2017
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 report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the interim report.**

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

3. **The interim report of the Company is 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 the interim report.**

5. **The Company had no profit distribution plan or plan for the capitalization of capital reserve during the reporting period.**

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

7. **No appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found during the reporting period.**

8. **There was no violation of regulations, decisions or procedures in relation to provisions of external guarantees during the reporting period.**

9. **The report analyzes major risks faced by the Company. Please refer to "(3) Potential risks" of "2. Other Disclosures" of "IV. Discussion and Analysis on Operation"**

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

CRCC	means	China Railway Test & Certification Center
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Environmental Protection Company; Xinchuang Environmental Protection	means	Anhui Xinchuang Energy Saving and Environment Protection Science and Technology Company, Limited, a controlling subsidiary of the Group Company, and an investee subsidiary of the Company
Magang Investment Limited	means	Magang Group Investment Limited, a wholly owned subsidiary of the Group Company
Masteel Financial	means	Magang Group Finance Co.Ltd., a controlling subsidiary of the Company
Hefei Company; Ma Steel Hefei Iron & Steel	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Changjiang Steel	means	Anhui Changjiang Steel Co.,Ltd., a controlling subsidiary of the Company
Rail Transportation Co.; Rail Co.	means	Magang Rail Transportation Equipment Co. Ltd., a wholly owned subsidiary of the Company
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly owned subsidiary of the Company
reporting period	means	From 1 January 2017 to 30 June 2017

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

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

2. CONTACT PERSON

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

Note: At the twenty-fifth meeting of the eighth session of the Board of the Company on 14 February 2017, the resignation of Mr. Hu Shunliang as the Secretary to the Board (Company Secretary) of the Company was approved. The Board has also resolved that the duties of the Secretary to the Board (Company Secretary) will be temporarily performed by Mr. Ding Yi, the legal representative and Chairman of the Company. The Company will appoint a new Secretary to the Board (Company Secretary) as soon as possible.

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 CHANGES IN 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

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

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

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

6.1 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	35,187,579,640	21,001,162,560	67.55
Net profit attributable to owners of the parent	1,643,396,514	452,752,971	262.98
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,531,119,148	469,788,228	225.92
Net cash flows from operating activities	1,459,592,056	527,215,501	176.85

	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 owners of the parent	21,426,635,020	19,764,171,955	8.41
Total assets	66,223,275,209	66,245,531,030	–0.03

II. Company Introduction and Major Financial Indicators (Continued)

6.2 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 earnings per share (RMB/share)	0.213	0.059	261.02
Diluted earnings per share (RMB/share)	0.213	0.059	261.02
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.199	0.061	226.23
Return on net assets (weighted average) (%)	7.98	2.42	Increased by 5.56 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	7.44	2.51	Increased by 4.93 percentage points

7. DIFFERENCES ON ACCOUNTING DATA UNDER ACCOUNTING POLICIES IN DOMESTIC AND ABROAD

☐ Applicable ✔ Not applicable

8. NON-OPERATING ITEMS AND AMOUNT

Unit: RMB

Non-operating items	**Amount**
Gains/(losses) from disposal of non-current assets	–42,907,112
Government grants 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)	68,914,690
Government grants related to the Company's normal business	83,563,376
Employee termination benefits	–46,825,916
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	57,402,823
Reversal of provision for trade receivables assessed for impairment individually	1,207,196
Non-operating income and expenses other than the above items	–6,603,579
Investment income from disposal of a subsidiary	736,943
Impact of minority interests	–734,663
Impact of income tax	–2,476,392
Total	112,277,366

III. Overview of the Company's Business

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

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 products of the Company is steel, which can be roughly divided into three types, i.e. plates, long products and wheels and axles.

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

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

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

Wheels and axles: Major products include train wheels, axles and rings, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honor of "Famous Brand of China". The Company owns the core technology and patent of train wheels used for high-speed railroads. High-speed wheels of standardized electric multiple units have passed the CRCC product certification and obtained the first CRCC certification in China. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9001: 2008 quality system, International Railway Industry Standard, the AAR issued by the North American Railway Committee, RISAS issued by British Rail, European Union Railway TSI, EN and so forth.

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

2. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL CHANGE IN THE COMPANY'S ASSETS.

3. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL CHANGE IN THE COMPANY'S CORE COMPETITIVENESS.

IV. Discussion and Analysis on Operation

1. DISCUSSION AND ANALYSIS ON OPERATION

1. THE MACRO ENVIRONMENT FOR PRODUCTION AND OPERATION

During the period under review, China's national economic performance remained steady and showed improvement. GDP grew by 6.9%, up 0.2 percentage point compared with corresponding period of the previous year. As the growth rate of major downstream steel using industries such as automobiles, electrical appliances and equipment increased, the demand for steel improved while the State intensively pushed forward the resolution of iron and steel overcapacity, which achieved significant results in particularly the ban on ground steel strip. All these had led to the relief of oversupply contradiction of steel and the rise of steel price. During the first half of the year, the average composite price index for domestic steel products was 99.79 points, representing an increase of 31.5% compared with last year which was 75.88 points. The consolidated price index for domestic steel products as at the end of June was 101.13 points, up 47.23% compared with corresponding period of the previous year, and up 1.63% compared with the end of last year. According to China Iron and Steel Association (CISA), member companies posted an average profit margin of 3.04% 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 raw materials and fuels, iron ore price rose and remained in overall high level in the second quarter following a fall in the first quarter. According to China Customs, during January to May this year, average price of imported iron ore rose approximately 64.8% year-on-year. Coke prices remained high and volatile. In general, raw materials prices increased sharply year-on-year during the period.

As for imports and exports, according to CISA, exported steel products during the first half of 2017 amounted to 40,990,000 tonnes, a decrease of 28.24% as compared with corresponding period of the previous year, while imported steel products amounted to 6,800,000 tonnes, an increase of 5.26% as compared with corresponding period of the previous year. The accumulated net export of equivalent crude steel amounted to 35,610,000 tonnes, a decrease of 32.24% as compared with corresponding period of the previous year.

2. PRODUCTION AND OPERATION OF THE COMPANY

During the reporting period, the Company adhering to the strategy of unswervingly deepening reforms and strengthening branding, the Company actively seized the opportunities to develop markets, adjust structures, stabilize production, reduce cost, intensify management, improve efficiency, promote branding and transformation, emerging from the supply-side structural reform policies pushed forward by the State. Riding on the encouraging momentum from the second half of 2016, the production and operation achieved a fairly good operating result.

IV. Discussion and Analysis on Operation (Continued)

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

- Lean manufacturing was intensively pushed forward. The iron-making system achieved stable production of blast furnace; the steel rolling system controlled the ratio of iron and steel, improved products quality and supported orders deliveries. During the reporting period, the Group produced 9,320,000 tonnes of pig iron, 9,970,000 tonnes of crude steel, 9,430,000 tonnes of steel products, representing an increase of 10.56%, 11.77% and 11.33%, respectively, compared with corresponding period of the previous year (in which the Company produced 7,310,000 tonnes of pig iron, 7,840,000 tonnes of crude steel and 7,330,000 tonnes of steel products, representing an increase of 10.93%, 11.84% and 11.74%, respectively, compared with corresponding period of the previous year).

- Our purchasing division has actively built the model of "integration of purchase and supply service" and monitoring system as well as improved the early-warning mechanism and preventive measures. Our sales division conducted integrated marketing strategies to strengthen market expansion. We enhanced proportion of high value added products and brand impact in the regional product markets. During the reporting period, the Group's total sales of steel products amounted to 9,450,000 tonnes, among which 4,550,000 tonnes are long products, 4,810,000 tonnes are steel plates and 90,000 tonnes are wheels and axles.

- Deepened product structure adjustment. Seized the trend of price differentiation in the plates and long products markets to optimize resource allocation and realize higher production and better efficiency of products with higher return. During the reporting period, new product development achieved remarkable results with total sales volume reaching 200,000 tonnes. The newly developed product, gooseneck hot rolled H-beam for special vehicles, was the first of its kind in the country, while galvanized plates for vehicles, undersea pipeline steel, and enamel sheet realized batch delivery.

- Leveraging the new honor of the National Quality Award, fully promoted brand awareness for Magang. Upholding the concept of innovation driven and technological precedence and guided by customers satisfaction, continuously improved the effectiveness of quality system operation through active promotion of technology and innovation and fine-tuning of process management. With product certification work enhanced, the products were increasingly accepted by high-end users, thereby expanding the high-end market and strengthening product position.

- Practised environmental management philosophy, and achieved green development. During the reporting period, the Company was named as the Creditworthy Enterprise of Environmental Protection in Anhui Province and passed the Government's environmental inspection.

3. FINANCIAL POSITION AND EXCHANGE RATE RISKS

As of 30 June 2017, the total loans of the Group amounted to RMB13,163 million, including short-term loans of RMB4,588 million and long-term loans of RMB8,575 million. Except for foreign currency loans amounting to US$162 million and Euro€40 million, all other loans were denominated in Renminbi. Among the Renminbi-denominated loans of the Group, loans amounting to RMB5,254 million carried fixed interest rates and loans amounting to RMB6,507 million carried floating interest rates. Among the foreign currency loans, loans amounting to US$136 million and Euro€30 million carried fixed interest rates, and US$26 million and Euro€10 million carried floating interest rates. In addition, the Group issued the medium-term note with a registration amount of RMB4 billion in 2015, and short-term commercial paper with an amount of RMB2 billion in April 2017. The payment for the short-term commercial paper with an amount of RMB2 billion issued in August 2016 was completed on 4 August 2017. 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 a short-term bank loans amounting to approximately RMB100 million belonged to a subsidiary, Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd. At the end of the reporting period, the Group's asset-liability ratio was 63.56%, representing a decrease of 3.11 percentage points from the end of last year.

At present, the Group is financing its capital projects primarily via its own funds. As at the end of the reporting period, banking facilities available to the Group amounted to approximately RMB43,393 million in which RMB18,663 million was unutilized.

As of 30 June 2017, the Group's cash and bank balances amounted to RMB4,833 million and notes receivable amounted to RMB4,687 million, the majority of which derived from sales proceeds.

The Group's import of raw materials was mainly settled in US dollar, while purchase 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 Company'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.

IV. Discussion and Analysis on Operation (Continued)

4. INTERNAL CONTROL AND RISK MANAGEMENT

The Company has an internal auditing system. Our regulatory auditing department audits and supervises the financial revenue, expenditure and every economic activity of the Company. Pursuant to the Basic Internal Control Norms for Enterprises jointly issued by the Ministry of Finance, the CSRC, the National Audit Office, the CBRC and CIRC, the Company has established an internal control system for every aspect of production, operation and management, including internal environment, risk assessment, social responsibilities, information and communication, internal supervision, human resources, funds management, procurement, asset management, sales, research and development, projects, guarantees, outsourcing, financial reports, comprehensive budget, contract management and information systems. We pay extra attention to high-risk areas, e.g. procurement risks, operational risks and financial risks, risks related to the control over subsidiaries. This system acts as a guideline for the Company's operation, helping the Company recognize and control its major risks.

The Board reviewed and approved the 2016 Internal Control Assessment Report on 29 March 2017. The report confirms that the Company implemented an effective internal control related to financial report over all important aspects pursuant to the Basic Internal Control Norms for Enterprises and other relevant requirements. The Company appointed Ernst & Young Hua Ming LLP as our auditor to audit the effectiveness of our internal control related to financial report as at 31 December 2016 and issued a standard unqualified internal control audit report.

During the reporting period, 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.

(1) ANALYSIS OF PRINCIPAL OPERATIONS

1. Analysis of the change in items of the financial statements

Unit: RMB

Items	Amount of the reporting period	Amount of the corresponding period of the previous year	Change
			(%)
Revenue	35,187,579,640	21,001,162,560	67.55
Cost of sales	31,308,620,140	18,177,307,489	72.24
Selling expenses	412,156,137	317,938,952	29.63
General and administrative expenses	670,018,970	1,048,469,131	–36.10
Financial expenses	528,207,382	407,254,444	29.70
Net cash flows from operating activities	1,459,592,056	527,215,501	176.85
Net cash flows used in investing activities	–2,128,708,572	–589,987,048	–
Net cash flows used in financing activities	–180,321,712	–739,537,353	–
Taxes and surcharges	322,600,519	105,586,947	205.53
Impairment losses	107,667,257	672,332,416	–83.99
Gain on the changes in fair value	14,148,342	3,461,591	308.72
Investment income	286,628,017	78,697,625	264.21
Other income	83,563,376	–	–
Non-operating income	70,707,120	140,391,902	–49.64
Non-operating expenses	51,303,121	1,748,742	2,833.72
Income tax expense	337,919,171	62,157,221	443.65
Net profit attributable to owners of the parent	1,643,396,514	452,752,971	262.98
Net profit or loss attributable to non-controlling interests	260,737,284	–21,834,635	–
Exchange differences on translation of foreign operations	9,821,211	39,247,618	–74.98

IV. Discussion and Analysis on Operation (Continued)

Reasons for changes in the figures of the above main items in the financial statement are as follows:

Explanation for the change in revenue: mainly resulting from the price increases of the steel and the sales volume increase of the steel.

Explanation for the change in cost of sales: mainly resulting from the price increase of the raw materials and fuels and the sales volume increase of the steel.

Explanation for the change in selling expenses: mainly resulting from the frequent deliveries caused by the sales increase of the steel and the increase of transportation fee per unit.

Explanation for the change in general and administrative expenses: mainly resulting from the decrease of employee termination benefits; and the impact of Value Added Tax Accounting Treatment Regulations for not including taxes such as real estate tax, land usage tax, vehicle and vessel usage tax, stamp duty and etc. in this item.

Explanation for the change in financial expenses: mainly resulting from the increase of foreign exchange loss for the period and the increase of finance costs.

Explanation for the change in net cash flows from operating activities: mainly resulting from the increase of cash inflows caused by the increase of profit during the reporting period.

Explanation for the change in net cash flows from investing activities: mainly resulting from the increase of cash paid by Masteel Financial for investment such as purchasing financial assets, etc. during the period as compared with corresponding period of the previous year.

Explanation for the change in net cash flows from financing activities: mainly resulting from the increase of cash received from borrowings as compared with corresponding period of the previous year.

Explanation for the change in taxes and surcharges: mainly resulting from the increase of value-added tax for the reporting period as compared with corresponding period of the previous year which caused the corresponding increase of surcharges such as city construction tax, etc.; and the impact of Value Added Tax Accounting Treatment Regulations for re-categorizing the audition of taxes such as real estate tax, land usage tax, vehicle and vessel usage tax, stamp duty and etc. from general and administrative expenses to this item.

Explanation for the change in impairment loss: mainly resulting from the more stable price of steel products and the decrease of provision for inventory impairment during the reporting period as compared with corresponding period of the previous year.

Explanation for the change in gain on the changes in fair value: mainly resulting from the change of fair value of fund held by Masteel Financial Co. during the reporting period.

Explanation for the change in investment income: mainly resulting from the increase in share of profits of associates and joint ventures in this period as compared with corresponding period of the previous year.

Explanation for the change in other income: mainly resulting from the impact of China Accounting Standard No. 16 – Government Grants (Revised in 2017) that government grants related to daily corporate activities are included in this item instead of non-operating income.

Explanation for the change in of non-operating income: mainly resulting from the impact of China Accounting Standard No. 16 – Government Grants (Revised in 2017) that government grants related to daily corporate activities are not included in this item.

Explanation for the change in non-operating expenses: mainly resulting from the increase in loss of disposed and scrapped fixed assets caused by demolition of equipment for environmental reasons during the period.

Explanation for change in income tax expense: mainly resulting from the increase of profitability level of certain subsidiaries during the period.

Explanation for the change in net profit attributable to owners of the parent: mainly resulting from the increase of gross profit of steel products during the reporting period.

Explanation for the change in net profit or loss attributable to non-controlling intrests: mainly resulting from the increase of profit of non-wholly owned subsidiaries during the reporting period as compared with corresponding period of the previous year.

Explanation for the change in exchange differences on translation of foreign operations: mainly resulting from the appreciation in functional currency of overseas subsidiaries against Renminbi during the reporting period.

IV. Discussion and Analysis on Operation (Continued)

2. **R&D costs**

During the reporting period, R&D costs amounted to approximately RMB385 million, representing an increase of 11.13% from approximately RMB346 million as compared with corresponding period of the previous year.

3. **Others**

No significant change incurred in the composition or sources of the Company profit.

(2) NON-PRINCIPAL OPERATIONS DID NOT CAUSE SIGNIFICANT CHANGES IN PROFIT

(3) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: RMB

Items	Closing balance of the reporting period	Percentage of closing balance of the reporting period in total assets	Closing balance of 2016	Percentage of closing balance of 2016 in total assets	Year-on-year Change
		(%)		(%)	(%)
Financial assets measured at fair value through profit or loss	827,186,934	1.25	555,322,261	0.84	48.96
Prepayments	592,589,456	0.89	925,051,274	1.40	–35.94
Other receivables	323,233,960	0.49	127,614,834	0.19	153.29
Financial assets purchased under agreements to resell	–	–	230,047,000	0.35	–
Held-to-maturity investments	201,463,387	0.30	–	–	–
Available-for-sale financial investments	1,428,658,949	2.16	577,947,698	0.87	147.20
Repurchase agreements	198,900,000	0.30	596,565,698	0.90	–66.66
Short-term loans	4,588,142,228	6.93	6,942,952,420	10.48	–33.92
Interest payable	227,033,926	0.34	107,691,398	0.16	110.82
Non-current liabilities due within one year	549,859,584	0.83	3,211,056,320	4.85	–82.88
Other current liabilities	4,307,180,685	6.50	2,273,058,356	3.43	89.49
Long-term loans	8,024,820,080	12.12	5,163,168,960	7.79	55.42
Long-term payables	210,000,000	0.32	–	–	–
Special reserve	38,116,097	0.06	27,969,571	0.04	36.28

Reasons for changes in the figures of the above main items in the financial statement are as follows:

The financial assets measured at fair value through profit or loss increased by 48.96% from the end of last year, mainly due to the increase of fund products held by Masteel Financial during the reporting period.

