16) Fee received for utilities and facilities from a joint venture

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**5,519,644**	5,742,143

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

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(17) Fee received for supply of gas from a joint venture

		For the six months ended 30 June	
		2016	2016
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**1,992,183**	2,128,548

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

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

		For the six months ended 30 June	
		2016	2016
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**18,416**	16,307

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

(19) Purchase of gas products from a joint venture

		For the six months ended 30 June	
		2016	2016
		Unaudited	Unaudited
		Amount	Amount
	Note	**RMB**	RMB
BOC-Ma Steel	(x)	**257,608,018**	286,932,347

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

The transactions (i) to (x) above are the transactions carried out between the Group and its related parties during the daily operation.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(20) Guarantee from a related party

30 June 2016 (Unaudited)

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured or not
The Holding	**(xi)**	**The Company**	**4.020 billion**	**2014.3**	**2025.10**	**Not yet as of the approval date of the report**

31 December 2015 (Audited)

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured or not
The Holding	(xi)	The Company	4.812 billion	2014.3	2025.10	Not yet as of the approval date of the report

(xi) During the six months ended 30 June 2016, the Holding has not guaranteed new certain bank loans of the Group (2015: approximately RMB3.89 billion). The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB4.020 billion as of 30 June 2016 (31 December 2015: part of the Group's bank loans and bonds with warrants amounting approximately to RMB4.812 billion).

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(21) Borrowings from a related party

30 June 2016 (Unaudited)

	Note	**Amount**	**Start date**	**End date**
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xii)	**20,000,000**	**2015/11/19**	**2016/11/18**

31 December 2015 (Audited)

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xii)	80,000,000	2015/03/27	2016/03/25
Anhui Zhonglian Shipping Co., Ltd.	(xii)	30,000,000	2015/05/04	2016/05/03
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xii)	20,000,000	2015/11/19	2016/11/18

(xii) On 27 March 2015, Anhui Zhonglian Shipping Co. Ltd entrust Masteel Financial to provide the Company a short term loan of RMB80,000,000 with the annual interest rate 4.14%, and repay principal and interest on the expiration date. The company accrued interest RMB782,000. The entrusted loan borrowed in 2015 was paid for the period ended 30 June 2016.

On 4 May 2015, Anhui Zhonglian Shipping Co. Ltd entrust Masteel Financial to provide the Company a short term loan of RMB30,000,000 with the annual interest rate 3.915%, and repay principal and interest on the expiration date. The company accrued interest RMB404,550. The entrusted loan borrowed in 2015 was paid for the period ended 30 June 2016.

On 19 November 2015, Maanshan Masteel Surface Engineering Technology Co., Ltd entrust Masteel Financial to provide the Company a short term loan of RMB20,000,000 with the annual interest rate 3.915%, and repay principal and interest on the expiration date. The company accrued interest RMB391,500. The entrusted loan borrowed in 2015 was not paid yet as of 30 June 2016.

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

5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES *(CONTINUED)*

(22) The Group has not obtained any long term entrusted loans from the Holding for the six months ended 30 June 2016 (31 December 2015: Nil).

(23) According to the financial service agreement signed by Masteel Financial and the Holding on 22 December 2015, the highest daily outstanding loan should be less than RMB500 million, and other financial service charge should be less than RMB50 million from 1 January 2016 to 31 December 2016. 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.

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	30 June 2016 Unaudited	31 December 2015 Audited
Trade receivables:		
The Holding and its subsidiaries		
The Holding	**38,327**	1,347,893
Maanshan Jiahua Commodity Concrete Co., Ltd.	**5,097,917**	5,081,610
Masteel Heavy Machinery Manufacturing Co., Ltd.	**4,169,791**	3,073,274
Ma Steel Powder Metallurgy Co., Ltd.	**5,484,800**	1,278,576
Masteel Engineering Technology (Group) Co., Ltd.	**12,705,208**	–
Others entities controlled by the Holding	**994,892**	4,563,646
	28,490,935	15,344,999
Prepayments:		
The Holding and its subsidiaries		
The Holding	**850,182**	–
Masteel International Trade	**10,427,535**	39,493,238
Shanghai Masteel International Trade and Economic Co., Ltd.	**1,136,876**	–
Others entities controlled by the Holding	**–**	100
	12,414,593	39,493,338