The prepayment decreased by 35.94% from the end of last year, mainly due to the decrease of prepayment for raw materials and fuel during the reporting period.

Other receivables increased by 153.29% from the end of last year, mainly due to the increase of deposits for steel futures during the period.

The financial assets purchased under agreements to resell was nil as compared with RMB230,047,000 recorded at the end of last year, mainly due to the maturity of reverse-repurchased operations of Masteel Financial during the reporting period.

The held-to-maturity investments amounted to RMB201,463,387 as compared with nil at the end of last year, mainly due to the purchase of intended held-to-maturity treasury bonds by Masteel Financial during the reporting period.

The available-for-sale financial assets increased by 147.20% from the end of last year, mainly due to the increase of interbank deposits in Masteel Financial during the reporting period.

The repurchase agreements decreased by 66.66% from the end of last year, mainly due to the decrease in discount of notes and bonds carried out by Masteel Financial for other financial institutions during the reporting period.

The short-term loans decreased by 33.92% from the end of last year, mainly due to the maturity of repayment of the short-term borrowings.

The interest payable increased by 110.82% from the end of last year was mainly due to the provision of the interest of medium-term note during the reporting period.

The non-current liabilities due within one year decreased by 82.88% from the end of last year, mainly due to the repayment of long-term loans due within one year during the reporting period.

IV. Discussion and Analysis on Operation (Continued)

Other current liabilities increased by 89.49% from the end of last year, mainly due to the issue of RMB2 billion one-year short-term commercial papers.

The long-term loans increased by 55.42% from the end of last year, mainly due to the new long-term borrowings raised by the Company during the reporting period.

The long-term payables amounted to RMB210,000,000 as compared with nil for the end of last year, mainly due to the nil-interest bearing loan borrowed by Ma Steel (Hefei) Steel Plates Co., Ltd. from Hefei Industrial Investment Holding Co., Ltd. during the reporting period.

The special reserve increased by 36.28% from the end of last year, mainly due to the increase in safety production reserve provided by the Company during the reporting period.

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

At the end of the reporting period, the restricted assets of the Company totaling approximately RMB1,955 million consisted of mandatory reserves with the central bank of approximately RMB533 million, bill deposits placed in bank of approximately RMB854 million and bank promissory notes pledged for borrowings of approximately RMB568 million.

(4) INVESTMENT ANALYSIS

1. General Analysis of External Equity Investment

Unit: RMB million

Investment amount as at the end of the reporting period of the Company	8,513.96
Increase/decrease of investment amount	1,235.07
Investment amount as at the end of previous year of the Company	7,278.89
Increase/decrease in investment amount (%)	16.97

(1) Significant Equity Investment

Unit: RMB'000

Invested company	Equity interest	Main business	Additional investment during the reporting period
Magang Group Finance Co., Ltd.	91%	Financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; guarantee provided to members of the group; entrusted loans among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; underwriting of corporate bonds of members of the group; investment in marketable securities (limited to various products issued in the interbank market, money market funds, securities investment funds, local government bonds, corporate bonds, and bank financial products, trusts and wealth management products issued by other financial institutions); buyer's credit of products of member of the group.	910,000
MG-VALDUNES S.A.S.	100%	Design, manufacturing, processing, putting into production and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products.	113,877
Mascometal Co., Ltd.	66%	Development, manufacturing and sales of steel wire rods and bars used in automobile industry and finished iron and steel products, the provisions of after-sales services and related technical services, as well as trading businesses (excluding distribution).	78,432
Anhui Ma Steel Antirust Materials Technology Co., Ltd.	51%	Development, transfer, consultation and services of anti-rust technology; volatile corrosion inhibitor, neutral paper and composite materials, non-woven fabrics and composite materials, plastic film and composite materials, woven fabrics and composite materials, anti-rust liquid, cleaning agents, rust-proof oil, derusting agent, metal surface passivation solution and coating liquid treatment agent, metal processing fluid, machine working fluid, anti-rust drying agents, processing and manufacturing, sales of deoxidizer (the above projects do not contain dangerous chemicals and easy-to-make drugs).	1,530

IV. Discussion and Analysis on Operation (Continued)

(2) *Significant Non-equity Investment*

Unit: RMB million

Project name	Budgeted total investment	New investment during reporting period	Project progress
Product quality projects	4,981	63	51%
Energy-saving and environment protection projects	2,202	141	83%
Equipment advancement and other modification projects	1,540	119	77%
Other projects	N/A	299	N/A
Total	N/A	622	N/A

Details of the main projects are as follows:

Unit: RMB million

Project name	Budgeted total investment	Project progress
Heavy duty H – section steel rolling line project	1,196	Construction preparation
Section steel upgrade and public and ancillary supporting project	810	Civil construction
Special steel bars and wire rods for high-end vehicle spare parts processing and public and ancillary supporting project	650	Civil construction and pipeline installation
Combination of purification system of coal coking company (Southern District) project	380	Civil construction
No.2 Iron general factory 2# blast furnace technical transformation project	320	Civil construction and furnace piping
Silicon steel high grade transformation project for cold rolling factory	260	Construction preparation and equipment tender
Total	3,616	/

The projects were mainly financed by the Company's own fund.

(3) Financial assets measured at fair value

Unit:RMB

Item	**Beginning balance**	**Ending balance**	**Changes during the period**	**Impact on the profit of the current period**
Financial assets measured at fair value through profit or loss	555,322,261	827,186,934	271,864,673	31,336,038
Total	555,322,261	827,186,934	271,864,673	31,336,038

(5) DISPOSAL OF SIGNIFICANT ASSETS AND EQUITY

During the reporting period, there were no disposal of significant assets and equity.

(6) 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, by-products and semi-finished products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. It also engaged in sales distribution of steel products, steel technical services and steel industry-related business; quay operations, warehousing, transportation services; construction; asset leasing; provision of labor and engineering and technical services; waste materials processing and electrical equipment repair. Net loss for the reporting period amounted to RMB55 million. As at the end of the reporting period, it had total assets amounting to RMB4,940 million and net assets of RMB2,082 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 the production and sales (conducted by its gas branch only) of gases and liquefied gases (i.e. nitrogen, oxygen and argon), screw threaded steel, round steel, section steel, angle steel, flat steel, deformed steel, tube blank steel, wire, rod, ferrous metal, steel billet and pig iron, as well as the sales and the import and export of iron ore, iron ore fines and scrap steel. During the reporting period, it recorded a revenue of RMB6,609 million, an operating profit of RMB736 million and a net profit of approximately RMB546 million. At the end of the reporting period, its total assets and net assets amounted to RMB6,940 million and RMB3,011 million, respectively.

IV. Discussion and Analysis on Operation (Continued)

- Magang Group Finance Co., Ltd. has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; guarantee provided to members of the group; entrusted loans among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; underwriting of corporate bonds of members of the group; investment in marketable securities (limited to various products issued in the interbank market, money market funds, securities investment funds, local government bonds, corporate bonds, and bank financial products, trusts and wealth management products issued by other financial institutions); buyer's credit of products of member of the group. During the reporting period, it recorded a net profit of approximately RMB85 million. At the end of the reporting period, its total assets and net assets amounted to RMB9,600 million and RMB2,657 million, respectively.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. Its core business includes the production and sales of gases, liquefied gases (e.g. nitrogen, oxygen, argon and other gases) and other gas products for industrial use. The core business also includes the provision of engineering and technical support relating to the sales, supply and use of products, after-sales service and other relevant services. During the reporting period, it recorded a net profit of approximately RMB88 million. At the end of the reporting period, its total assets and net assets amounted to RMB633 million and RMB577 million, respectively.

- Henan Jinma Energy Co., Ltd. has a registered capital of RMB400 million, in which the Company holds a direct stake of 36%. Its core business includes the production and sales of coke, coal tar, crude benzene, ammonium sulfate and coke oven gas. The core business also includes coke oven gas power and heat generation. During the reporting period, it recorded a net profit of approximately RMB249 million. At the end of the reporting period, its total assets and net assets amounted to RMB2,350 million and RMB1,123 million, respectively.

- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million, in which the Company holds a direct stake of 32%. Its core business includes the sales and production of methanol, crude benzene, coal tar, oxygen, argon, nitrogen (the business items are operated under a production safety license which is valid until June 11, 2017) within the scope authorized by the license. The business scope also covers the production of products for industrial use (hazardous chemicals excluded), e.g. coke, ammonium sulfate, coke; the sales of chemical products (hazardous chemicals and precursor chemicals excluded); the repair and processing of mechanical equipment (special equipment excluded). During the reporting period, it recorded a net profit of approximately RMB264 million. At the end of the reporting period, its total assets and net assets amounted to RMB3,671 million and RMB1,232 million, respectively.

(7) DURING THE REPORTING PERIOD, THE COMPANY HAD NO STRUCTURE ENTITY.

2. OTHER DISCLOSURES

(1) THE ENVIRONMENT FOR PRODUCTION AND OPERATION AND COPING STRATEGIES

In the second half of the year, China will continue to push forward the work of "addressing overcapacity, reducing inventory, deleveraging, lowering costs, and bolstering areas of weakness", deepen supply side structural reform and ensure the steady and healthy development of economy. The iron and steel industry will grasp the opportunities of initial improvement of operation environment of the industry as the work of addressing overcapacity, pushing forward the work of deleveraging and lowering corporate financial costs is pursued. Demand for better quality and service of iron and steel products are increasingly strong in the downstream market so that iron and steel enterprises needs to adapt actively.

The Company's main work in the second half of the year includes:

- To grasp favorable market situation, tilting resources towards key orders and customers through efficient production and lean operation. To fully leverage the advantage of the Company's product structure and to maximize benefits from resource allocation.

- To construct a new pattern of effective, specialized production. To arrange reasonable division of various production lines and to achieve a production system that marks with production-and-sales synergy and complementary advantages. To continuously promote cost reduction work, and to implement excessive capacity reduction plans and transformation projects in good order.

IV. Discussion and Analysis on Operation (Continued)

- With the core aim of long-term, stable and efficient operation of the blast furnace, to explore the potentials by benchmarking and continuous improvement and to ensure organized production work of the blast furnace.

- Firmly upholding the production safety concept that a hidden danger is an accident waiting to happen, to improve management system from the start, look into details to identify potential problems, and perform well in the basic management.

- Led by brand strategy, to promote product structure upgrade, and steadily enhance product quality. To enhance brand awareness and implement customer satisfaction improvement program, and create a strong brand culture.

(2) 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 THE NEXT REPORTING PERIOD

The net profit attributable to owners of the parent of the Company was RMB1,643 million in the first half of 2017, which was higher than the net profit for the period from January to September of last year at RMB759 million. Considering the current production operation of the Company has improved, the profits at the third quarter expected to maintain. Therefore, the Company expects a significant increase of accumulative net profit for the period staring from the beginning of the year to the end of next reporting period, compared to the period of last year.

(3) POTENTIAL RISKS

1. Risks relating to Environmental policy and the industry

China is implementing the environmental inspection and the establishment of a collaboration mechanism for the prevention and control of atmospheric pollution for Beijing-Tianjin-Hebei Region at different levels. Environmental protection initiatives will have different degrees of impact on the manufacture of steel and iron as well as the downstream manufacturing industry, resulting in a change in supply and demand.

Countermeasures: The Company always attaches great importance to environment protection, therefore, China's environment protection policies have little impact on our production. However, the restrictions on manufacturing industry do affect the demand from downstream market, resulting in a change in the overall supply and demand in steel market. The Company will step up its research and analysis efforts on policies and market trends. It will also take full advantage of the production and operational risk warning mechanism. The operation and operation plans will be adjusted as appropriate.

2. Risk relating to the supply and demand of crude fuel

The frequent environment inspections and production curtailments in the second half of the year will affect the supply of various types of crude fuel (e.g. coal, coke, domestic ore and ferroalloy) to some extent. Meanwhile, the supply and demand equilibrium of coal and coke is not looking up, and the prices of coal and coke may remain high and volatile.

Countermeasures: solid research on crude fuel market, timely adjustment on procurement strategies, expansion of procurement channels and inventory adjustment according to supply and demand in the market and market prices will help maintain steady production and lower procurement costs of crude fuel for the Company.

3. Risk of significant fluctuations in RMB exchange rate

With the US dollar entering into the rate hike cycle, the RMB exchange rate is likely to be affected. Not only will changes in exchange rate bring certain price risk to the import of iron ore and the export of steel but it may bring some risks to the Company's non-Renminbi debts.

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

(4) OTHER DISCLOSURES

- **Audit Committee**

During the reporting period, the audit committee held two meetings. All members of the audit committee (i.e. Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan (independent directors)) attended all the meetings in person. The meeting mainly discussed the following topics: to consider the audited financial statement for 2016; to review the report of internal control for 2016, to consider the internal control assessment report for 2016; to review the report of connected transactions for 2016; to consider connected transactions for 2016; to consider external guarantees for 2016; to consider the remuneration of the auditor and the reappointment of accounting firm for 2016; and to consider the unaudited financial report for the first quarter of 2017.

IV. Discussion and Analysis on Operation (Continued)

- **Purchase, sale or redemption of listed securities of the Company**

  During the reporting period, the Group 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 shares before the Company issues new shares.

- **Code on corporate governance practices**

  During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No deviation behavior from the code was found.

- **Model Code for Securities Transactions by Directors of Listed Issuers**

  During the reporting period, the Company had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Hong Kong Listing Rules. No deviation behavior from the code was found.

- **Shareholder's rights**

  Shareholders who individually or in aggregate hold 10% or more of total voting rights of the Company are entitled to convene the extraordinary shareholders' meeting or class meeting in accordance with Article 87 of the Articles of Association. At the annual general meeting convened by the Company, shareholders qualified under Article 59 of the Articles of Association shall have the right to put forward new proposals in writing to the Company in accordance with the requirements thereof. Shareholders may send their enquires and suggestions to the board of the Company at its office in Maanshan City, Anhui Province (No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC).

V. Significant Events

1. SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publication Date of Resolutions
2016 Annual General Meeting	2017-6-12	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-06-13/600808_20170613_1.pdf	2017-6-13

Resolutions of 2016 Annual General Meeting: to consider and approve the work report of the Board for the year 2016, the work report of the Supervisory Committee for the year 2016, the audited financial statements for the year 2016, the profit distribution plan for the year 2016, the appointment of Ernst & Young Hua Ming LLP as the Company's auditor for the year 2017, and to authorise the Board to determine the remuneration of the auditor based on that in 2016, and to consider and approve the resolution on provision of the guarantee for the subsidiary Masteel (Hong Kong) Co., Ltd. All the resolutions were approved after consideration.

In addition, the meeting also received the independent directors' report on work for the year 2016.

2. PROFIT DISTRIBUTION PLAN OR PLAN FOR THE CAPITALIZATION OF CAPITAL RESERVE

(1) PROFIT DISTRIBUTION PLAN OR PLAN FOR THE CAPITALIZATION OF CAPITAL RESERVE DECLARED FOR THE FIRST HALF OF 2017

Whether distribution or transfer	N/A
Bonus shares distributed every ten shares (share)	0
Dividends distributed every ten shares (tax included) (RMB)	0
Transferred shares every ten shares (share)	0

3. PERFORMANCE OF UNDERTAKINGS

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

Type of undertaking	Undertaker	Content of undertaking	Time of making the undertaking and its term	Deadline for the fulfillment of undertaking	Undertaking fulfilled on a timely basis	Reasons for non-fulfillment of undertaking	Next steps to be taken after non-fulfillment of undertaking
Other	The Group Company	The controlling shareholder intended to further acquire A Shares of the Company for not less than RMB409 million at an appropriate price through Magang Investment Limited in a way complying with applicable laws and regulations, and promised the shares acquired would not be sold within six months after the completion of the further acquisition plan.	2015-7-24	No	No	During the reporting period, while the Group Company's production and operation improved, the impacts from both past annual losses and deleverage resulted in a shortage of funds for the said further acquisition.	Under the premise of ensuring the normal operation of funds, the Group Company will make more efforts to increase the intensity of financing and implement the increased holding in a legitimate and compliance manner.

V. Significant Events (Continued)

4. APPOINTMENT AND REMOVAL OF AUDITORS

During the reporting period,the Board continued the appointment of Ernst & Young Hua Ming LLP as the Company's auditor. The resolution was approved during 2016 Annual General Meeting on 12 June 2017. During the reporting period, there were no changes in the appointment of the auditor, and no "non-standard audit opinions" were issued by the auditor.

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

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

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

8. THE COMPANY DID NOT FORMULATE OR IMPLEMENT STOCK OPTION INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES DURING THE REPORTING PERIOD.

9. EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER

There were no non-fulfillment of the court's effective judgments and unsettled expired debt of larger amount by the Company, its controlling shareholders and actual controller during the reporting period.

10. SUBSTANTIAL CONNECTED TRANSACTIONS

(1) CONNECTED TRANSACTIONS RELATED TO NORMAL OPERATIONS

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

(1) Normal operations between the Group and the Group Company

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

For the period between 1 January 2017 and 30 June 2017, transaction of the Group in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2015, was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
Purchase of iron ore, limestone and dolomite	2,030,915	25

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

All Directors of the Board who are not associated with Group Company (including Independent Non-executive Directors) considered that those transactions were carried out under normal commercial terms or were no less favorable than the terms agreed between the Company with any independent third party. They were in the best interest of the Company and its shareholders. The continuing connected transactions contemplated under the "Sale and Purchase of Ore Agreement" between the Company and the Group Company and its subsidiaries were approved at the shareholders' general meeting. In the reporting period, such transactions were carried out according to the terms for the "Sale and Purchase of Ore Agreement" for the years of 2016-2018 and their transaction amount was under the annual cap for the year of 2017 stipulated by the agreement, i.e., RMB4,873 million.

V. Significant Events (Continued)

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

Business nature		Amount of loan or deposit	Interest income/expenses	
		RMB100 million	RMB'000	
Deposit	Maximum daily deposit	46.9	Interest expenses	18,335
	Monthly average maximum daily deposit	41.7		
Loan	Maximum daily loan	4.98	Interest income	10,574
	Monthly average maximum daily loan	4.97		

Other income	
Net income from handling fee and commission (RMB'000)	319
Interest income from discount (RMB'000)	20,379

The continuing connected transactions contemplated under the "Financial Services Agreement" between Masteel Financial and the Group Company during the reporting period were approved by the Board. All Directors of the Board who were not associated with Group Company (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders and that the daily cap of RMB500 million was not exceeded, while interests, handling and service fees were less than RMB60 million.

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

For the period between 1 January 2017 and 30 June 2017, transaction of the Company in respect of the "Energy Saving and Environmental Protection Agreement", which was signed in 2015, was as follows (RMB'000):

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	367,756	14
Sale of useful resources for steel production including slag and coal ash (wastes)	8,751	1
Total	376,507	

The continuing connected transactions under The "Energy Saving and Environmental Protection Agreement" between the Group and Environment Protection Company were approved by the shareholders' general meeting. All Directors of the Board who were not associated with Group Company (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. Their transaction amount did not exceed the cap of RMB665 million specified in the agreement.

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

	Amount	**Proportion of transaction of the same category** (%)
Steel products and other products purchased by the Group Company from the Company	725,015	2
Water, electricity, telephone and other services purchased by the Group Company from the Company	73,101	7
Fixed assets and construction services purchased by the Company from the Group Company	182,355	24
Other services and products purchased by the Company from the Group Company	1,525,012	85
Total	2,505,483	

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

Those transactions were approved by the Board and the shareholders' general meeting and conducted under the related terms of the agreement. The transaction amount did not exceed the cap of RMB5,284 million.

V. Significant Events (Continued)

(2) CONNECTED TRANSACTION ABOUT ASSET ACQUISITION, EQUITY ACQUISITION AND SALE

Matters disclosed in temporary announcement but no progress in subsequent implemention or changes

Summary of matters	Query index
The acquisition of 9% equity interests of Ma Steel (Hong Kong) Co., Ltd. from Ma Steel International Trade and Economic Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-04-26/600808_20170426_3.pdf

11. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1 DURING THE REPORTING PERIOD, THE COMPANY HAD NO ENTRUSTMENT, CONTRACTING AND LEASING OR ONES THAT HAD HAPPENED IN THE PREVIOUS PERIODS AND POSTPONED TO THE REPORTING PERIOD.

2 GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	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	31.56
Total ending balance of guarantees offered to subsidiaries (B)	37.23
Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	37.23
Total amount of guarantees as a percentage of net assets of the Company (%)	17.38
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

V. Significant Events (Continued)

Explanation on guarantees

During the reporting period, the Company provided MG-Valdunes S.A.S, its wholly-owned subsidiary, a guarantee of Euro52 million and RMB170 million,totalled RMB573 million; and provided the holding subsidiary Ma Steel (Hong Kong) Co., Ltd., a guarantee of banking facilities of RMB3 billion for its trade financing. Additionally, at the end of the reporting period, Changjiang Steel (as a controlling subsidiary of the Company) provided guarantee of RMB150 million to its wholly-owned subsidiary. All guarantees obtained approval from the independent directors in prior, as well as the approval from the Board of Directors.

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

(1) As at 30 June 2017, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.

(2) As at 30 June 2017, the Company did not provide any guarantees to connected parties in which the Company and its shareholders held less than 50% equity interest, non-legal entities or individuals.

(3) As at 30 June 2017, the total amount of external guarantees outstanding and guarantees provided by the Company in the reporting period accounted for less than 50% of the net assets of the Company as stated in its latest consolidated financial statements.

12. THERE WAS NO CONVERTIBLE CORPORATE BONDS ISSUED BY THE COMPANY OR EXISTED DURING THE PERIOD.

13. DESCRIPTION OF THE ENVIRONMENTAL PROTECTION OF THE LISTED COMPANIES AND ITS SUBSIDIARIES IN THE HEAVY POLLUTION INDUSTRY AS PRESCRIBED BY THE MINISTRY OF ENVIRONMENTAL PROTECTION

The Company and its subsidiaries, Ma Steel (Hefei) and Anhui Changjiang Iron and Steel, are in the heavy pollution industry as prescribed by the State Environmental Protection Department.

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

14. OTHER MAJOR EVENTS

(1) CHANGES TO ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHODS FROM THE PREVIOUS PERIOD, WITH REASONS FOR THE CHANGES AND THEIR IMPACT

Change of presentation of government grants

In 2017, based on the issuance of China Accounting Standard No. 16 – Government Grants (Revised in 2017) (Accounting [2017] No. 15) ("Revised CAS 16"), the Group accounted the government grants related to daily corporate activities as other income or offsetting relevant costs according to the nature of business. Government grants not related to daily corporate activities would be included in non-operating income. Governments grants existing as at 1 January 2017 applies the change in future application, and the government grants newly granted during the period from 1 January 2017 to the application date (12 June 2017) will be accounted according to the Revised CAS 16. Impacted by application of Revised CAS 16, the Group's non-operating income and other income are presented differently for the six months ended 30 June 2017, compared with the year of 2016. The application of Revised CAS 16 will have no impact on the Group's and the Company's net profit and equity for the six months ended 30 June 2017.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the change of the presentation of government grants as mentioned above.

(2) DETAILS, CORRECTION AMOUNT, REASONS AND INFLUENCE OF SIGNIFICANT ACCOUNTING ERRORS DURING THE REPORTING PERIOD

There were no significant accounting errors amended by retrospective restatement during the reporting period.

VI. Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

(1) TABLE ON SHARE MOVEMENTS

(1) Table on share movements

Unit: Share

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

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

2. SHAREHOLDERS

(1) TOTAL NUMBER OF SHAREHOLDERS

Number of ordinary shareholders by the end of reporting period (accounts)	235,892

(2) SHAREHOLDING OF THE TOP TEN SHAREHOLDERS AT THE END OF THE REPORTING PERIOD AND THE TOP TEN TRADABLE-SHARE HOLDER (OR SHAREHOLDERS WITHOUT SELLING RESTRICTIONS):

Unit: Share

Holdings of top ten shareholders							
Shareholders' names (Full names)	Increase/ decrease within the reporting period	No. of shares at the end of period	Percentage (%)	No. of shares under restricted condition for sales	Pledged or frozen situations Share status	Number	Shareholder
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.54	–	Pledged	800,000,000	State-owned
Hong Kong Securities Clearing Company Nominees Limited	810,000	1,711,624,900	22.23	–	Unknown	Unknown	Unknown
Central Huijin Investment Ltd.	Unknown	142,155,000	1.85	–	Unknown	Unknown	State-owned
China Securities Finance Corporation Limited	Unknown	88,096,538	1.14	–	Unknown	Unknown	State-owned
Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
E Fund – ABC – E Fund China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
GF Fund Management – ABC – GF China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Zhong Ou Fund – ABC – Zhong Ou China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown

VI. Movements in Share Capital and Shareholders (Continued)

Shareholding of top ten shareholders without selling restrictions

Shareholders' name	Number of shares held without selling restrictions	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	1,711,624,900	Overseas-listed foreign shares	1,711,624,900
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
E Fund – ABC – E Fund 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
Harvest Fund – ABC – Harvest 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
Zhong Ou Fund – ABC – Zhong Ou China Securities Finance Asset Management Plan	33,609,200	RMB denominated ordinary shares	33,609,200
Notes on the above shareholders' affiliated relation or concerted action	Magang (Group) Holding Co., Limited has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.		

In December 2016, the Group Company used the 800 million shares it held in the Company for stock-pledged repo transaction. Apart from metioned, in the reporting period, above, no other shares held by Group Company were pledged, frozen or hosted, but the Company was not aware whether shares held by other shareholders who had 5% and above of the Company's shares were pledged, frozen or hosted.

Hong Kong Securities Clearing Company Nominees Limited held 1,711,624,900 shares of the Company on behalf of multiple clients

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

As at 30 June 2017, none of the directors, supervisors, senior management had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance).

As at 30 June 2017, to the best knowledge of the Company, the following persons were recorded in the registry kept by the Company for holding interests or short positions in the shares or underlying shares of the Company according to the Securities and Futures Ordinance:

Shareholders	**Capacity as holder or deemed holder of interests**	**Number of shares owned or deemed owned** (Shares)	**Approximate percentage of the Company's issued H shares** (%)
Citigroup Inc.	Interests held by legal entities controlled by the substantial shareholder	13,041,031 (Long positions)	0.75
	Custodian corporation/approved lending agent	80,718,726 (Long positions)	4.66
	N/A	80,718,726 (Lending pool)	4.66

Save as disclosed above, as at 30 June 2017, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

(3) STRATEGIC INVESTORS OR COMMON LEGAL PERSONS WHO BECAME ONE OF THE TOP TEN SHAREHOLDERS AS A RESULT OF SUBSCRIPTION OF NEW SHARES ALLOTTED TO THEM

During the reporting period, the Company did not have any strategic investor or common legal person who became one of the top ten shareholders as a result of subscription of new shares allotted to them.

3. CHANGE OF CONTROLLING SHAREHOLDERS OR ACTUAL CONTROLLERS

During the reporting period, there were no changes of controlling shareholder or actual controller.

VII. Directors, Supervisors, and Senior Management

1. CHANGES IN SHAREHOLDING

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

During the reporting period, none of the current or resigned Directors, supervisors and senior management held any shares of the Company.

(2) DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT OF THE COMPANY AWARDED WITH STOCK OPTION INCENTIVE DURING THE REPORTING PERIOD

During the reporting period, no directors, supervisors, and senior management of the Company were awarded with stock option incentive.

2. PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement
Hu Shunliang	Secretary to the Board (Company Secretary)	Resignation
Tian Jun	Deputy General Manager	Appointment
Zhang Wenyang	Deputy General Manager	Appointment

EXPLANATION ON PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 14 February 2017, Mr. Hu Shunliang resigned as the Secretary to the Board (Company Secretary) of the Company. The duties of the Secretary to the Board (Company Secretary) will be temporarily performed by Mr. Ding Yi, Chairman of the Company. Based on the nomination by General Manager Qin Haifan, the Board appointed Mr. Tian Jun and Mr Zhang Wenyang as Deputy General Managers of the Company.

VIII. Financial Statements

CONTENTS

Note: The notes to the financial statements with "*" are disclosed in accordance with the disclosure requirements of 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

As at 30 June 2017
Renminbi Yuan

ASSETS	Note V	30 June 2017 Unaudited	31 December 2016 Audited
CURRENT ASSETS			
Cash and bank balances	1	**4,832,966,727**	5,312,101,041
Financial assets at fair value through profit or loss	2	**827,186,934**	555,322,261
Notes receivable	3	**4,687,305,835**	3,608,459,121
Trade receivables	4	**928,199,991**	859,929,107
Interest receivable		**2,839,596**	4,044,939
Prepayments	5	**592,589,456**	925,051,274
Other receivables	6	**323,233,960**	127,614,834
Inventories	7	**10,036,548,828**	10,548,061,832
Financial assets purchased under agreements to resell	8	**–**	230,047,000
Loans and advances to customers	9	**1,513,036,793**	1,555,212,556
Held-to-maturity investments	10	**201,463,387**	–
Other current assets	11	**837,672,914**	692,471,233
Total current assets		**24,783,044,421**	24,418,315,198
NON-CURRENT ASSETS			
Available-for-sale financial investments	12	**1,428,658,949**	577,947,698
Long-term equity investments	13	**1,322,971,835**	1,239,776,313
Investment properties	14	**58,320,467**	58,833,998
Property, plant and equipment	15	**33,806,482,252**	35,522,601,715
Construction in progress	16	**2,635,172,202**	2,258,191,398
Intangible assets	17	**1,900,941,778**	1,821,768,927
Deferred tax assets	18	**287,683,305**	348,095,783
Total non-current assets		**41,440,230,788**	41,827,215,832
TOTAL ASSETS		**66,223,275,209**	66,245,531,030

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

Consolidated Statement of Financial Position (Continued)

As at 30 June 2017
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**30 June 2017 Unaudited**	31 December 2016 Audited
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	20	**2,878,114,976**	3,708,225,021
Repurchase agreements	21	**198,900,000**	596,565,698
Short-term loans	22	**4,588,142,228**	6,942,952,420
Notes payable	23	**3,620,019,631**	3,584,228,362
Accounts payable	24	**5,937,434,223**	6,668,807,923
Advances from customers	25	**3,419,347,414**	3,682,322,418
Payroll and employee benefits payable	26	**569,393,753**	550,444,683
Taxes payable	27	**235,899,031**	274,232,114
Interest payable	28	**227,033,926**	107,691,398
Dividends payable	29	**9,050,620**	8,713,584
Other payables	30	**1,825,213,618**	1,912,575,078
Non-current liabilities due within one year	31	**549,859,584**	3,211,056,320
Accrued liabilities	32	**37,187,787**	29,580,435
Other current liabilities	33	**4,307,180,685**	2,273,058,356
Total current liabilities		**28,402,777,476**	33,550,453,810
NON-CURRENT LIABILITIES			
Long-term loans	34	**8,024,820,080**	5,163,168,960
Bonds payable	35	**3,991,666,667**	3,987,666,667
Deferred income	36	**1,260,054,211**	1,269,496,538
Long-term payables	37	**210,000,000**	–
Long-term employee benefits payable	26	**162,590,718**	159,173,203
Deferred tax liabilities	18	**36,607,390**	35,065,411
Total non-current liabilities		**13,685,739,066**	10,614,570,779
Total liabilities		**42,088,516,542**	44,165,024,589

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

Consolidated Statement of Financial Position (Continued)

As at 30 June 2017
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)	Note V	30 June 2017 Unaudited	31 December 2016 Audited
SHAREHOLDERS' EQUITY			
Share capital	38	**7,700,681,186**	7,700,681,186
Capital reserve	39	**8,348,606,325**	8,348,726,741
Other comprehensive income	40	**(110,223,013)**	(119,263,454)
Special reserve	41	**38,116,097**	27,969,571
Surplus reserve		**3,843,231,617**	3,843,231,617
General reserve		**153,394,916**	153,394,916
Retained profits/(accumulated losses)		**1,452,827,892**	(190,568,622)
Equity attributable to owners of the parent		**21,426,635,020**	19,764,171,955
Non-controlling interests		**2,708,123,647**	2,316,334,486
Total shareholders' equity		**24,134,758,667**	22,080,506,441
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**66,223,275,209**	66,245,531,030

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

The financial statements were signed by the following persons:

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

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017
Renminbi Yuan

	Note V	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
Revenue	42	**35,187,579,640**	21,001,162,560
Less: Cost of sales	42	**31,308,620,140**	18,177,307,489
Taxes and surcharges	43	**322,600,519**	105,586,947
Selling expenses	44	**412,156,137**	317,938,952
General and administrative expenses	45	**670,018,970**	1,048,469,131
Financial expenses	46	**528,207,382**	407,254,444
Impairment losses	47	**107,667,257**	672,332,416
Add: Gain on changes in fair value		**14,148,342**	3,461,591
Investment income	48	**286,628,017**	78,697,625
Including: share of profits of associates and joint ventures	48	**241,096,593**	69,346,926
Other income	49	**83,563,376**	–
Operating profit		**2,222,648,970**	354,432,397
Add: Non-operating income	50	**70,707,120**	140,391,902
Including: profit from disposal of non-current assets		**808,004**	154,474
Less: Non-operating expenses	51	**51,303,121**	1,748,742
Including: loss from disposal of non-current assets		**43,715,116**	976,959
Profit before tax		**2,242,052,969**	493,075,557
Less: Income tax expense	52	**337,919,171**	62,157,221
Net profit		**1,904,133,798**	430,918,336
Net profit attributable to owners of the parent		**1,643,396,514**	452,752,971
Net profit/(loss) attributable to non-controlling interests		**260,737,284**	(21,834,635)

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

Consolidated Statement of Profit or Loss (Continued)

For the six months ended 30 June 2017
Renminbi Yuan

	Note V	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
Other comprehensive income, net of tax			
Other comprehensive income attributable to owners of the parent, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Fair value changes of available-for-sale financial investments	40	**(780,770)**	–
Exchange differences on translation of foreign operations	40	**9,821,211**	39,247,618
Other comprehensive income attributable to non-controlling interests, net of tax	40	**(506,405)**	372,801
Total comprehensive income		**1,912,667,834**	470,538,755
Including:			
Total comprehensive income attributable to owners of the parent		**1,652,436,955**	492,000,589
Total comprehensive income attributable to non-controlling interests		**260,230,879**	(21,461,834)
EARNINGS PER SHARE:			
Basic earnings per share	53	**21.34 cents**	5.88 cents
Diluted earnings per share	53	**21.34 cents**	5.88 cents

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017
Renminbi Yuan

For the six months ended 30 June 2017 (Unaudited)