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	30 June 2016 Unaudited	31 December 2015 Audited
Other receivables:		
The Holding and its subsidiaries		
Masteel Heavy Machinery Manufacturing Co., Ltd.	**–**	15,900
Masteel Engineering Technology (Group) Co., Ltd.	**4,000**	–
Masteel Automobile Transportation Service Co., Ltd.	**357**	–
Masteel Refractory Materials Co., Ltd.	**–**	66,886
	4,357	82,786
Accounts payable:		
The Holding and its subsidiaries		
The Holding	**988,765**	6,191,529
Xinchuang Economize Resource	**43,091,337**	70,920,636
Masteel Engineering Technology (Group) Co., Ltd.	**129,033,948**	128,500,973
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**31,584,279**	46,679,719
Masteel Automation and Information Technology Co., Ltd.	**69,432,711**	19,117,929
Masteel Automobile Transportation Service Co., Ltd.	**19,474,171**	19,490,919
Masteel Shen Ma Metal Co., Ltd.	**8,446,411**	14,045,409
Masteel Heavy Machinery Manufacturing Co., Ltd.	**30,484,868**	38,786,784
Masteel Refractory Materials Co., Ltd.	**56,603,859**	–
Others entities controlled by the Holding	**35,664,820**	81,434,478
	424,805,169	425,168,376
Joint ventures of the Group		
BOC-Ma Steel	**32,430,006**	40,667,490
Associates of the Group		
Shenglong Chemical	**366,902**	5,666,902

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	30 June 2016 Unaudited	31 December 2015 Audited
Advances from customers:		
The Holding and its subsidiaries		
The Holding	**150,785**	177,646
Maanshan GangChen Industry Co., Ltd.	**19,040,258**	28,947,879
Anhui BRC & Masteel Weldmesh Co., Ltd.	**7,781,182**	12,239,725
Others entities controlled by Holding	**12,652,743**	9,778,657
	39,624,968	51,143,907
Associates of the Group		
Shenglong Chemical	**86,559**	86,559
Other payables:		
The Holding and its subsidiaries		
The Holding	**10,000**	–
Masteel Automobile Transportation Service Co., Ltd.	**4,703,509**	4,940,235
Masteel Engineering Technology(Group) Co., Ltd.	**11,528,407**	15,731,388
Xinchuang Economize Resource	**13,076,290**	8,359,710
Maanshan Masteel Electric Repair Co., Ltd.	**263,250**	650,686
Maanshan GangChen Industry Co., Ltd.	**–**	1,039,760
Other entities controlled by the Holding	**6,284,990**	9,520,203
	35,866,446	40,241,982
Joint ventures of the Group		
BOC-Ma Steel	**70,000**	70,000

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	30 June 2016 Unaudited	31 December 2015 Audited
Bills receivable:		
The Holding and its subsidiaries		
Maanshan Gang Chen Industry Co., Ltd.	**4,926,700**	58,237,357
Anhui BRC & Masteel Weldmesh Co., Ltd.	**100,000**	–
Xinchuang Economize Resource	**1,350,000**	4,382,352
Masteel Heavy Machinery Manufacturing Co., Ltd.	**100,000**	100,000
Masteel Engineering Technology (Group) Co., Ltd.	**500,000**	7,000,000
	6,976,700	69,719,709
Loans and bank acceptance bill discounting:		
The Holding and its subsidiaries		
The Holding	**45,033,021**	38,000,000
Maanshan Iron & Steel Group Mining Co., Ltd.	**551,250,000**	251,250,000
Xinchuang Economic Resource	**16,484,519**	–
Anhui Masteel Luo He Mining Co., Ltd.	**103,400,145**	139,973,938
Anhui BRC & Masteel Weldmesh Co., Ltd.	**9,000,000**	13,779,345
Masteel International Trade	**86,810,000**	61,019,697
Others entities controlled by The Holding	**94,327,415**	64,833,022
	906,305,100	568,856,002

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	30 June 2016 Unaudited	31 December 2015 Audited
Customer deposits:		
The Holding and its subsidiaries		
The Holding	**560,938,584**	1,003,221,893
Masteel Engineering Technology (Group) Co., Ltd.	**156,037,344**	160,410,862
Maanshan Gang Chen Industry Co., Ltd.	**30,087,938**	20,797,705
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**65,457,052**	93,901,242
Masteel International Trade	**42,008,325**	64,550,368
Masteel Group Kang Tai Land Development Co., Ltd.	**63,830,455**	111,461,440
Masteel Heavy Machinery Manufacturing Co., Ltd.	**38,342,138**	79,758,924
Masteel Refractory Materials Co., Ltd.	**75,275,769**	–
Maanshan Iron & Steel Group Mining Co., Ltd.	**74,707,357**	–
Other entities controlled by The Holding	**129,613,146**	215,267,964
	1,236,298,108	1,749,370,398

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

* As of 30 June 2016, in current assets and current liabilities, all these receivables and payables have no interest, no pledge and will be paid in the future.

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 30 June 2016, the Company had made an investment commitment to Mascometal, which is amounting to EUR18.45 million. (As of 31 December 2015, the Company had made an investment commitment to Ma-Steel OCI Chemical, which is amounting to USD3.46 million.)

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	30 June 2016 Unaudited RMB	31 December 2015 Audited RMB
Contracted, but not provided for		
Capital commitments	**2,857,763,921**	9,067,160,505
Investment commitments	**151,068,750**	60,891,437
	3,008,832,671	9,128,051,942

The group did not have matters that be accounted in the joint venture capital commitment this period (2015: 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 30 June 2016, the significant pending litigation of the Group and the Company is as follows:

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Shanghai Trading regarding a dispute over steel trading, and the relevant claim amounts were RMB10,219,694.24 and RMB30,581,457.72, respectively. The lawsuit is currently pending for judicial decision by the intermediate court of Ma'anshan Municipality.

XII. POST BALANCE SHEET EVENTS

ISSUANCE OF SHORT-TERM FINANCING BONDS

On 2 August 2016, the Company completed the issuance of short-term financing bonds in the National Inter-bank Bond Market with a total face value of RMB2 billion at par value of RMB100 per unit with a maturity date of August 2017 for working capital needs and repayment of bank borrowings. The fixed annual coupon interest rate of these bonds is 5.45%.

DISPOSAL OF 9% EQUITY OF MASCOMETAL

On 30 March 2016, the board of directors of the Company approved the disposal of 9% equity of Mascometal with a consideration of EUR2.88 million, to Maanshan City Yushan District City Investment and Development Co., Ltd. Mascometal is a joint venture established by the Company and ASCO Industries of France, and its registered capital is EUR32 million. The Company holds 75% of the equity interest of Mascometal before the disposal. After completion of the disposal, the Company will hold 66% of the equity interest of Mascometal. As of 3 August 2016, the Company received the first payment of consideration with an amount of approximately EUR0.666 million.

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

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from one to eighteen years. The periodic rent is fixed during the operating lease periods.

	30 June 2016 Unaudited	31 December 2015 Audited
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,373,707
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	**4,532,534**	5,157,534
	8,282,534	9,031,241

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 its subsidiaries except for Masteel Financial;
- Financial service: Masteel Financial.

The Group did not consider financial service as individual reportable segments, as Masteel Financial mainly offers financial service to internal companies. 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

Products and service information

External principal operating income

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Sale of steel products	**19,705,371,213**	21,868,666,090
Sale of steel billets and pig iron	**371,861,145**	312,867,822
Sale of coke by-products	**155,735,957**	259,279,825
Others	**377,155,183**	491,878,898
	20,610,123,498	22,932,692,635

Geographical information

External principal operating income

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
The PRC	**18,866,675,458**	20,961,884,860
Overseas	**1,743,448,040**	1,970,807,775
	20,610,123,498	22,932,692,635

Non-current assets

	30 June 2016	31 December 2015
	Unaudited	Audited
The PRC	**40,836,448,140**	41,601,037,262
Overseas	**255,456,174**	233,704,952
	41,091,904,314	41,834,742,214

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information *(Continued)*

Non-current assets (Continued)