	Attributable to owners of the parent									
	Share capital (Note V 38)	Capital reserve (Note V 39)	Other comprehensive income (Note V 40)	Special reserve (Note V 41)	Surplus reserve	General reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2017	7,700,681,186	8,348,726,741	(119,263,454)	27,969,571	3,843,231,617	153,394,916	(190,568,622)	19,764,171,955	2,316,334,486	22,080,506,441
2. Increase/(decrease) during the period										
1) Total comprehensive income	-	-	9,040,441	-	-	-	1,643,396,514	1,652,436,955	260,230,879	1,912,667,834
2) Capital contribution and withdrawal										
(i) Capital contribution	-	-	-	-	-	-	-	-	91,470,000	91,470,000
(ii) Business combination (Note VI.2)	-	-	-	-	-	-	-	-	65,614,143	65,614,143
(iii) Disposal of a subsidiary (Note VI.3)	-	-	-	-	-	-	-	-	(884,349)	(884,349)
3) Profits appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	-	-	(25,671,100)	(25,671,100)
4) Special reserve										
(i) Additions	-	-	-	32,712,745	-	-	-	32,712,745	5,372,595	38,085,340
(ii) Utilisation	-	-	-	(26,028,589)	-	-	-	(26,028,589)	(4,343,007)	(30,371,596)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	3,462,370	-	-	-	3,462,370	-	3,462,370
5) Others										
(i) Changes in the share of associates and joint ventures' capital reserve, net	-	(120,416)	-	-	-	-	-	(120,416)	-	(120,416)
3. At 30 June 2017	7,700,681,186	8,348,606,325	(110,223,013)	38,116,097	3,843,231,617	153,394,916	1,452,827,892	21,426,635,020	2,708,123,647	24,134,758,667

For the six months ended 30 June 2016 (Unaudited)

	Attributable to owners of the parent									
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Accumulated losses	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	–	–	–	–	–	–	–	–	–	–
3) Profit appropriation	–	–	–	–	–	–	–	–	–	–
4) Special reserve										
(i) Additions	–	–	–	34,164,575	–	–	–	34,164,575	5,203,395	39,367,970
(ii) Utilisation	–	–	–	(27,792,724)	–	–	–	(27,792,724)	(2,232,743)	(30,025,467)
(iii) Changes in the share of associates and joint ventures' 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

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2017
Renminbi Yuan

	Note V	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering service		**39,139,433,476**	24,635,525,466
Cash received for interest charges, fees and commissions		**50,417,268**	28,465,276
Tax refunds received		**–**	49,351,264
Net decrease in deposits in central bank		**–**	71,727,130
Net decrease in loans and advances to customers		**46,218,288**	–
Net decrease in financial assets purchased under agreements to resell		**230,047,000**	–
Net increase in repurchase agreements of financial assets		**–**	125,266,272
Cash received relating to other operating activities	54	**127,463,477**	197,671,817
Sub-total of cash inflows		**39,593,579,509**	25,108,007,225
Cash paid for purchase of goods and services		**(32,905,122,314)**	(20,570,374,534)
Cash paid to or on behalf of employees		**(1,926,494,889)**	(1,953,551,894)
Taxes and surcharges paid		**(1,602,505,535)**	(1,040,145,583)
Net increase in deposits in central bank		**(38,113,076)**	–
Net decrease in repurchase agreements of financial assets		**(397,665,698)**	–
Net decrease in customer deposits and deposits from banks		**(830,110,045)**	(242,347,687)
Net increase in loans and advances to customers		**–**	(337,774,106)
Cash paid for interest charges, fees and commissions		**(27,622,969)**	(8,715,820)
Cash paid relating to other operating activities	54	**(406,352,927)**	(427,882,100)
Sub-total of cash outflows		**(38,133,987,453)**	(24,580,791,724)
Net cash flows from operating activities	55(1)	**1,459,592,056**	527,215,501

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2017
Renminbi Yuan

	Note V	For the six months ended 30 June **2017** **Unaudited**	2016 Unaudited
2. Cash flows from investing activities			
Cash received from disposal of investments		**–**	492,416,498
Cash received from investment income		**121,100,872**	79,000,000
Net cash from acquisition of subsidiaries and other operating units		**115,777,566**	–
Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets		**2,987,026**	1,265,196
Net cash from disposal of subsidiaries and other operating units		**4,854,451**	–
Cash received relating to other investing activities	54	**14,908,915**	135,488,506
Sub-total of cash inflows		**259,628,830**	708,170,200
Purchases of property, plant and equipment, intangible assets and other non-current assets		**(998,870,449)**	(1,030,427,781)
Cash paid for investments		**(1,188,003,566)**	(267,729,467)
Net increase in held-to-maturity investments		**(201,463,387)**	–
Sub-total of cash outflows		**(2,388,337,402)**	(1,298,157,248)
Net cash flows used in investing activities		**(2,128,708,572)**	(589,987,048)

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2017
Renminbi Yuan

	Note V	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
3. Cash flows from financing activities			
Cash received from borrowings		**7,963,827,700**	7,178,827,357
Cash received relating to other financing activities		**210,000,000**	494,559,399
Cash received from investors		**91,470,000**	–
Including: capital injection from a subsidiary's non-controlling interests		**91,470,000**	–
Sub-total of cash inflows		**8,265,297,700**	7,673,386,756
Repayment of borrowings		**(8,097,524,552)**	(8,003,623,315)
Cash paid for distribution of dividends or profits and for interest expenses		**(348,094,860)**	(409,300,794)
Including: dividends paid to non-controlling interests by subsidiaries		**(25,671,100)**	–
Sub-total of cash outflows		**(8,445,619,412)**	(8,412,924,109)
Net cash flows used in financing activities		**(180,321,712)**	(739,537,353)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(28,607,718)**	55,156,864
5. Net decrease in cash and cash equivalents	55(2)	**(878,045,946)**	(747,152,036)
Add: Cash and cash equivalents at the beginning of the period		**4,324,131,687**	3,546,410,358
6. Cash and cash equivalents at the end of the period	55(2)	**3,446,085,741**	2,799,258,322

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

Statement of Financial Position

As at 30 June 2017
Renminbi Yuan

ASSETS	Note XIV	30 June 2017 Unaudited	31 December 2016 Audited
CURRENT ASSETS			
Cash and bank balances		**4,037,926,638**	3,851,576,750
Financial assets at fair value through profit or loss		**59,155,301**	3,789,546
Notes receivable		**4,501,601,962**	3,518,320,171
Trade receivables	1	**2,322,868,045**	1,953,223,578
Dividends receivable		**6,356,770**	5,672,730
Prepayments		**457,397,696**	649,277,673
Other receivables	2	**167,651,845**	41,040,509
Inventories		**6,589,168,978**	7,370,937,053
Other current assets		**302,813,412**	294,632,327
Total current assets		**18,444,940,647**	17,688,470,337
NON-CURRENT ASSETS			
Available-for-sale financial investments		**126,722,160**	126,722,160
Long-term equity investments	3	**8,387,237,440**	7,152,166,287
Investment properties		**72,754,527**	73,988,855
Property, plant and equipment		**25,857,872,098**	27,272,692,483
Construction in progress		**1,645,320,418**	1,629,607,224
Intangible assets		**919,099,327**	933,763,504
Deferred tax assets		**256,426,674**	261,808,739
Total non-current assets		**37,265,432,644**	37,450,749,252
TOTAL ASSETS		**55,710,373,291**	55,139,219,589

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

Statement of Financial Position (Continued)

As at 30 June 2017
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2017 Unaudited	31 December 2016 Audited
CURRENT LIABILITIES		
Short-term loans	**2,715,003,037**	4,617,240,417
Notes payable	**2,610,979,470**	2,766,056,791
Accounts payable	**4,888,471,677**	5,708,282,008
Advances from customers	**2,209,484,367**	2,396,866,345
Payroll and employee benefits payable	**448,397,220**	436,242,207
Taxes payable	**50,476,991**	165,339,271
Interest payable	**202,923,006**	104,959,511
Dividends payable	**6,569,410**	6,525,534
Other payables	**1,395,448,882**	1,502,658,072
Non-current liabilities due within one year	**2,686,034,880**	4,448,099,900
Other current liabilities	**4,307,180,685**	2,273,058,356
Total current liabilities	**21,520,969,625**	24,425,328,412
NON-CURRENT LIABILITIES		
Long-term loans	**9,349,648,960**	7,113,168,960
Bonds payable	**3,991,666,667**	3,987,666,667
Deferred income	**543,279,138**	556,222,033
Long-term employee benefits payable	**128,918,669**	127,425,119
Total non-current liabilities	**14,013,513,434**	11,784,482,779
Total liabilities	**35,534,483,059**	36,209,811,191
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,357,897,061**	8,358,017,477
Special reserve	**12,130,178**	3,827,107
Surplus reserve	**2,993,175,001**	2,993,175,001
Retained profits/(accumulated losses)	**1,112,006,806**	(126,292,373)
Total shareholders' equity	**20,175,890,232**	18,929,408,398
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**55,710,373,291**	55,139,219,589

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

Statement of Profit or Loss

For the six months ended 30 June 2017
Renminbi Yuan

	Note XIV	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
Revenue	5	**29,186,631,452**	18,058,111,721
Less: Cost of sales	5	**26,862,921,216**	15,757,662,387
Taxes and surcharges		**237,603,318**	72,958,537
Selling expenses		**186,194,763**	151,013,725
General and administrative expenses		**426,802,707**	460,865,245
Financial expenses		**525,019,932**	415,400,334
Impairment losses		**94,777,557**	621,092,726
Loss on changes in fair value		**2,273,548**	3,658,207
Add: Investment income	6	**297,973,623**	67,093,792
Including: share of profits of associates and joint ventures	6	**241,096,593**	69,346,926
Other income		**76,014,555**	–
Operating profit		**1,225,026,589**	642,554,352
Add: Non-operating income		**69,397,362**	112,567,459
Including: profit from disposal of non-current assets		**291,998**	–
Less: Non-operating expenses		**50,742,706**	1,002,066
Including: loss from disposal of non-current assets		**43,583,048**	615,211
Profit before tax		**1,243,681,245**	754,119,745
Less: Income tax expense		**5,382,066**	78,585,194
Net profit		**1,238,299,179**	675,534,551
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**1,238,299,179**	675,534,551

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

Statement of Changes in Equity

For the six months ended 30 June 2017
Renminbi Yuan

For the six months ended 30 June 2017 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2017	7,700,681,186	8,358,017,477	3,827,107	2,993,175,001	(126,292,373)	18,929,408,398
2. Increase/(decrease) during the period						
1) Total comprehensive income	–	–	–	–	1,238,299,179	1,238,299,179
2) Capital contribution and withdrawal	–	–	–	–	–	–
3) Profit appropriation	–	–	–	–	–	–
4) Special reserve						
(i) Additions	–	–	17,456,654	–	–	17,456,654
(ii) Utilisation	–	–	(12,615,953)	–	–	(12,615,953)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	3,462,370	–	–	3,462,370
5) Others						
(i) Changes in the share of associates and joint ventures' capital reserve, net	–	(120,416)	–	–	–	(120,416)
3. At 30 June 2017	7,700,681,186	8,357,897,061	12,130,178	2,993,175,001	1,112,006,806	20,175,890,232

For the six months ended 30 June 2016 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Accumulated losses	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	–	–	–	–	–	–
3) Profit appropriation	–	–	–	–	–	–
4) Special reserve						
(i) Additions	–	–	19,224,132	–	–	19,224,132
(ii) Utilisation	–	–	(19,224,131)	–	–	(19,224,131)
(iii) Changes in the share of associates and joint ventures' 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

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

Statement of Cash Flows

For the six months ended 30 June 2017
Renminbi Yuan

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
1. Cash flows from operating activities		
Cash received from sale of goods and rendering service	**30,757,114,901**	19,027,163,959
Tax refunds received	**–**	24,507,200
Cash received relating to other operating activities	**107,961,827**	26,804,127
Sub-total of cash inflows	**30,865,076,728**	19,078,475,286
Cash paid for purchase of goods and services	**(26,765,548,157)**	(18,457,067,126)
Cash paid to or on behalf of employees	**(1,626,726,082)**	(1,362,383,561)
Taxes and surcharges paid	**(1,072,261,860)**	(717,278,852)
Cash paid relating to other operating activities	**(356,280,616)**	(321,627,636)
Sub-total of cash outflows	**(29,820,816,715)**	(20,858,357,175)
Net cash flows from/(used in) operating activities	**1,044,260,013**	(1,779,881,889)
2. Cash flows from investing activities		
Cash received from investment income	**124,703,297**	79,000,000
Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets	**1,016,060**	718,080
Net cash from disposal of subsidiaries and other operating units	**8,696,084**	–
Cash received relating to other investing activities	**8,500,000**	100,451,487
Sub-total of cash inflows	**142,915,441**	180,169,567
Purchase of property, plant and equipment, intangible assets and other non-current assets	**(408,988,826)**	(744,599,152)
Cash paid for investments	**(1,161,478,300)**	(82,746,213)
Acquisition of a subsidiary and other operating units	**–**	(1,633,450)
Sub-total of cash outflows	**(1,570,467,126)**	(828,978,815)
Net cash flows used in investing activities	**(1,427,551,685)**	(648,809,248)

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

Statement of Cash Flows (Continued)

For the six months ended 30 June 2017
Renminbi Yuan

	For the six months ended 30 June 2017 Unaudited	2016 Unaudited
3. Cash flows from financing activities		
Cash received from borrowings	**7,637,471,840**	3,877,525,413
Cash received relating to other financing activities	**–**	213,511,565
Sub-total of cash inflows	**7,637,471,840**	4,091,036,978
Repayment of borrowings	**(7,051,341,593)**	(2,073,057,489)
Cash paid for the distribution of dividend or profits and for interest expenses	**(306,602,492)**	(284,981,145)
Sub-total of cash outflows	**(7,357,944,085)**	(2,358,038,634)
Net cash flows from financing activities	**279,527,755**	1,732,998,344
4. Effect of foreign exchange rate changes on cash and cash equivalents	**(34,286,195)**	49,424,315
5. Net decrease in cash and cash equivalents	**(138,050,112)**	(646,268,478)
Add: Cash and cash equivalents at the beginning of the period	**3,851,576,750**	4,025,186,295
6. Cash and cash equivalents at the end of the period	**3,713,526,638**	3,378,917,817

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

Notes to Interim Financial Statements

30 June 2017
Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was established in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The unified social credit code of the Company's business license is 91340000610400837Y. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 30 June 2017, 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. The nominal value of each share is RMB1.

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

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

The financial statements were approved by the board of directors on 23 August 2017.

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

The interim financial statements were unaudited.

II. BASIS OF PREPARATION

The financial statements were 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 were prepared on going concern basis.

As of 30 June 2017, the net current liabilities of the Group amounted to RMB3,619,733,055. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking credit quota of RMB18.7 billion obtained on 30 June 2017. After assessment, the Company's board of directors believes that the Group has sufficient resources to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Company's board of directors continues to prepare the Group's interim financial statements for the six months ended 30 June 2017 on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for asset impairment is provided in accordance with related regulations.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to bad debt provision for trade receivables and inventory provision, depreciation of fixed assets, amortisation of intangible assets, impairment of non-current assets excluding the financial instruments (other than goodwill), recognition of deferred tax assets, recognition and measurement of revenue, etc.

1. STATEMENT OF COMPLIANCE WITH THE CAS

The financial statements have been prepared in accordance with the CAS, and presented truly and completely the financial position of the Company and the Group as of 30 June 2017, and the results of their operations and their cash flows for the six months ended 30 June 2017.

2. ACCOUNTING PERIOD

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

3. REPORTING CURRENCY

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

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

4. BUSINESS COMBINATION

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

Business combination involving entities under common control

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

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

4. BUSINESS COMBINATION *(CONTINUED)*

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

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

Business combination involving entities not under common control

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

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

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

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

5. CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements is determined on the control basis, which consists of financial statements of the Company and its subsidiaries for the six months ended 30 June 2017. A subsidiary is a company or entity that is controlled by the Company.

The financial year of subsidiaries is coterminous and the accounting policies of subsidiaries are applied consistently with those of the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealised 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 the fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

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

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

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

6. JOINT ARRANGEMENTS AND JOINT OPERATIONS

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

The joint arrangements of the Group are all joint ventures.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

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

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

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the end of the 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 comprehensive income are translated at the average rates of exchange during the period. Exchange differences arising from the translation mentioned above are recognised as other comprehensive income. When an overseas business is disposed of, other comprehensive income of the overseas business will be transferred to profit or loss in the same period. In the case of a partial disposal, only the proportionate share of other comprehensive income is transferred to profit or loss.

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

9. FINANCIAL INSTRUMENTS

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

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

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.

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

All financial assets purchased or sold in a 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 investments. 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 profit or loss; for other financial assets, the directly associated transaction costs are recognised as initial investment costs.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

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

Financial assets 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 realised and unrealised gains or losses are recognised in profit or loss. All dividends or interest related to financial assets at fair value through profit or loss is recognised in profit or loss.

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

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

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

(3) Hybrid instruments which contain one or more embedded derivatives, unless the embedded derivatives 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.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

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

Upon the designation of a financial asset as a financial asset 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 money market fund and financial products 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 amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss when the held-to-maturity investments are derecognised, impaired, or amortised.

Loans and receivables

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

Available-for-sale financial investments

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

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

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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 profit or loss; whereas for other financial liabilities, transaction costs are recognised as initial costs.

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: incurred principally for the purpose of repurchasing in the near term; 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 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 realised and unrealised gains or losses are recognised in profit or loss.

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

Other financial liabilities

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

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.

Notes to Interim Financial Statements (Continued)

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

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 reorganisation 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 amortised cost

When an impairment loss has incurred, 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 (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 take the value of the relevant guarantee into consideration. Accordingly, the relevant interest income is recognised based on the discount rate of the present value of the estimated future cash flows when an impairment loss has incurred. In respect of loans and trade receivables, if the expectation of recovery does not exist and all collateral is realised or transferred into the Group, loans and trade receivables and the relevant impairment loss will be written off.