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

Major customer information

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

3. OTHER FINANCIAL INFORMATION*

	Group		Company	
	30 June 2016 Unaudited	31 December 2015 Audited	**30 June 2016 Unaudited**	31 December 2015 Audited
Current assets	**17,832,565,110**	20,160,381,786	**14,208,429,172**	15,379,481,751
Less: Current liabilities	**26,858,168,125**	29,731,298,424	**20,270,560,816**	22,270,113,406
Net current liabilities	**(9,025,603,015)**	(9,570,916,638)	**(6,062,131,644)**	(6,890,631,655)

	Group		Company	
	30 June 2016 Unaudited	31 December 2015 Audited	**30 June 2016 Unaudited**	31 December 2015 Audited
Total assets	**59,565,048,326**	62,454,465,955	**51,920,020,366**	53,677,928,665
Less: Current liabilities	**26,858,168,125**	29,731,298,424	**20,270,560,816**	22,270,113,406
Net total assets less current liabilities	**32,706,880,201**	32,723,167,531	**31,649,459,550**	31,407,815,259

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

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

An aging analysis of trade receivables is as follows:

	30 June 2016 Unaudited	31 December 2015 Audited
Within one year	**1,415,548,334**	1,474,257,377
One to two years	**85,947,219**	71,144,875
Two to three years	**34,052,228**	23,011,493
Over three years	**8,785,130**	8,743,458
	1,544,332,911	1,577,157,203
Less: Provisions for bad debts	**13,382,203**	13,382,203
	1,530,950,708	1,563,775,000

Trade receivable balance is analyzed as follows:

	30 June 2016 (Unaudited)				31 December 2015 (Audited)			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Balance**	**Ratio (%)**	Balance	Ratio (%)	Balance	Ratio (%)
Individually significant and assessed for impairment individually	**1,503,541,344**	**97**	**(6,927,040)**	**–**	1,562,158,216	99	(6,927,040)	–
Individually insignificant but assessed for impairment individually	**40,791,567**	**3**	**(6,455,163)**	**16**	14,998,987	1	(6,455,163)	43
	1,544,332,911	**100**	**(13,382,203)**		1,577,157,203	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the period are disclosed in Note XIV.5.

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

1. TRADE RECEIVABLES *(CONTINUED)*

As of 30 June 2016, trade receivable that use individually significant and assessed for impairment individually were as follows:

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

As of 31 December 2015, trade receivable that use 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

During the current period, there was no provision for bad debts (2015: nil), and there was no recovery or reversal of provision for bad debts (2015: nil).

During the current period, there were no trade receivables that had been written off (2015: nil).

2. OTHER RECEIVABLES

An aging analysis of the other receivables is as follows:

	30 June 2016 Unaudited	31 December 2015 Audited
Within one year	**245,434,594**	204,859,233
One to two years	**503,496**	1,128,177
Two to three years	**1,555,354**	3,110,391
Over three years	**457,183,631**	457,160,989
	704,677,075	666,258,790
Less: Provisions for bad debts	**420,160,989**	420,160,989
	284,516,086	246,097,801

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

2. OTHER RECEIVABLES *(CONTINUED)*

The movements of provision for bad debts against other receivables for the period are disclosed in Note XIV. 5.

Other receivable balance is analyzed as follows:

	30 June 2016 (Unaudited)				31 December 2015 (Audited)			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Rate (%)	Amount	Ratio (%)	Balance	Rate (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**661,495,044**	**94**	**(415,630,075)**	**63**	655,815,368	98	(415,630,075)	63
Other insignificant but assessed for impairment individually	**43,182,031**	**6**	**(4,530,914)**	**10**	10,443,422	2	(4,530,914)	43
	704,677,075	**100**	**(420,160,989)**		666,258,790	100	(420,160,989)	

As of 30 June 2016, other receivables that are individually significant and assessed for impairment individually are as follows:

	Book value	Provision for bad debts	Ratio	Reason
Company 1	**60,939,960**	**(60,939,960)**	**100%**	Note
Company 2	**127,685,367**	**(127,685,367)**	**100%**	Note
Company 3	**37,243,732**	**(37,243,732)**	**100%**	Note
Company 4	**132,058,434**	**(132,058,434)**	**100%**	Note
Company 5	**92,302,582**	**(55,302,582)**	**60%**	Note
Company 6	**2,400,000**	**(2,400,000)**	**100%**	Note
	452,630,075	**(415,630,075)**	**92%**	

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

2. OTHER RECEIVABLES *(CONTINUED)*

As of 31 December 2015, other receivables that are individually significant and assessed for impairment individually are as follows:

	Book value	Provision for bad debts	Ratio	Reason
Company 1	60,939,960	(60,939,960)	100%	Note
Company 2	127,685,367	(127,685,367)	100%	Note
Company 3	37,243,732	(37,243,732)	100%	Note
Company 4	132,058,434	(132,058,434)	100%	Note
Company 5	92,302,582	(55,302,582)	60%	Note
Company 6	2,400,000	(2,400,000)	100%	Note
	452,630,075	(415,630,075)	92%	

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

During the current period, there was no provision for bad debts accrued (2015: RMB35,000,000) and no recovery or reversal of provision for bad debt (2015: RMB128,000).

There was no other receivables had been written off during the current period (2015: nil).

Other receivables classified by nature:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Prepayment for trading	**594,230,077**	594,230,077
Prepaid guarantee for steel futures	**85,456,708**	42,768,562
Prepayment of custom duties and VAT	**7,314,186**	13,022,912
Others	**17,676,104**	16,237,239
	704,677,075	666,258,790
Less: Provision for bad debts	**420,160,989**	420,160,989
	284,516,086	246,097,801

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

2. OTHER RECEIVABLES *(CONTINUED)*

As of 30 June 2016，the top five largest other receivables were as follows:

	Balance	**Ration (%)**	**Nature**	**Aging**	**Balance of Bad debt**
Company 1	**132,058,434**	**19**	**Prepayment for trading**	**More than 3 years**	**132,058,434**
Company 2	**127,685,367**	**18**	**Prepayment for trading**	**More than 3 years**	**127,685,367**
Company 3	**92,302,582**	**13**	**Prepayment for trading**	**More than 3 years**	**55,302,582**
Company 4	**60,939,960**	**9**	**Prepayment for trading**	**More than 3 years**	**60,939,960**
Company 5	**37,243,732**	**5**	**Prepayment for trading**	**More than 3 years**	**37,243,732**
	450,230,075	**64**			**413,230,075**

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

	Balance	Ration (%)	Nature	Aging	Balance of Bad debt
Company 1	132,058,434	20	Prepayment for trading	More than 3 years	132,058,434
Company 2	127,685,367	19	Prepayment for trading	More than 3 years	127,685,367
Company 3	92,302,582	14	Prepayment for trading	More than 3 years	55,302,582
Company 4	60,939,960	9	Prepayment for trading	More than 3 years	60,939,960
Company 5	37,243,732	6	Prepayment for trading	More than 3 years	37,243,732
	450,230,075	68			413,230,075

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

3. INVENTORIES

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	1,381,842,700	(87,425,115)	1,294,417,585	1,568,921,850	(333,960,186)	1,234,961,664
Work in progress	601,385,624	(43,251,407)	558,134,217	772,043,075	(86,639,975)	685,403,100
Finished goods	1,828,677,720	(20,064,800)	1,808,612,920	1,285,841,324	(170,751,556)	1,115,089,768
Spare parts	1,292,466,144	(59,429,812)	1,233,036,332	1,372,406,287	(59,572,961)	1,312,833,326
	5,104,372,188	(210,171,134)	4,894,201,054	4,999,212,536	(650,924,678)	4,348,287,858

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 the normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. For the six months ended 30 June 2016 and the year of 2015, the Group had no reversal of impairment provision against inventories.

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

4. LONG TERM EQUITY INVESTMENTS

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Long term investments under the equity method		
Joint ventures (i)	**314,604,383**	316,570,133
Associates (i)	**752,819,280**	713,283,374
Long term investments under the cost method		
Subsidiaries (ii)	**5,862,259,340**	5,860,625,890
Subtotal	**6,929,683,003**	6,890,479,397
Less: Provision for impairment	**60,000,000**	60,000,000
Total	**6,869,683,003**	6,830,479,397

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

The movements of impairment provision for long term investments for the period are disclosed in Note XIV.5.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Investments in joint ventures and associates