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

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

Notes to Interim Financial Statements (Continued)

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through 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 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 incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Impairment losses on these assets are not reversed.

Notes to Interim Financial Statements (Continued)

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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 Group has not lost control over the financial asset, 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 profit or loss.

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

(3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at no less than 2.5% of the balance as of the period end, and the amount is recognised as an impairment loss and charged to profit or loss.

Notes to Interim Financial Statements (Continued)

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

11. INVENTORIES

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

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

Inventories are accounted for using the perpetual inventory system.

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

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

12. LONG-TERM EQUITY INVESTMENTS

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

Notes to Interim Financial Statements (Continued)

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

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

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

Notes to Interim Financial Statements (Continued)

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

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

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

When the cost method is adopted, long-term equity investments are recorded at initial investment cost. The cost of long-term equity investments is adjusted if there is additional capital injection or withdrawal. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period.

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 profit or loss.

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

Notes to Interim Financial Statements (Continued)

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

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

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

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

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 properties. Otherwise, the subsequent cost will be calculated in the current profits and losses when it occurs.

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is 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,it is charged to profit or loss.

Property, plant and equipment is initially recorded at cost, and taking the effects of expected disposal expenses into consideration. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

In addition to the land abroad purchased by an overseas subsidiary of the Group, depreciation is calculated on the straight-line basis. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives or provide economic benefits for enterprises in different ways, each part is depreciated separately.

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

15. CONSTRUCTION IN PROGRESS

Construction in progress represents a building under construction, which is stated at actual projects' cost. Cost comprises the direct costs of construction and capitalised 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.

Notes to Interim Financial Statements (Continued)

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

16. BORROWING COSTS

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

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

The capitalization of borrowing costs commences when:

(1) Expenditures for the assets are incurred;

(2) Borrowing costs are incurred; or

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

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

Within the capitalization period, the amounts of capitalised 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. Borrowing costs is recognised as expenses in profit or loss during the interruption until the acquisition or construction is resumed.

Notes to Interim Financial Statements (Continued)

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

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 not under common control whose fair value can be reliably measured, it is separately recognised and is measured at its fair value.

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

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

	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 amortisations and impairment, if any. The amortisation is calculated in a period of 25 years using the straight-line method.

The Group generally accounted for land use rights obtained by the Group in intangible assets. 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, it is wholly accounted for as a fixed asset if it is difficult to be allocated reasonably.

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

Notes to Interim Financial Statements (Continued)

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

17. INTANGIBLE ASSETS *(CONTINUED)*

The expenditures for internal research and development projects of the Group were classified as research expenditures and development expenditures. All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

18. IMPAIRMENT OF ASSETS

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

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

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

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

Impairment losses cannot be reversed in subsequent accounting periods.

Notes to Interim Financial Statements (Continued)

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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

During the accounting period in which the employee provides the service, the actual short-term employee benefits is recognised as a liability and included in profit or loss or related assets' costs.

Post-employment benefit (defined contribution plans)

Expenditures for employees' endowment insurance and unemployment insurance managed by the local government and enterprise annuity established by the Group are capitalised in the related assets or charged to profit or loss.

Post-employment benefit (defined benefit plans)

The Group's overseas subsidiary 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 shareholders' equity 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; and
- the date that the Group recognises restructuring-related costs or termination benefits.

Notes to Interim Financial Statements (Continued)

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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", "general and administrative expenses" and "financial expenses" in the consolidated statement of comprehensive income by function:

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

- 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 and charge to profit or loss at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs or expenses related to paying termination benefits.

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 to 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 risks, uncertainties, present value, etc. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate if there is conclusive evidence that the carrying amount does not reflect the best estimate at this moment.

Notes to Interim Financial Statements (Continued)

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

20. PROVISIONS *(CONTINUED)*

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

21. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

Assets sold under agreements to repurchase at a specified future date ("repos") are not 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 in the statement of financial position as a "reverse repurchase agreement." The corresponding cash paid, including accrued interest, is recognised as a "reverse repurchase agreement" in the statement of financial position. The difference between the purchase and resale prices is treated as 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 to the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

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

Notes to Interim Financial Statements (Continued)

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

22. REVENUE *(CONTINUED)*

Revenue from the rendering service

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

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

Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash and bank balances 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.

Notes to Interim Financial Statements (Continued)

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

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 a government grant related to income is a compensation for related expenses or losses in the future period, the grant is recognised in deferred income, and the grant is recognised in profit or loss during the period in which its related expenses is recognised. 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 amortised 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.

The Group accounts for government grants related to operating activities in other income or offsets related costs and expenses according to its business nature. Government grants unrelated to operating activities are recognised in non-operating income.

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

Notes to Interim Financial Statements (Continued)

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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 profit or loss, except for goodwill generated in a business combination or items that have been recognised directly in equity.

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

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

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

(1) those are arising from 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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised by the Group to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

(1) those arising from 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 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 utilised.

Notes to Interim Financial Statements (Continued)

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

24. INCOME TAX *(CONTINUED)*

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

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

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

As lessor in operating leases

Rentals receivable under operating leases are credited to profit or loss over the lease terms on the straight-line basis, and contingent rental payment is charged to profit or loss when it incurs.

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 utilised, it is accounted for based on whether a fixed asset is generated or not: if the costs incurred can be categorised as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up fixed assets, the costs should be charged to construction in progress, and reclassified to fixed assets when the projects reach the status ready for intended use. Meantime, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognised at the same amount.

Notes to Interim Financial Statements (Continued)

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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 the 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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

Notes to Interim Financial Statements (Continued)

30 June 2017
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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:

Going concern

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

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

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

Judgments *(Continued)*

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

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

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

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

As of 30 June 2017, the Group holds 16.34% equity interests in Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource"). The directors represent that the Company is able to exercise significant influence over Xinchuang Economize Resource although the equity interests that the Company holds in Xinchuang Economize Resource are less than 20%, according to the requirements of the Articles of Association of Xinchuang Economize Resource, the Company designated one director and one supervisor to Xinchuang Economize Resource. Thus, the Company can exercise significant influence over Xinchuang Economize Resource, and the investment in Xinchuang Economize Resource is accounted for as an associate.

As of 30 June 2017, the Group holds 12% equity interests in Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical"). The directors represent that the Company is able to exercise significant influence over Anhui Linhuan Chemical although the equity interests that the Company holds in Anhui Linhuan Chemical are less than 20%, according to the requirements of the Articles of Association of Anhui Linhuan Chemical, the Company designated one director to Anhui Linhuan Chemical. Thus, the Company can exercise significant influence over Anhui Linhuan Chemical, and the investment in Anhui Linhuan Chemical is accounted for as an associate.

Notes to Interim Financial Statements (Continued)

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

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

Estimation uncertainty

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

Impairment of 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 utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Estimation of useful life of fixed assets

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

Notes to Interim Financial Statements (Continued)

30 June 2017
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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 realisable value

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

Net realisable value of inventories is the estimated 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

Changes in government grants disclosure

In 2017, based on the issuance of China Accounting Standard No. 16 – Government Grants (Revised in 2017) (Accounting [2017] No.15) ("Revised CAS 16"), the Group accounted the government grants related to daily corporate activities as other income or offsetting relevant costs according to the nature of business. Government grants not related to daily corporate activities would be included in non-operating income. Government grants existing as at 1 January 2017 applies the change in future application, and the government grants newly granted during the period from 1 January 2017 to the application date (12 June 2017) will be accounted according to the Revised CAS 16. Impacted by application of Revised CAS 16, the Group's non-operating income and other income are presented differently for the six months ended 30 June 2017, compared with the year of 2016. The application of Revised CAS 16 will have no impact on the Group's and the Company's net profit and equity for the six months ended 30 June 2017.

Notes to Interim Financial Statements (Continued)

30 June 2017
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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 Group adopted the "levy first, refund afterwards" arrangements for VAT in its own export sales.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Income tax	The Group and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their assessable profits. In 2014, the New and High Technology Enterprise certification of the Group's subsidiary, Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial"), was renewed by the subsidiary's application to the authority and the entity was recognised by the local authority as a New and High Technology Enterprise. The period of validity is three years from 1 January 2014. The tax benefits had expired on 31 December 2016. Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") was established and registered in Hong Kong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia")) was established and registered in Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S ("MG-VALDUNES") was established and registered in France, the applicable income tax rate is 33.3%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, the applicable income tax rate is 30%.
Land appreciation tax	Payable based on appreciation of land use right and building at a progressive tax rate of 30%-60% as a result of the transfer of ownership.
Education surcharge	Payable based on 3% of the turnover taxes to be paid.
Local education surcharge	Payable based on 2% of the turnover taxes to be paid.
Real estate tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	30 June 2017 Unaudited	31 December 2016 Audited
Cash on hand	**73,655**	90,515
Bank balances	**3,446,012,086**	4,324,041,172
Other cash and bank balances	**853,919,992**	493,121,436
Mandatory reserves of Masteel Financial deposited in central bank	**532,960,994**	494,847,918
	4,832,966,727	5,312,101,041

As of 30 June 2017, the Group's other monetary assets amounting to RMB853,919,992 have been pledged to banks as security (31 December 2016: RMB493,121,436) for bank acceptance notes, domestic letters of credit and performance guarantees.

As of 30 June 2017, the Group had cash and bank balances amounting to RMB540,680,491 that have been deposited outside the PRC (31 December 2016: RMB335,758,549).

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

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017 Unaudited	31 December 2016 Audited
Financial assets designated as at fair value through profit or loss		
Investments in debt instruments	**766,683,533**	555,322,261
Others	**60,503,401**	–
	827,186,934	555,322,261

As of 30 June 2017 and 31 December 2016, the investments in debt instruments were mainly money market fund and financial products issued by banks held by the Group.

As of 30 June 2017, there was no material restriction on the realisation of these investments.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

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

3. NOTES RECEIVABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Bank acceptance notes	**4,687,305,835**	3,608,459,121

As of 30 June 2017, bank acceptance notes of the Group amounting to RMB567,646,581 (31 December 2016: RMB738,206,842) were pledged for bank loans.

As of balance sheet date, the undue notes receivable endorsed or discounted were as follows：

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance notes	**2,927,511,109**	**62,323,524**	5,196,770,076	156,827,864

As of 30 June 2017 and 31 December 2016, there were no trade receivables transferred from notes receivable because of the drawers' inability to pay.

4. TRADE RECEIVABLES

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

The aging of trade receivables is analysed below:

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year	**857,535,606**	756,196,252
One to two years	**39,650,795**	66,905,447
Two to three years	**15,881,257**	24,337,627
Over three years	**35,605,372**	33,219,589
	948,673,030	880,658,915
Less: Provisions for bad debts	**20,473,039**	20,729,808
	928,199,991	859,929,107

* The aging analysis of trade receivables of the Group is based on the invoice date.

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. TRADE RECEIVABLES *(CONTINUED)*

The movements of provisions for bad debts against trade receivables for the period are disclosed in Note V.19.

The balances of trade receivables are analysed as follows:

	30 June 2017 (Unaudited)				31 December 2016 (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	891,823,306	94	(6,927,040)	1	825,690,228	94	(6,927,040)	1
Other insignificant but assessed for impairment individually	56,849,724	6	(13,545,999)	24	54,968,687	6	(13,802,768)	25
	948,673,030	100	(20,473,039)		880,658,915	100	(20,729,808)	

As of 30 June 2017, those individually significant and assessed for impairment individually were as follows:

	Book value	Provisions for bad debts	Ratio (%)	Reason
Company 1	121,652,399	–	–	/
Company 2	58,680,735	–	–	/
Company 3	48,312,244	–	–	/
Company 4	43,470,026	–	–	/
Company 5	28,555,094	–	–	/
Company 6	28,149,429	–	–	/
Company 7	21,938,310	–	–	/
Company 8	20,874,910	–	–	/
Company 9	20,279,298	–	–	/
Company 10	20,221,020	–	–	/
Company 11	19,484,684	–	–	/
Company 12	17,779,311	–	–	/
Company 13	17,066,302	–	–	/
Company 14	15,787,663	–	–	/
Company 15	15,617,537	–	–	/
Others	393,954,344	(6,927,040)		Note 1
	891,823,306	(6,927,040)		

Notes to Interim Financial Statements (Continued)

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

4. TRADE RECEIVABLES *(CONTINUED)*

During the current period, provision for bad debts was RMB950,427 (for the six months ended 30 June 2016: RMB812,016) and the recovery or reversal of provision for bad debts was RMB1,207,196 (for the six months ended 30 June 2016: Nil).

During the current period, there was no write-off of provision for bad debts (for the six months ended 30 June 2016: Nil).

As of 30 June 2017 and 31 December 2016, there were no trade receivables that were derecognised due to the transfer of financial assets.

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

	Book value	Provisions for bad debts	Ratio (%)	Reason
Company 1	117,299,709	–	–	/
Company 2	48,312,244	–	–	/
Company 3	35,735,250	–	–	/
Company 4	29,169,562	–	–	/
Company 5	24,738,742	–	–	/
Company 6	21,908,132	–	–	/
Company 7	21,573,834	–	–	/
Company 8	20,666,702	–	–	/
Company 9	20,279,298	–	–	/
Company 10	18,563,390	–	–	/
Company 11	17,592,138	–	–	/
Company 12	17,075,094	–	–	/
Company 13	17,025,890	–	–	/
Company 14	15,632,872	–	–	/
Company 15	13,653,503	–	–	/
Others	386,463,868	(6,927,040)		Note 1
	825,690,228	(6,927,040)		

Note 1: The Company has confirmed that one of its trade receivables was uncollectable. Therefore, provision for bad debts was fully recognised amounting to RMB6,927,040.

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. TRADE RECEIVABLES *(CONTINUED)*

Top five trade receivables classified by debtors are as follows:

30 June 2017	**Relationship with the Group**	**Ending balance**	**Aging**	**Percentage of trade receivables**	**Ending balance of provision for bad debts**
Company 1	**Third Party**	**121,652,399**	**Within 1 year**	**13%**	**–**
Company 2	**Third Party**	**58,680,735**	**Within 1 year**	**6%**	**–**
Company 3	**Third Party**	**48,312,244**	**Within 3 years**	**5%**	**–**
Company 4	**Third Party**	**43,470,026**	**Within 1 year**	**5%**	**–**
Company 5	**Third Party**	**28,555,094**	**Within 1 year**	**3%**	**–**
		300,670,498		**32%**	

31 December 2016	Relationship with the Group	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision for bad debts
Company 1	Third Party	117,299,709	Within 1 year	14%	–
Company 2	Third Party	48,312,244	Within 3 years	5%	–
Company 3	Third Party	35,735,250	Within 1 year	4%	–
Company 4	Third Party	29,169,562	Within 1 year	3%	–
Company 5	Third Party	24,738,742	Within 1 year	3%	–
		255,255,507		29%	

As of 30 June 2017, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continuingly involved (31 December 2016: Nil).

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5. PREPAYMENTS

Aging analysis of the prepayments is as follows:

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Book value	**Ratio (%)**	Book value	Ratio (%)
Within one year	**567,118,668**	**96**	896,450,454	96
One to two years	**11,129,824**	**2**	14,669,580	2
Two to three years	**2,216,412**	**–**	5,222,283	1
Over three years	**12,124,552**	**2**	8,708,957	1
	592,589,456	**100**	925,051,274	100

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

Top five prepayments classified by debtors are as follows:

30 June 2017	**Relationship with the Group**	**Ending balance**	**Aging**	**Percentage of prepayments**
Company 1	**Associate**	**155,591,317**	**Within 1 year**	**26%**
Company 2	**Third Party**	**89,190,473**	**Within 1 year**	**15%**
Company 3	**Third Party**	**84,418,804**	**Within 1 year**	**14%**
Company 4	**Third Party**	**73,629,750**	**Within 1 year**	**12%**
Company 5	**Third Party**	**52,513,333**	**Within 1 year**	**9%**
		455,343,677		**76%**

31 December 2016	Relationship with the Group	Ending balance	Aging	Percentage of prepayments
Company 1	Third Party	164,095,911	Within 1 year	18%
Company 2	Third Party	130,035,843	Within 1 year	14%
Company 3	Third Party	104,989,589	Within 1 year	11%
Company 4	Associate	100,000,000	Within 1 year	11%
Company 5	Third Party	96,486,201	Within 1 year	10%
		595,607,544		64%

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year	**257,249,651**	66,975,647
One to two years	**56,841,960**	51,655,401
Two to three years	**459,813**	3,087,522
Over three years	**601,200,611**	600,141,779
	915,752,035	721,860,349
Less: Provision for bad debts	**592,518,075**	594,245,515
	323,233,960	127,614,834

The movements of provision for bad debts against other receivables for the period are disclosed in Note V.19.

The balances of other receivables are analysed as follows:

	30 June 2017 (Unaudited)				31 December 2016 (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	**871,733,687**	**95**	**(587,934,699)**	**67**	700,662,861	97	(587,934,699)	84
Other insignificant but assessed for impairment individually	**44,018,348**	**5**	**(4,583,376)**	**10**	21,197,488	3	(6,310,816)	30
	915,752,035	**100**	**(592,518,075)**		721,860,349	100	(594,245,515)	

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

As of 30 June 2017, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	76,821,224	(76,821,224)	100	(ii)
Company 4	60,939,960	(60,939,960)	100	(i)
Company 5	57,988,833	(57,988,833)	100	(iv)
Company 6	37,243,732	(37,243,732)	100	(i)
Company 7	34,783,463	(34,783,463)	100	(ii)
Company 8	17,079,513	(17,079,513)	100	(ii)
Company 9	10,056,058	(10,056,058)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	5,143,596	(5,143,596)	100	(ii)
Company 14	4,069,419	(4,069,419)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
Others	283,798,988	–		/
	871,733,687	(587,934,699)		

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	76,821,224	(76,821,224)	100	(ii)
Company 4	60,939,960	(60,939,960)	100	(i)
Company 5	57,988,833	(57,988,833)	100	(iv)
Company 6	37,243,732	(37,243,732)	100	(i)
Company 7	34,783,463	(34,783,463)	100	(ii)
Company 8	17,079,513	(17,079,513)	100	(ii)
Company 9	10,056,058	(10,056,058)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	5,143,596	(5,143,596)	100	(ii)
Company 14	4,069,419	(4,069,419)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
Others	112,728,162	–		/
	700,662,861	(587,934,699)		

(i) The companies were former steel trading suppliers of the Company, which were in operating difficulties. The fair value of the assets which pledged the receivables has changed, the management of the Company assessed that it was difficult to collect the receivables as second in line pledgee, therefore, provision for the bad debts was fully recognised.