30 June 2016 (Unaudited)

	Opening balance	Movements during the period: 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 period
Joint ventures										
BOC-Ma Steel	316,030,791	-	-	35,757,062	-	941,238	(79,000,000)	-	273,729,091	-
MASTEEL-CMI	539,342	-	-	(528)	-	-	-	-	538,814	-
Mascometal	-	40,665,960	-	(329,482)	-	-	-	-	40,336,478	-
Associates										
Henan Jinma Energy	241,098,393	-	-	20,769,074	-	-	(17,280,000)	-	244,587,467	-
Shenglong Chemical	242,402,338	-	-	9,694,021	-	271,094	-	-	252,367,453	-
Shanghai Iron and Steel Electronic	26,604,521	-	-	2,203,534	-	-	-	-	28,808,055	-
Xinchuang Economize Resource	35,539,691	-	-	2,683,444	-	111,144	-	-	38,334,279	-
Anhui Linhuan Chemical	72,000,000	-	-	-	-	-	-	-	72,000,000	-
Ma-steel OCI Chemical	95,638,431	22,513,794	-	(1,430,199)	-	-	-	-	116,722,026	-
	1,029,853,507	63,179,754	-	69,346,926	-	1,323,476	(96,280,000)	-	1,067,423,663	-

31 December 2015 (Audited)

	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	311,422,276	–	–	81,325,413	–	(3,216,898)	(73,500,000)	–	316,030,791	–
MASTEEL-CMI	542,669	–	–	(3,327)	–	–	–	–	539,342	–
Associates										
Henan Jinma Energy	207,497,916	37,623,600	–	(4,023,123)	–	–	–	–	241,098,393	–
Shenglong Chemical	245,813,223	–	–	(2,786,831)	–	(624,054)	–	–	242,402,338	–
Shanghai Iron and Steel Electronic	30,977,774	–	–	1,626,747	–	–	(6,000,000)	–	26,604,521	–
Xinchuang Economize Resource	30,967,723	–	–	5,055,768	–	(483,800)	–	–	35,539,691	–
Ma-Steel Rail Transportation	171,476,241	–	(165,930,369)	(5,545,872)	–	–	–	–	–	–
Jiyuan Jinyuan Chemical	45,794,148	–	(44,961,228)	(832,920)	–	–	–	–	–	–
Anhui Linhuan Chemical	43,200,000	28,800,000	–	–	–	–	–	–	72,000,000	–
Ma-Steel OCI Chemical	–	95,235,280	–	403,151	–	–	–	–	95,638,431	–
	1,087,691,970	161,658,880	(210,891,597)	75,219,006	–	(4,324,752)	(79,500,000)	–	1,029,853,507	–

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries

30 June 2016 (Unaudited)

	Opening balance	Movements during the period: Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the period	Cash dividends declared
New Build Masteel K. Wah.	44,443,067	-	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	-
Ma Steel (HK)	21,146,421	-	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	-	900,000	-	-
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	73,200,000	-	-	-	-	73,200,000	-	-
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Masteel Shanghai Trading	-	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	-
Masteel Financial	933,172,609	-	-	-	-	933,172,609	-	-
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	336,695,298	-	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Nanjing	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma-Steel Rail Transportation	336,021,369	-	-	-	-	336,021,369	-	-
Masteel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America Inc. (i)	-	1,633,450.00	-	-	-	1,633,450.00	-	-
	5,800,625,890	1,633,450.00	-	-	-	5,802,259,340	60,000,000	-

(i) Newly established subsidiary of the company, please refer to note VI.