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

(iii) As the company was in operating difficulties, the management assessed that it was difficult to collect the receivables and provision for the bad debts was fully recognised.

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

(iv) For purpose of protecting the Group's interest as the creditor, Maanshan Iron and Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)"), a subsidiary of the Group, signed an equity interest transfer agreement and its supplementary agreement (collectively known as the "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 interests 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. Ma Steel (Wuhu) did not participate the daily operation of the debtor and shared no profit or loss. In October 2016, the debtor repaid part of the debt with real estates, and Ma Steel (Wuhu) returned the equity interest to the original shareholders of the company according to the Agreements. The book value of the rest amounting to RMB57,988,833 was unable to be collected by the Company. Therefore, provision of RMB2,686,251 for bad debts was further recognised in 2016. As of 31 December 2016, provision for the bad debts was fully recognised.

During the period, there was no provision recognised for bad debts (for the six months ended 2016: Nil) and no recovery or reversal of provision for bad debts was made (for the six months ended 2016: Nil).

During the period, the write-off of provision for the debts was RMB1,727,440 (for the six months ended 2016: Nil).

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

Other receivables analysed by nature were as follows：

	30 June 2017 Unaudited	31 December 2016 Audited
Payment on behalf of other companies	**50,733,791**	50,733,791
Tax refunds	**5,237,911**	5,237,911
Prepaid guarantee to China Customs for customs duties and VAT	**5,893,845**	11,167,848
Prepayment for trading	**585,534,699**	585,534,699
Prepaid guarantee for steel futures	**141,706,521**	28,061,996
Others	**126,645,268**	41,124,104
	915,752,035	721,860,349
Less：Provision for bad debts	**592,518,075**	594,245,515
	323,233,960	127,614,834

As of 30 June 2017, top five other receivables were as follows:

	Balance	**Ratio in other receivables (%)**	**Nature**	**Aging**	**Balance of provision for bad debts**
Company 1	**132,058,434**	**14**	**Prepayment for trading**	**More than 3 years**	**132,058,434**
Company 2	**127,685,367**	**14**	**Prepayment for trading**	**More than 3 years**	**127,685,367**
Company 3	**76,821,224**	**8**	**Prepayment for trading**	**More than 3 years**	**76,821,224**
Company 4	**60,939,960**	**7**	**Prepayment for trading**	**More than 3 years**	**60,939,960**
Company 5	**57,988,833**	**6**	**Prepayment for trading**	**More than 3 years**	**57,988,833**
	455,493,818	**49**			**455,493,818**

Notes to Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

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

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

As of 30 June 2017, the government grants receivable were as follows:

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

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

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

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. OTHER RECEIVABLES *(CONTINUED)*

Note: The balance is the government grant owned by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Changjiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. After communicating with the government, the rest of the amount is expected to be received in 2017.

The balances of other receivables as of 30 June 2017 and 31 December 2016 did not contain any amount derecognised due to the transfer of financial assets.

7. INVENTORIES

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**4,873,167,861**	**(103,394,289)**	**4,769,773,572**	5,068,139,785	(83,746,075)	4,984,393,710
Work in progress	**902,457,756**	**(26,262,178)**	**876,195,578**	864,371,940	(17,659,670)	846,712,270
Finished goods	**3,131,836,608**	**(53,421,489)**	**3,078,415,119**	3,425,296,042	(64,188,089)	3,361,107,953
Spare parts	**1,167,707,109**	**(89,017,199)**	**1,078,689,910**	1,249,285,417	(126,912,167)	1,122,373,250
Others (Note)	**233,474,649**	**–**	**233,474,649**	233,474,649	–	233,474,649
	10,308,643,983	**(272,095,155)**	**10,036,548,828**	10,840,567,833	(292,506,001)	10,548,061,832

Note: The Company, as the creditor, received real estate amounting to RMB233,474,649 from one debtor in 2016. Please refer to Note V.6 for details.

At the end of the reporting period, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable value is the estimated selling price under normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes.

The movements of impairment provision against inventories for the period are disclosed in Note V.19.

As of 30 June 2017, the Group had no pledged inventories (31 December 2016: Nil).

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	30 June 2017 Unaudited	31 December 2016 Audited
Bonds	**–**	230,047,000

Financial assets purchased under agreements to resell are bonds that are bought first and to be sold at a fixed price by Masteel Financial according to the resell agreements.

9. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2017 Unaudited	31 December 2016 Audited
Loans	**497,500,000**	474,500,000
Discounted notes	**1,059,019,825**	1,128,238,113
	1,556,519,825	1,602,738,113
Less：Bad debt provision for loans and advances	**43,483,032**	47,525,557
	1,513,036,793	1,555,212,556

The movements of the provision for bad debts against loans and advances to customers for the current period are disclosed in Note V.19.

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 2.8% (2016: 3%) of its closing balance. As of 30 June 2017, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from shareholders who held 5% or above of the Company's equity interests and other related parties as of 30 June 2017 and 31 December 2016 are disclosed in Note X.6 to the financial statements.

Notes to Interim Financial Statements (Continued)

30 June 2017
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. HELD-TO-MATURITY INVESTMENTS

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Treasury bonds	201,463,387	–	201,463,387	–	–	–

Significant held-to-maturity investments are as follows:

	Par Value	Nominal interest rate	Actual interest rate	Purchase date	Maturity date
17 interest-bearing bonds 03	100,000,000	2.78%	3.11%	28 April 2017	13 February 2018
17 interest-bearing bonds 03	100,000,000	2.78%	3.53%	21 June 2017	13 February 2018

11. OTHER CURRENT ASSETS

	30 June 2017 Unaudited	31 December 2016 Audited
Accumulated deductible value added tax	532,365,681	386,609,452
Prepaid income tax	305,307,233	301,317,710
Others	–	4,544,071
	837,672,914	692,471,233

12. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Available-for-sale debt instruments (Note)	1,301,936,789	–	1,301,936,789	451,225,538	–	451,225,538
Available-for-sale equity instruments measured at cost	126,722,160	–	126,722,160	126,722,160	–	126,722,160
	1,428,658,949	–	1,428,658,949	577,947,698	–	577,947,698

Notes to Interim Financial Statements (Continued)

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

12. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS *(CONTINUED)*

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

	30 June 2017 Unaudited	31 December 2016 Audited
Available-for-sale debt instruments		
Debt instruments' amortised cost	**1,304,258,221**	452,402,983
Fair value	**1,301,936,789**	451,225,538
Accumulated fair value changes recorded in other comprehensive income	**(2,321,432)**	(1,177,445)
Provision	**–**	–

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

Available-for-sale financial investments measured at cost:

30 June 2017 (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	1,540,000
Shanghai LuoJing Ore Quay Co., Ltd.	88,767,360	-	-	88,767,360	-	-	-	-	12.00	-
Beijing Zhonglian Steel Ecommerce Co., Ltd.	1,000,000	-	-	1,000,000	-	-	-	-	3.40	-
Anshan Huatai CDQ Engineering Technology Co., Ltd.	400,000	-	-	400,000	-	-	-	-	5.00	-
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd.	15,000,000	-	-	15,000,000	-	-	-	-	15.00	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd.	3,000,000	-	-	3,000,000	-	-	-	-	6.90	-
	126,722,160	-	-	126,722,160	-	-	-	-		1,540,000

As of 30 June 2017, the Group's available-for-sale financial investments are equity investments in non-listed companies in China. The fair values of these assets could not be reliably measured since there were no market prices in the active market. These assets are recorded at cost less impairment at the end of each reporting period, and their fair values were not disclosed.

Notes to Interim Financial Statements (Continued)

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

12. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS *(CONTINUED)*

Available-for-sale financial investments measured at cost *(Continued)*:

31 December 2016 (Audited)

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

13. LONG-TERM EQUITY INVESTMENTS

30 June 2017 (Unaudited)

		Movements during the period								
	Opening Balance	**Increase**	**Decrease**	**Investment income under the equity method**	**Other comprehensive income**	**Other equity movement**	**Cash dividend received**	**Provision for impairment**	**Closing balance**	**Impairment at the end of the period**
Joint ventures										
Ma' anshan BOC-Ma Steel Gases Co., Ltd. ("BOC-Ma Steel")	319,018,068	-	-	44,214,106	-	109,528	(75,000,000)	-	288,341,702	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	541,433	-	-	-	-	-	-	-	541,433	-
Mascometal Co., Ltd.(Mascometal) (Note)	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
Associates										
Henan Jinma Energy Co., Ltd. ("Henan Jinma Energy")	296,196,390	-	-	110,111,926	-	1,261,613	(36,000,000)	-	371,569,929	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	309,396,424	-	-	84,540,762	-	444,750	-	-	394,381,936	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	27,120,592	-	-	276,442	-	-	-	-	27,397,034	-
Xinchuang Economize Resource	43,780,961	-	-	3,286,876	-	284	(1,306,391)	-	45,761,730	-
Anhui Linhuan Chemical	72,000,000	-	-	-	-	712,744	-	-	72,712,744	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	118,438,408	-	-	3,013,884	-	813,035	-	-	122,265,327	-
	1,239,776,313	78,431,997	(127,368,631)	241,096,593	-	3,341,954	(112,306,391)	-	1,322,971,835	-

Notes to Interim Financial Statements (Continued)

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

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

31 December 2016 (Audited)

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	316,030,791	–	–	80,857,392	–	1,129,885	(79,000,000)	–	319,018,068	–
MASTEEL-CMI	539,342	–	–	2,091	–	–	–	–	541,433	–
Mascometal	–	58,171,378	(4,879,915)	(7,426)	–	–	–	–	53,284,037	–
Associates										
Henan Jinma Energy	241,098,393	–	–	77,296,589	–	3,361,408	(25,560,000)	–	296,196,390	–
Shenglong Chemical	242,402,338	–	–	66,810,341	–	183,745	–	–	309,396,424	–
Shanghai Iron and Steel Electronic	26,604,521	–	–	4,516,071	–	–	(4,000,000)	–	27,120,592	–
Xinchuang Economize Resource	35,539,691	–	–	3,059,233	–	5,182,037	–	–	43,780,961	–
Anhui Linhuan Chemical	72,000,000	–	–	–	–	–	–	–	72,000,000	–
Ma-Steel OCI Chemical	95,638,431	22,513,793	–	286,184	–	–	–	–	118,438,408	–
	1,029,853,507	80,685,171	(4,879,915)	232,820,475	–	9,857,075	(108,560,000)	–	1,239,776,313	–

Note: In 2016, the Company jointly established Mascometal with registered capital amounting to EUR32 million with a foreign invested enterprise (FIE), Asco Industries Co., Ltd., in which the Company and Asco Industries Co., Ltd. hold 75% and 25% of equity interests respectively, according to the requirements of the joint venture contract and the Articles of Association. The Company designated three directors in the board of directors and Asco Industries Co., Ltd. designated one director. According to the Articles of Association of Mascometal, the board of directors is the supreme authority, some important financial and operating decisions must be approved by all the directors. According to the requirements of the Articles of Association as above, the directors represent that the Company is unable to exercise control over Mascometal, but able to exercise joint control over Mascometal with Asco Industries Co., Ltd. Therefore, the equity investment in Mascometal was accounted for as a joint venture, and Mascometal has not been included in the consolidation scope of the Group in 2016.

In August 2016, the Company disposed of 9% equity interest of Mascometal to Maanshan Yushan District City Investment and Development Co., Ltd., as a result, the equity interests the Company holds changed to 66%.

In June 2017, Mascometal held the first board of directors' 6th meeting. The meeting approved the revised Article of Association which changed the approval criteria of significant finance and operating decision from unanimous approval of all the directors to more than 50% of the directors' approval. According to the revised Article of Association, the directors of the Company represent that the Company is able to exercise control over Mascometal, therefore it is accounted for as a subsidiary and included in the scope of consolidation of the Group instead of being accounted for as a joint venture, thus forming a business combination involving entities not under common control. For details regarding this business combination involving entities not under common control of Mascometal, please refer to Note VI.2.

Notes to Interim Financial Statements (Continued)

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

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

Note: *(Continued)*

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

14. INVESTMENT PROPERTIES

Investment properties measured at cost:

30 June 2017 (Unaudited)

	Buildings and plant
Cost:	
At 1 January 2017	**65,075,379**
At 30 June 2017	**65,075,379**
Accumulated depreciation:	
At 1 January 2017	**6,241,381**
Provided	**513,531**
At 30 June 2017	**6,754,912**
Provision for impairment:	
At 1 January 2017 and 30 June 2017	**–**
Net carrying amount:	
At 30 June 2017	**58,320,467**
At 1 January 2017	**58,833,998**

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

Notes to Interim Financial Statements (Continued)

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

14. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties measured at cost: *(Continued)*

31 December 2016 (Audited)

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

Notes to Interim Financial Statements (Continued)

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

15. PROPERTY, PLANT AND EQUIPMENT

30 June 2017 (Unaudited)

	Buildings and plant	Machinery and equipment	Motor vehicles	Office equipment	Land (Note)	Total
Cost:						
At 1 January 2017	28,321,868,263	54,592,830,136	387,602,293	266,400,805	10,265,796	83,578,967,293
Addition	3,320,657	12,072,602	7,034,605	728,290	–	23,156,154
Business combination involving entities not under common control (Note VI.2)	–	–	177,003	7,849	–	184,852
Transferred from construction in progress (Note V.16)	45,009,878	160,405,172	23,825,637	21,369	–	229,262,056
Reclassifications	(691,453,654)	691,040,554	413,100	–	–	–
Disposal	(24,019,827)	(227,654,723)	(19,329,902)	(8,651)	–	(271,013,103)
Exchange realignment	1,808,029	8,285,403	250,742	286,466	–	10,630,640
Estimated adjustments for construction	(46,976,619)	–	–	–	–	(46,976,619)
Disposal of subsidiaries	–	(5,705,913)	(805,624)	(365,472)	–	(6,877,009)
At 30 June 2017	27,609,556,727	55,231,273,231	399,167,854	267,070,656	10,265,796	83,517,334,264
Accumulated depreciation:						
At 1 January 2017	12,872,670,351	34,591,216,575	309,217,755	244,653,433	–	48,017,758,114
Provided	478,746,667	1,392,390,077	8,177,304	3,208,433	–	1,882,522,481
Reclassifications	(10,282,621)	10,043,803	238,818	–	–	–
Disposal	(18,045,455)	(189,737,572)	(17,335,938)	–	–	(225,118,965)
Exchange realignment	107,362	1,319,904	179,491	100,642	–	1,707,399
Disposal of subsidiaries	–	(3,675,424)	(750,450)	(338,975)	–	(4,764,849)
At 30 June 2017	13,323,196,304	35,801,557,363	299,726,980	247,623,533	–	49,672,104,180
Provision for impairment:						
At 1 January 2017	6,514,174	32,093,290	–	–	–	38,607,464
Provided	–	–	–	–	–	–
Exchange realignment	–	140,368	–	–	–	140,368
At 30 June 2017	6,514,174	32,233,658	–	–	–	38,747,832
Net carrying amount:						
At 30 June 2017	14,279,846,249	19,397,482,210	99,440,874	19,447,123	10,265,796	33,806,482,252
At 1 January 2017	15,442,683,738	19,969,520,271	78,384,538	21,747,372	10,265,796	35,522,601,715

Notes to Interim Financial Statements (Continued)

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

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

31 December 2016 (Audited)

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

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

As of 30 June 2017, certificates of ownership in respect of 34 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,329,717,946 (31 December 2016: RMB1,273,300,682), 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.