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

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Subsidiaries *(Continued)*

31 December 2015 (Audited)

		Movements during the year						
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
New Build Masteel K. Wah.	44,443,067	–	–	–	–	44,443,067	–	–
Ma Steel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	–
Ma Steel (Guangzhou)	80,000,000	–	–	–	–	80,000,000	–	–
Ma Steel (HK)	21,146,421	–	–	–	–	21,146,421	–	–
MG Trading	1,573,766	–	–	–	–	1,573,766	–	–
Holly Industrial	21,478,316	–	–	–	–	21,478,316	–	–
Huayang Equipment	900,000	–	–	–	–	900,000	–	111,032,729
Ma Steel (Jinhua)	90,000,000	–	–	–	–	90,000,000	–	–
Ma Steel (Australia)	126,312,415	–	–	–	–	126,312,415	–	–
Ma Steel (Hefei)	1,775,000,000	–	–	–	–	1,775,000,000	–	–
Ma Steel (Hefei) Processing	73,200,000	–	–	–	–	73,200,000	–	–
Ma Steel (Yangzhou) Processing	116,462,300	–	–	–	–	116,462,300	–	–
Wuhu Technique	106,500,000	–	–	–	–	106,500,000	–	–
Masteel Scrap	100,000,000	–	–	–	–	100,000,000	–	–
Masteel Shanghai Trading	–	–	–	–	–	–	60,000,000	–
Chongqing Material	175,000,000	–	–	–	–	175,000,000	–	–
Anhui Chang Jiang Iron and Steel	1,234,444,444	–	–	–	–	1,234,444,444	–	–
Masteel Financial	933,172,609	–	–	–	–	933,172,609	–	–
Hefei Materials	140,000,000	–	–	–	–	140,000,000	–	–
MG-VALDUNES	336,695,298	–	–	–	–	336,695,298	–	–
Ma Steel Guangzhou Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Hangzhou Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Wuxi Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Chongqing Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Nanjing	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Wuhan Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Shanghai Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma-Steel Rail Transportation	–	170,091,000	–	165,930,369	–	336,021,369	–	–
Masteel Oubang Color-coated	–	10,050,000	–	–	–	10,050,000	–	–
	5,454,554,521	180,141,000	–	165,930,369	–	5,800,625,890	60,000,000	111,032,729

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

5. ASSET IMPAIRMENT PROVISIONS

	30 June 2016 (Unaudited)					
	Opening balance	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	433,543,192	-	-	-	-	433,543,192
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	420,160,989	-	-	-	-	420,160,989
Provisions for inventories (Note)	650,924,678	621,092,726	-	(1,061,846,270)	-	210,171,134
Including: Raw materials	333,960,186	286,863,909	-	(533,398,980)	-	87,425,115
Work in progress	86,639,975	127,687,059	-	(171,075,627)	-	43,251,407
Finished goods	170,751,556	206,541,758	-	(357,228,514)	-	20,064,800
Spare parts	59,572,961	-	-	(143,149)	-	59,429,812
Provisions for long term equity investments	60,000,000	-	-	-	-	60,000,000
Including: Subsidiary	60,000,000	-	-	-	-	60,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	1,144,467,870	621,092,726	-	(1,061,846,270)	-	703,714,326

Note: Generally, the provision for inventories is assessed and accrued at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

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

5. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	31 December 2015 (Audited)					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	398,671,192	35,000,000	(128,000)	–	–	433,543,192
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	385,288,989	35,000,000	(128,000)	–	–	420,160,989
Provisions for inventories (Note)	179,591,702	1,204,974,141	–	(733,641,165)	–	650,924,678
Including: Raw materials	90,011,279	637,936,253	–	(393,987,346)	–	333,960,186
Semi-finished products	18,362,373	182,310,920	–	(114,033,318)	–	86,639,975
Finished products	11,186,556	384,726,968	–	(225,161,968)	–	170,751,556
Spare parts	60,031,494	–	–	(458,533)	–	59,572,961
Provisions for long term investments	60,000,000	–	–	–	–	60,000,000
Including: subsidiaries	60,000,000	–	–	–	–	60,000,000
Impairment of fix assets	–	–	–	–	–	–
Including: Buildings and structures	–	–	–	–	–	–
Plant, machinery and equipment	–	–	–	–	–	–
	638,262,894	1,239,974,141	(128,000)	(733,641,165)	–	1,144,467,870

Note: Generally, the provision for inventories is assessed and accrued at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

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

6. REVENUE AND COST OF SALES

Revenue is stated as follows:

	For the six months ended 30 June			
	2016		2015	
	Unaudited		Unaudited	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**17,719,002,669**	**15,403,616,320**	19,479,616,489	19,037,501,137
Other operating income	**339,109,052**	**354,046,067**	908,476,751	966,808,590
	18,058,111,721	**15,757,662,387**	20,388,093,240	20,004,309,727

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Sale of products	**18,039,321,411**	20,380,454,623
Rendering service	**18,790,310**	7,638,617
	18,058,111,721	20,388,093,240