Notes to Interim Financial Statements (Continued)

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

16. CONSTRUCTION IN PROGRESS

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Product quality projects	**385,000,774**	**–**	**385,000,774**	387,560,165	–	387,560,165
Energy-saving and environment protection projects	**505,276,757**	**–**	**505,276,757**	448,789,128	–	448,789,128
Equipment advancement and other modification projects	**883,018,865**	**–**	**883,018,865**	856,066,507	–	856,066,507
Other projects	**861,875,806**	**–**	**861,875,806**	565,775,598	–	565,775,598
	2,635,172,202	**–**	**2,635,172,202**	2,258,191,398	–	2,258,191,398

During the current period, the movements of significant projects were as follows:

30 June 2017 (Unaudited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Business combination involving entities not under common control RMB (Note VI.2)	Transferred to fixed assets RMB (Note V.15)	Other transfer out RMB	Closing balance RMB	Source of fund	The proportion projects investment account for budget (%)	Percentage of completion (%)	Accumulated interest capitalisation RMB	The capitalised interest in the current period RMB	The interest capitalisation rate in the current period (%)
Product quality projects	4,980,910	387,560,165	63,307,354	56,834,490	(51,047,299)	(71,653,936)	385,000,774	Internally financed	51	51	-	-	-
Energy-saving and environment protection projects	2,202,488	448,789,128	140,675,435	-	(84,187,806)	-	505,276,757	Internally financed	83	83	-	-	-
Equipment advancement and other modification projects	1,539,556	856,066,507	118,675,698	-	(91,723,340)	-	883,018,865	Internally financed	77	77	-	-	-
Other projects	N/A	565,775,598	298,848,796	-	(2,303,611)	(444,977)	861,875,806	Internally financed	N/A	N/A	-	-	-
		2,258,191,398	621,507,283	56,834,490	(229,262,056)	(72,098,913)	2,635,172,202						
Less: Provision for impairment		-	-	-	-	-	-						
		2,258,191,398	621,507,283	56,834,490	(229,262,056)	(72,098,913)	2,635,172,202				-	-	

Notes to Interim Financial Statements (Continued)

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

16. CONSTRUCTION IN PROGRESS *(CONTINUED)*

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

31 December 2016 (Audited)

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

Notes to Interim Financial Statements (Continued)
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. INTANGIBLE ASSETS

30 June 2017 (Unaudited)

	Concession assets (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2017	**136,979,410**	**2,288,788,651**	**139,904,847**	**692,411**	**2,566,365,319**
Addition	**–**	**109,101,790**	**–**	**–**	**109,101,790**
Exchange realignment and others	**–**	**–**	**4,508,421**	**41,962**	**4,550,383**
At 30 June 2017	**136,979,410**	**2,397,890,441**	**144,413,268**	**734,373**	**2,680,017,492**
Accumulated depreciation:					
At 1 January 2017	**30,218,625**	**664,229,102**	**49,837,103**	**311,562**	**744,596,392**
Provided	**2,956,721**	**26,316,389**	**3,094,642**	**104,303**	**32,472,055**
Exchange realignment and others	**–**	**–**	**1,988,386**	**18,881**	**2,007,267**
At 30 June 2017	**33,175,346**	**690,545,491**	**54,920,131**	**434,746**	**779,075,714**
Provision for impairment:					
At 1 January 2017 and at 30 June 2017	**–**	**–**	**–**	**–**	**–**
Net carrying amount:					
At 30 June 2017	**103,804,064**	**1,707,344,950**	**89,493,137**	**299,627**	**1,900,941,778**
At 1 January 2017	**106,760,785**	**1,624,559,549**	**90,067,744**	**380,849**	**1,821,768,927**

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

On 30 June 2017, the carrying amount of intangible assets that have not been issued certificates of ownership amounted to RMB109,101,790. The amount refers to the land use rights of Anhui Changjiang Iron and Steel that have not been issued certificates of ownership. The management represents that the Group is in the process of obtaining the relevant certificates, and it will not have any impact on the use of land use rights.

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

Notes to Interim Financial Statements (Continued)

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

17. INTANGIBLE ASSETS *(CONTINUED)*

31 December 2016 (Audited)

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

Notes to Interim Financial Statements (Continued)

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

18. DEFERRED TAX ASSETS/LIABILITIES

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	**342,133,440**	**85,533,360**	251,160,664	62,790,166
Sales incentive	**129,342,492**	**32,335,623**	352,819,600	88,204,900
Payroll payable	**32,131,384**	**8,032,846**	30,313,204	7,578,301
Government grants	**572,819,812**	**143,204,953**	621,341,760	155,335,440
Others	**74,306,092**	**18,576,523**	136,747,904	34,186,976
	1,150,733,220	**287,683,305**	1,392,383,132	348,095,783

	30 June 2017 (Unaudited)		31 December 2016 (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	**112,191,208**	**28,047,802**	117,824,896	29,456,224
Changes in fair value of funds and financial products	**16,683,532**	**4,170,883**	1,619,352	404,838
Others	**17,554,820**	**4,388,705**	20,817,396	5,204,349
	146,429,560	**36,607,390**	140,261,644	35,065,411

Notes to Interim Financial Statements (Continued)

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

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

As of 30 June 2017 and 31 December 2016, the Group's unrecognised deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Deductible temporary differences	**1,530,550,266**	817,739,042
Deductible tax losses	**8,618,721,318**	9,605,772,407
	10,149,271,584	10,423,511,449

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
To expire in 2017	**2,152,402,424**	3,171,336,504
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	**614,738,784**	614,738,784
To expire in 2022	**31,882,991**	–
	8,618,721,318	9,605,772,407

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

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

Notes to Interim Financial Statements (Continued)

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

18. 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 arise in future or the deductible temporary differences that could be reversed. The deferred tax assets are recognised based on the significant judgement by management after considering when and how much taxable profit would arise and its tax planning.

19. ASSET IMPAIRMENT PROVISIONS

30 June 2017 (Unaudited)

			Decrease during the current period			
	Opening balance	Increase during the current period	Reversal	Write-back/ write-off	Exchange realignment	Closing balance
Provisions for bad debts	662,500,880	950,427	(5,249,721)	(1,727,440)	–	656,474,146
Including: Trade receivables	20,729,808	950,427	(1,207,196)	–	–	20,473,039
Other receivables	594,245,515	–	–	(1,727,440)	–	592,518,075
Loans and advances to customers	47,525,557	–	(4,042,525)	–	–	43,483,032
Inventory impairment provision (Note)	292,506,001	111,966,551	–	(132,377,397)	–	272,095,155
Including: Raw materials	83,746,075	84,052,622	–	(64,404,408)	–	103,394,289
Work in progress	17,659,670	17,048,717	–	(8,446,209)	–	26,262,178
Finished goods	64,188,089	10,865,212	–	(21,631,812)	–	53,421,489
Spare parts	126,912,167	–	–	(37,894,968)	–	89,017,199
Property, plant and equipment impairment provision	38,607,464	–	–	–	140,368	38,747,832
Including: Buildings and plant	6,514,174	–	–	–	–	6,514,174
Machinery and equipment	32,093,290	–	–	–	140,368	32,233,658
	993,614,345	112,916,978	(5,249,721)	(134,104,837)	140,368	967,317,133

Note: Generally, the provision for inventories is assessed and made at the end of every half year. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

Notes to Interim Financial Statements (Continued)

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

19. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

31 December 2016 (Audited)

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

20. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017 Unaudited	31 December 2016 Audited
Demand deposits	**2,117,114,647**	2,681,506,250
Notice deposits	**25,300,000**	285,300,000
Time deposits	**735,700,329**	741,418,771
	2,878,114,976	3,708,225,021

Details of customer deposits of Masteel Financial relate to shareholders who held 5% or more of voting shares and the related parties at 30 June 2017 and 31 December 2016 are disclosed in Note X.6.

Notes to Interim Financial Statements (Continued)

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

21. REPURCHASE AGREEMENTS

	30 June 2017 Unaudited	31 December 2016 Audited
Bonds	**–**	397,900,000
Notes	**198,900,000**	198,665,698
	198,900,000	596,565,698

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

22. SHORT-TERM LOANS

	30 June 2017 Unaudited	31 December 2016 Audited
Unsecured loans	**3,837,248,073**	6,002,740,320
Inward documentary notes and usance letters of credit (Note)	**750,894,155**	940,212,100
	4,588,142,228	6,942,952,420

Note: As of 30 June 2017, the outstanding letters of credit of the Group amounted to RMB750,894,155 (31 December 2016: RMB940,212,100).

Notes to Interim Financial Statements (Continued)

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

22. SHORT-TERM LOANS *(CONTINUED)*

As of 30 June 2017, the interest rates of the above short-term loans ranged from 0.670%-6.000% (31 December 2016: 1.628% to 6.000%).

As of 30 June 2017, the Group had overdue short-term loans as follows:

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

As of 30 June 2017, the overdue amount of short-term loans was RMB100,257,036 (31 December 2016: RMB100,257,036), which are unsecured loans borrowed by the Company's subsidiary of Masteel Shanghai Trading. Masteel Shanghai Trading is in the process of bankruptcy liquidation. The Company is in negotiation with the banks for repayment.

23. NOTES PAYABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Bank acceptance notes	**3,620,019,631**	3,584,228,362

As of 30 June 2017 and 31 December 2016, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

Notes to Interim Financial Statements (Continued)

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

24. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year	**5,386,809,438**	6,491,661,696
One to two years	**420,001,971**	62,554,813
Two to three years	**64,981,339**	52,430,647
Over three years	**65,641,475**	62,160,767
	5,937,434,223	6,668,807,923

* The aging analysis of accounts payable of the Group is based on the invoice date.

The accounts payable are interest-free and are normally settled within three months, and projects payable are paid according to the period and schedule of the project.

The amounts due to shareholders who held 5% or above of the Company's equity interests and other related parties among the balances of accounts payable as of 30 June 2017 and 31 December 2016 are disclosed in Note X.6 to the financial statements.

As of 30 June 2017, the material accounts payable aged over one year were as follows：

	Amount due	**Reason for non-settlement**
Company 1	**261,938,841**	Note
Company 2	**79,305,425**	Note
Company 3	**45,648,406**	Note
Company 4	**19,000,000**	Note
Company 5	**17,000,000**	Note
	422,892,672	

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

Notes to Interim Financial Statements (Continued)

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

25. ADVANCES FROM CUSTOMERS

	30 June 2017 Unaudited	31 December 2016 Audited
Advances from customers	**3,419,347,414**	3,682,322,418

As of 30 June 2017, the material advances from customers aged over one year were as follows：

	Amount receivable	**Reason for outstanding**
Company 1	**14,259,800**	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
Company 6	**4,333,253**	Note
Company 7	**3,970,000**	Note
Company 8	**2,185,715**	Note
Company 9	**2,050,000**	Note
	50,188,768	

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

Notes to Interim Financial Statements (Continued)

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

26. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

30 June 2017 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term employee benefits	**516,403,174**	**1,610,907,600**	**1,610,782,155**	**516,528,619**
Post-employment benefits (defined contribution plans)	**471,321**	**280,476,011**	**270,116,158**	**10,831,174**
Supplementary retirement benefits (i)	**1,127,023**	**806,879**	**738,580**	**1,195,322**
One-off termination compensation (ii)	**–**	**16,273,243**	**16,273,243**	**–**
Early retirement benefits due within one year	**32,443,165**	**29,059,123**	**20,663,650**	**40,838,638**
	550,444,683	**1,937,522,856**	**1,918,573,786**	**569,393,753**

31 December 2016 (Audited)

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

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

(ii) One-off termination compensation during the current period was mainly the termination compensation paid by the Company to its employees due to human resource optimization policy.

Notes to Interim Financial Statements (Continued)

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

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

Short-term employee benefits:

30 June 2017 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	**469,991,142**	**1,235,951,131**	**1,296,711,510**	**409,230,763**
Welfare	**19,192,058**	**89,469,981**	**59,092,787**	**49,569,252**
Social insurance	**–**	**112,231,155**	**93,941,648**	**18,289,507**
Including: Medical insurance	**–**	**94,270,184**	**78,933,170**	**15,337,014**
Work-related injury insurance	**–**	**14,613,514**	**12,138,919**	**2,474,595**
Maternity insurance	**–**	**3,347,457**	**2,869,559**	**477,898**
Housing fund	**20,309,142**	**132,336,581**	**132,525,771**	**20,119,952**
Labor union fee and employee education fee	**6,910,832**	**40,918,752**	**28,510,439**	**19,319,145**
	516,403,174	**1,610,907,600**	**1,610,782,155**	**516,528,619**

31 December 2016 (Audited)

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

Notes to Interim Financial Statements (Continued)

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

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

Defined contribution plans:

30 June 2017 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	**–**	**239,537,627**	**239,437,274**	**100,353**
Unemployment insurance	**–**	**11,528,567**	**7,795,718**	**3,732,849**
Enterprise annuity	**471,321**	**29,409,817**	**22,883,166**	**6,997,972**
	471,321	**280,476,011**	**270,116,158**	**10,831,174**

31 December 2016 (Audited)

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

Notes to Interim Financial Statements (Continued)

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

26. 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 rates of the Group and employee are 5% and 1%, respectively.

Long-term compensation:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
1. Post-employment benefits – net liability of defined benefit plans (Note)	**169,757,308**	159,868,285
Less: Early retirement benefits due within one year	**40,838,638**	32,443,165
2. Supplementary retirement benefit	**34,867,370**	32,875,106
Less: Supplementary retirement benefit due within one year	**1,195,322**	1,127,023
	162,590,718	159,173,203

Note: Post-employment benefits – net defined benefit liability

30 June 2017 (Unaudited)	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
Early retirement benefits	159,868,285	30,552,673	(20,663,650)	169,757,308	40,838,638	128,918,670

Notes to Interim Financial Statements (Continued)

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

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

Early retirement benefits expected to be paid by the Group:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Undiscounted value		
Within one year	**41,304,260**	32,443,165
One to two years	**33,272,402**	29,197,924
Two to three years	**27,514,391**	26,523,841
Over three years	**86,267,897**	90,136,936
	188,358,950	178,301,866
Financial charges unrecognised	**(18,601,642)**	(18,433,581)
	169,757,308	159,868,285
Less: Due within one year	**40,838,638**	32,443,165
	128,918,670	127,425,120

Early retirement benefit scheme was implemented by the Company due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Company calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirement. The Company forecasted the amount of early retirement benefits needed to be paid in the future years using a growth rate of 1.66% which is based on the average growth rate of CPI. When deciding the payment responsibility in the future for the employees participating in the early retirement plan, the Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasure bond rate of 30 June 2017 and accounted in general administrative expenses. As of 30 June 2017, the current portion of the payment responsibility was accounted for in short-term employee benefits.

Notes to Interim Financial Statements (Continued)

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

27. TAXES PAYABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Value-added tax	**49,735,379**	112,249,203
Corporate income tax	**93,659,716**	48,757,600
City construction and maintenance tax	**18,855,789**	34,523,584
Other taxes	**73,648,147**	78,701,727
	235,899,031	274,232,114

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

28. INTEREST PAYABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Interest payable for short-term loans	**35,770,834**	9,590,649
Installment interest payables for long-term loans repayable on due date	**5,554,051**	10,280,475
Interest payables for medium term notes	**185,709,041**	87,820,274
	227,033,926	107,691,398

As of 30 June 2017, the Group had an overdue interest payable of RMB21,479,527. It was incurred by the Group's subsidiary, Masteel Shanghai Trading, due to the shortage of cash. Refer to Note V.22.

Notes to Interim Financial Statements (Continued)

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

29. DIVIDENDS PAYABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Other shareholders	**9,050,620**	8,713,584

30. OTHER PAYABLES

	30 June 2017 Unaudited	31 December 2016 Audited
Payable for construction, maintenance and inspection fees	**242,639,641**	174,015,328
Sales incentives	**151,189,683**	106,499,407
Service fees payable	**26,291,407**	22,336,562
Withholding social welfare and housing fund payable	**35,933,698**	36,408,783
Accrued interest expense for letters of credit	**29,806,405**	72,642,916
Payable for forfaiting	**773,043,244**	954,411,901
Others	**566,309,540**	546,260,181
	1,825,213,618	1,912,575,078

As of 30 June 2017, significant other payables aged over one year were as follows：

	Amount payable	Reason for non-settlement
Company 1	**12,213,494**	Note
Company 2	**4,000,000**	Note
Company 3	**3,635,083**	Note
Company 4	**2,348,357**	Note
Company 5	**2,037,675**	Note
Company 6	**2,000,000**	Note
	26,234,609	

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

Notes to Interim Financial Statements (Continued)

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

31. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	30 June 2017 Unaudited	31 December 2016 Audited
Long-term loans due within one year (Note V.34) (Note)	**549,859,584**	3,211,056,320

Note: As of 30 June 2017, the Group had a long-term loan due within one year amounting to RMB400,000,000 which was pledged with notes (31 December 2016: RMB600,000,000).

32. ACCRUED LIABILITIES

30 June 2017 (Unaudited)

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Pending litigation or arbitration	**10,867,075**	**3,069,950**	**1,972,554**	**11,964,471**
Pending onerous contract (Note)	**14,284,847**	**21,956,843**	**13,639,109**	**22,602,581**
Others	**4,428,513**	**387,265**	**2,195,043**	**2,620,735**
	29,580,435	**25,414,058**	**17,806,706**	**37,187,787**

Note: The accrued liabilities of the pending onerous contract represents an expected loss from executing some sales orders entered by the Group's subsidiary, MG-VALDUNES. Management estimated the cost of executing those orders would exceed the agreed price. Therefore, the accrued liabilities were estimated on 30 June 2017.

33. OTHER CURRENT LIABILITIES

	30 June 2017 Unaudited	31 December 2016 Audited
Short-term commercial paper (i)	**4,122,870,685**	2,046,438,356
Others (ii)	**184,310,000**	226,620,000
	4,307,180,685	2,273,058,356

Notes to Interim Financial Statements (Continued)

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

33. OTHER CURRENT LIABILITIES *(CONTINUED)*

(i) Other current liabilities of the Group were the principal and interest amounting to RMB2,000,000,000 and RMB102,473,973 respectively of the short-term commercial paper issued by the Company on 2 August 2016, and the principal and interest amounting to RMB2,000,000,000 and RMB20,396,712 respectively of the short-term commercial paper issued by the Company on 18 April 2017.

(ii) The Company received the advance of land use tax refund for 2017 from the local Finance Bureau amounting to RMB142,000,000 in 2016 and the advance of development and reform subsidy for 2017 from the municipal government amounting to RMB42,310,000.

34. LONG-TERM LOANS

	30 June 2017 Unaudited	31 December 2016 Audited
Guaranteed loans	**2,847,448,960**	1,175,968,960
Unsecured loans	**5,177,371,120**	3,987,200,000
	8,024,820,080	5,163,168,960

As of 30 June 2017, the interest rates of the above long-term loans ranged from 1.200% to 4.750% (31 December 2016: from 1.200% to 4.750%).