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

7. INVESTMENT INCOME

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Long term equity investment income under the equity method	**69,346,926**	40,540,565
Long term equity investment income under the cost method	**–**	189,000
Investment income from holding available-for-sale financial assets	**–**	–
Investment loss from disposal available-for-sale financial assets	**–**	(48,310)
Investment income from holding financial assets measured at fair value through profit or loss	**–**	–
Investment (loss)/income from disposal of financial assets at fair value through profit or loss	**(2,253,134)**	625,118
	67,093,792	41,306,373

* For the six months ended 30 June 2016, the Group's investment income from unlisted companies were RMB67,093,792 (for the six months ended 30 June 2015: the investment income from listed companies and unlisted companies were RMB625,118 and RMB40,681,255, respectively).

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

8. CASH FLOWS FROM OPERATING ACTIVITIES

	For the six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Net profit/(loss)	**675,534,551**	(1,167,799,369)
Add: Provision for inventories	**621,092,726**	303,920,195
Depreciation of property, plant and equipment	**1,298,182,580**	1,286,089,000
Amortisation of investment properties	**863,732**	863,732
Amortisation of intangible assets	**14,756,170**	14,800,836
Amortisation of deferred income	**(84,756,509)**	(61,354,657)
Loss/(gain) on disposal of non-current assets	**615,211**	(396,328)
Increase in special reserves	**1**	–
Financial expenses	**412,772,583**	440,382,410
Investment income	**(67,093,792)**	(41,306,373)
Loss on fair value changes	**3,658,207**	–
Decrease in deferred tax assets	**78,585,194**	110,472,155
Increase in inventories	**(1,167,005,922)**	(36,348,320)
Increase in receivables from operating activities	**(1,714,193,425)**	(727,710,840)
(Decrease)/Increase in payables from operating activities	**(1,852,893,196)**	593,860,058
Net cash flows (used in)/from operating activities	**(1,779,881,889)**	715,472,499
Endorsements of bank acceptance bills received from sales of goods or rendering of services	**2,600,782,309**	2,076,230,834

Supplementary Information

30 June 2016
Renminbi Yuan

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) issued by the CSRC.

	For the six months ended 30 June Unaudited
Items of non-recurring gains or losses	
Gain on disposal of non-current assets	**154,474**
Loss on disposal of non-current assets	**(976,959)**
Government grants	**138,966,140**
Other non-operating expense and income items, exclude items above	**499,505**
Employee termination compensation (Note)	**(152,568,484)**
Gain on fair value changes of financial assets at fair value through profit or loss	**3,461,591**
Investment income from holding available-for-sale financial assets	**948,303**
Investment income from disposal of financial assets at fair value through profit or loss	**8,402,396**
Other investment loss	**–**
	(1,113,034)
Less: Income tax effect of non-recurring gains	**16,285,507**
Non-recurring gains attributable to minority shareholders	**(363,284)**
Net effect of non-recurring gains or losses	**(17,035,257)**
Net profit attributable to owner of the parent excluding non-recurring gains or losses	
Net profit attributable to owner of the parent	**452,752,971**
Less: Net effect of non-recurring gains or losses	**(17,035,257)**
Net profit attributable to owner of the parent excluding non-recurring gains or losses	**469,788,228**

Note: The employee termination compensation was resulted from the shutdown and the transformation of Ma Steel(Hefei).

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2016 (Unaudited)

	Return on net assets (%)	**Earnings per share (RMB)**	
		Basic	**Diluted**
Net profit attributable to owner of the Company	**2.42**	**0.059**	**0.059**
Net profit attributable to owner of the Company excluding non-recurring gains or losses	**2.51**	**0.061**	**0.061**

For the six months ended 30 June 2015 (Unaudited)

	Return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net loss attributable to owner of the Company	(5.46)	(0.161)	(0.161)
Net loss attributable to owner of the Company excluding non-recurring gains or losses	(5.94)	(0.175)	(0.175)

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by the CSRC.

X. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;

2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;

3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;

4. The Company's Articles of Association;

5. Interim report disclosed in other securities market;

6. Other related information.

Chairman: Ding Yi
Submission date approved by the Board of Directors: 2016-8-30