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

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year or on demand (Note V. 31)	**549,859,584**	3,211,056,320
One to two years (inclusive)	**6,904,030,704**	4,255,056,320
Two to three years (inclusive)	**999,859,584**	761,056,320
Three to five years (inclusive)	**24,929,792**	51,056,320
Over five years	**96,000,000**	96,000,000
	8,574,679,664	8,374,225,280

Notes to Interim Financial Statements (Continued)

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

35. BONDS PAYABLE

	30 June 2017 Unaudited	31 December 2016 Audited
Medium-term note payable	**3,991,666,667**	3,987,666,667

As of 30 June 2017, the bonds payable balances were as follows:

Unaudited	Issue date	Term to maturity	Amount on offer	Opening balance	Current period issuance	Amortisation of discount	Current period repayment	Closing balance	Current period accrued interest
Medium-term note payable –									
2015 first issue	2015/07	3 years	2,000,000,000	1,994,000,000	–	2,000,000	–	1,996,000,000	50,283,288
2015 second issue	2015/08	3 years	2,000,000,000	1,993,666,667	–	2,000,000	–	1,995,666,667	47,605,479
			4,000,000,000	3,987,666,667	–	4,000,000	–	3,991,666,667	97,888,767

As of 31 December 2016, the bonds payable balances were as follows:

Audited	Issue date	Term to maturity	Amount on offer	Opening balance	Current year issuance	Amortisation of discount	Current year repayment	Closing balance	Current year accrued interest
Medium-term note payable –									
2015 first issue	2015/07	3 years	2,000,000,000	1,990,000,000	–	4,000,000	–	1,994,000,000	101,533,591
2015 second issue	2015/08	3 years	2,000,000,000	1,989,666,667	–	4,000,000	–	1,993,666,667	96,106,355
Corporate bonds – 5 years	2011/08	5 years	2,340,000,000	2,337,066,519	–	2,933,481	2,340,000,000	–	86,975,115
			6,340,000,000	6,316,733,186	–	10,933,481	2,340,000,000	3,987,666,667	284,615,061

Notes to Interim Financial Statements (Continued)

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

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

The interest for the period of the above medium-term note was included in interest payable.

36. DEFERRED INCOME

Deferred income was the government funding for particular projects obtained by the Group, the movements were as follows:

During the six months ended 30 June 2017 (Unaudited)

	Opening balance	**Increase**	**Decrease**	**Ending balance**
Government grants	**1,269,496,538**	**14,908,915**	**24,351,242**	**1,260,054,211**

2016 (Audited)

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

Notes to Interim Financial Statements (Continued)

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

36. DEFERRED INCOME *(CONTINUED)*

As of 30 June 2017, liabilities related to government subsidies were as follows：

	Opening balance	Increase during the current period	Included in other income	Closing balance	Related to assets/ income
Compensation of land purchasing and storage (Note)	652,138,319	–	–	652,138,319	income
Technological transformation fund for Phase II silicon steel	86,241,669	–	(2,200,000)	84,041,669	assets
Subsidy for hot-rolled 1580 project	38,808,750	–	(990,000)	37,818,750	assets
New-zone Thermal Power Plant CCPP system engineering	31,065,972	–	(2,156,000)	28,909,972	assets
EMU steel wheel production line project	34,974,990	–	(1,100,000)	33,874,990	assets
Environmental subsidy funds for flue gas desulfurisation and 135 MW thermal power	12,900,000	–	(236,500)	12,663,500	assets
Fixed assets subsidy for thin plate project	31,448,673	–	(1,136,953)	30,311,720	assets
Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT)	13,420,000	–	(246,033)	13,173,967	assets
Subsidy for material modification of high speed wheel and axle	33,720,000	–	–	33,720,000	assets
Subsidy for Maanshan railway industry (Maanshan)	13,160,100	–	(504,000)	12,656,100	assets
Comprehensive utilisation of gas for power generation of a thermal power plant	24,699,103	–	(545,380)	24,153,723	assets
Others	296,918,962	14,908,915	(15,236,376)	296,591,501	assets
Total	1,269,496,538	14,908,915	(24,351,242)	1,260,054,211	

Note: The government subsidies related to income was mainly attributed to the compensation for disposal of land use right received from Hefei Municipal Land Reserve Center by Ma Steel (Heifei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)").

Notes to Interim Financial Statements (Continued)

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

36. DEFERRED INCOME *(CONTINUED)*

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

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

37. LONG-TERM PAYABLES

	30 June 2017 Unaudited	31 December 2016 Audited
Borrowings	**210,000,000**	–

Notes to Interim Financial Statements (Continued)

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

38. SHARE CAPITAL

30 June 2017 (Unaudited)

Registered, issued and fully paid	Opening balance: Number of shares	Opening balance: Percentage (%)	Increase/(decrease) during the period: Shares issued	Increase/(decrease) during the period: Others	Increase/(decrease) during the period: Sub-total	Closing balance: Number of shares	Closing balance: Percentage (%)
I 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	–	–	–	–	–	–	–
II 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
III Total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0

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

31 December 2016 (Audited)

Registered, issued and fully paid	Opening balance: Number of shares	Opening balance: Percentage (%)	Increase/(decrease) during the year: Shares issued	Increase/(decrease) during the year: Others	Increase/(decrease) during the year: Sub-total	Closing balance: Number of shares	Closing balance: Percentage (%)
I 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	–	–	–	–	–	–	–
II 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
III Total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0

Notes to Interim Financial Statements (Continued)

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

39. CAPITAL RESERVE

30 June 2017 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	**8,329,067,663**	**–**	**–**	**8,329,067,663**
Others	**19,659,078**	**–**	**(120,416)**	**19,538,662**
Total	**8,348,726,741**	**–**	**(120,416)**	**8,348,606,325**

31 December 2016 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,329,067,663	–	–	8,329,067,663
Others	–	19,659,078	–	19,659,078
Total	8,329,067,663	19,659,078	–	8,348,726,741

40. OTHER COMPREHENSIVE INCOME

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

	1 January 2016	**Increase/ (decrease)**	**31 December 2016** Audited	**Increase/ (decrease)**	**30 June 2017** Unaudited
Change in fair value of available-for-sale financial investments	–	(803,607)	(803,607)	(780,770)	(1,584,377)
Exchange differences arising from foreign currency translation	(165,450,551)	46,990,704	(118,459,847)	9,821,211	(108,638,636)
	(165,450,551)	46,187,097	(119,263,454)	9,040,441	(110,223,013)

Notes to Interim Financial Statements (Continued)

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

40. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

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

During the six months ended 30 June 2017 (Unaudited)

	Amount before tax	Income tax	Attributable to the parent	Attributable to non-controlling interests
Exchange differences arising from foreign currency translation	**9,392,026**	**–**	**9,821,211**	**(429,185)**
Changes in fair value of available-for-sale financial investments	**(1,143,987)**	**285,997**	**(780,770)**	**(77,220)**
Less: Recorded in other comprehensive income originally, transferred in and included in current profit or loss	**–**	**–**	**–**	**–**
	8,248,039	**285,997**	**9,040,441**	**(506,405)**

2016 (Audited)

	Amount before tax	Income tax	Attributable to the parent	Attributable to non-controlling interests
Exchange differences arising from foreign currency translation	47,982,490	–	46,990,704	991,786
Changes in fair value of available-for-sale financial investments	(1,177,446)	294,362	(803,607)	(79,477)
Less: Recorded in other comprehensive income originally, transferred in and included in current profit or loss	–	–	–	–
	46,805,044	294,362	46,187,097	912,309

Notes to Interim Financial Statements (Continued)

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

41. SPECIAL RESERVE

30 June 2017 (Unaudited)

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Safety fund	**27,969,571**	**36,175,115**	**(26,028,589)**	**38,116,097**

31 December 2016 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	14,374,213	98,487,391	(84,892,033)	27,969,571

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

42. REVENUE AND COST OF SALES

	For the six months ended 30 June			
	2017 (Unaudited)		2016 (Unaudited)	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**34,729,861,626**	**30,883,831,678**	20,610,123,498	17,779,983,575
Other operating income	**457,718,014**	**424,788,462**	391,039,062	397,323,914
	35,187,579,640	**31,308,620,140**	21,001,162,560	18,177,307,489

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

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

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

Revenue is presented as follows:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Sale of products	**35,065,320,571**	20,916,000,131
Rendering of services	**73,047,146**	56,925,591
Others	**49,211,923**	28,236,838
	35,187,579,640	21,001,162,560

43. TAXES AND SURCHARGES

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
City construction and maintenance tax	**79,933,019**	56,331,483
Education surcharge	**60,692,904**	41,583,924
Land usage tax	**94,928,023**	–
Vehicle and vessel usage tax	**178,588**	–
Real estate tax	**54,546,306**	–
Stamp duty	**19,840,324**	–
Others	**12,481,355**	7,671,540
	322,600,519	105,586,947

According to the notice of “Value Added Tax Accounting Treatment Regulations” (Accounting [2016] No.22), land usage tax, real estate tax, vehicle and vessel usage tax and stamp duty have been recorded in “taxes and surcharges” instead of “general and administrative expenses” since 1 May 2016.

Notes to Interim Financial Statements (Continued)

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

44. SELLING EXPENSES

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Employee benefits	**33,458,015**	24,704,492
Transportation fees	**342,297,910**	262,331,109
Insurance premium	**7,827,608**	6,697,636
Others	**28,572,604**	24,205,715
	412,156,137	317,938,952

45. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Employee benefits	**247,212,300**	352,586,717
Employee termination benefits	**46,825,916**	152,568,484
Other taxes other than taxes and surcharges and income tax	**–**	157,403,072
Office expenses	**111,970,467**	139,812,452
Rental fees	**16,275,924**	15,239,301
Depreciation of property, plant and equipment	**77,120,668**	78,481,910
Amortisation of intangible assets	**21,305,312**	20,092,136
Research and development expenses	**16,593,410**	30,233,610
Travel and entertainment expenses	**12,763,838**	11,720,984
Maintenance expenses	**13,692,577**	11,061,937
Auditors' remuneration	**4,088,065**	4,837,087
Others	**102,170,493**	74,431,441
	670,018,970	1,048,469,131

Notes to Interim Financial Statements (Continued)

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

46. FINANCIAL EXPENSES

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Interest expenses (Note)	**475,699,142**	474,490,153
Less: Interest income	**17,007,814**	39,698,595
Less: Capitalised interest	**–**	4,004,429
Exchange loss/(gain)	**53,884,246**	(50,883,197)
Others	**15,631,808**	27,350,512
	528,207,382	407,254,444

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

47. ASSET IMPAIRMENT LOSS

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
(Reversal)/provision for bad debts	**(4,299,294)**	812,016
Including: Trade receivables	**(256,769)**	812,016
Loans and advances	**(4,042,525)**	–
Provision for inventories	**111,966,551**	671,520,400
	107,667,257	672,332,416

Notes to Interim Financial Statements (Continued)

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

48. INVESTMENT INCOME

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Investment income from long-term equity investments under the equity method	**241,096,593**	69,346,926
Investment income from disposal of a subsidiary (Note VI.3)	**736,943**	–
Investment income from available-for-sale financial investments during holding period	**1,540,000**	948,303
Investment income from disposal of available-for-sale financial investments	**26,066,785**	–
Investment income from disposal of financial assets at fair value through profit or loss	**17,187,696**	8,402,396
	286,628,017	78,697,625

* During the current period, the Group's investment income from unlisted companies amounted to RMB286,628,017 (for the six months ended 30 June 2016:RMB78,697,625).

49. OTHER INCOME

Details of government grants charged to profit or loss relating to daily operation are as follows:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Government grants related to assets	**24,351,242**	–
Government grants related to income:		
– Tax refund	**42,610,000**	–
– Others	**16,602,134**	–
	83,563,376	–

Notes to Interim Financial Statements (Continued)

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

50. NON-OPERATING INCOME

	For the six months ended 30 June		
	2017	2016	**Included in non-recurring gains and losses for the six months ended 30 June 2017**
	Unaudited	Unaudited	**Unaudited**
Gain on disposal of non-current assets	**808,004**	154,474	808,004
Including: Gain on disposal of fixed assets	**808,004**	154,474	808,004
Government grants (Note)	**68,914,690**	138,966,140	68,914,690
Others	**984,426**	1,271,288	984,426
	70,707,120	140,391,902	70,707,120

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

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Government grants related to assets	**–**	86,681,426
Government grants related to income:		
– Tax refund	**–**	48,151,264
– Employee settlement grants for addressing overcapacity	**68,914,690**	–
– Others	**–**	4,133,450
	68,914,690	138,966,140

In 2017, the Group accounts for government grants related to daily operation in other income in accordance with the revised version of China Accounting Standard for Business Enterprises No.16 – Government Grants (Accounting [2017] No.15). Please refer to Note V.49 for details.

Notes to Interim Financial Statements (Continued)

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

51. NON-OPERATING EXPENSES

	For the six months ended 30 June		
			Included in non-recurring gains and losses for the six months ended
	2017	2016	**30 June 2017**
	Unaudited	Unaudited	**Unaudited**
Loss on disposal of non-current assets	**43,715,116**	976,959	43,715,116
Including: Loss on disposal of fixed assets	**43,715,116**	976,959	43,715,116
Compensation for quality objection	**6,811,267**	–	6,811,267
Public relief donation	**173,950**	278,650	173,950
Penalty expenditure	**13,610**	100,816	13,610
Others	**589,178**	392,317	589,178
	51,303,121	1,748,742	51,303,121

52. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Mainland China:		
Current income tax expense	**264,181,195**	25,257,004
Deferred tax expense	**66,663,565**	27,630,599
Hong Kong current income tax expense	**55,603**	–
Overseas current income tax expense	**11,441,919**	8,960,307
Overseas deferred income tax expense	**(4,423,111)**	309,311
	337,919,171	62,157,221

Notes to Interim Financial Statements (Continued)

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

52. INCOME TAX EXPENSE *(CONTINUED)*

Reconciliation between income tax and profit before tax:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Profit before tax	**2,242,052,969**	493,075,557
Tax at the applicable tax rate of 25% (Note)	**560,513,242**	123,268,889
Effect of different tax rates of subsidiaries	**(4,830,217)**	(4,216,531)
Non-deductible expenses	**44,992,901**	38,380,394
Adjustments in respect of current tax of previous periods	**10,803**	733
Other tax preference	**(9,357,749)**	(5,878,193)
Income not subject to tax	**(1,337,348)**	(59,514)
Unrecognised deductible temporality difference and tax losses	**23,553,966**	107,569,857
Tax losses utilised	**(215,352,279)**	(179,571,682)
Share of profits and losses of joint ventures and associates	**(60,274,148)**	(17,336,732)
Income tax charge at the Group's effective rate	**337,919,171**	62,157,221
Effective tax rate	**15.07%**	12.61%

Note: The Group's 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.

Notes to Interim Financial Statements (Continued)

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

53. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing the profit attributable to owners of the parent (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 the basic and diluted earnings per share amounts are based on:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the parent as used in the basic/diluted earnings per share calculations	**1,643,396,514**	452,752,971
Number of shares		
Weighted average number of ordinary shares in issue during the period as used in the basic/diluted earnings per share calculations	**7,700,681,186**	7,700,681,186
Earnings per share		
Basic and diluted	**21.34 cents**	5.88 cents

For the six months ended 30 June 2017 and 2016, there was no diluted item to adjust the Company's basic earnings per share.

Notes to Interim Financial Statements (Continued)

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

54. NOTES TO THE STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Cash received relating to other operating activities:		
Subsidies granted by the government	**16,902,134**	4,133,450
Interest income	**17,007,814**	–
Government-allocated employee relocation compensation	**68,914,690**	152,568,484
Others	**24,638,839**	40,969,883
	127,463,477	197,671,817

Cash paid relating to other operating activities:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Office expenses	**138,626,914**	161,307,228
Bank charges	**15,631,808**	27,350,512
Safety fund	**26,028,589**	27,792,724
Travel and entertainment expenses	**28,225,593**	22,638,382
Insurance expenses	**17,799,684**	16,689,956
Environmental improvement fee	**9,140,610**	8,832,546
Research and development expenses	**21,362,660**	33,584,199
Others	**149,537,069**	129,686,553
	406,352,927	427,882,100

Cash received relating to other investing activities:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Government funding for particular projects	**14,908,915**	135,488,506

Notes to Interim Financial Statements (Continued)

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

55. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

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

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Net profit	**1,904,133,798**	430,918,336
Add: Asset impairment losses	**107,667,257**	672,332,416
Provision for termination benefits	**30,552,673**	–
Depreciation of fixed assets	**1,882,522,481**	1,668,442,596
Amortisation of investment properties	**513,531**	874,842
Amortisation of intangible assets	**32,472,055**	30,403,848
Amortisation of deferred income	**(24,351,242)**	(86,681,426)
Loss on disposal of non-current assets	**42,907,112**	822,485
Increase in special reserves	**10,146,526**	34,164,575
Financial expenses	**529,583,388**	419,602,527
Investment income	**(286,628,017)**	(78,697,625)
Gain on fair value changes	**(14,148,342)**	(3,461,591)
Decrease in deferred tax assets	**60,412,478**	24,261,068
Increase in deferred tax liabilities	**1,541,979**	3,678,842
Decrease/(increase) in inventories	**400,275,543**	(1,409,263,947)
Increase in receivables from operating activities	**(3,877,218,037)**	(1,515,915,570)
Increase in payables from operating activities	**659,208,873**	335,734,125
Net cash flows from operating activities	**1,459,592,056**	527,215,501
Endorsements of bank acceptance notes received from sales of goods or rendering service	**2,919,669,060**	2,915,966,750

Notes to Interim Financial Statements (Continued)

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

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

(2) Net movement of cash and cash equivalents

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Closing balance of cash	**3,446,085,741**	2,799,258,322
Less: Opening balance of cash	**4,324,131,687**	3,546,410,358
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net decrease of cash and cash equivalents	**(878,045,946)**	(747,152,036)

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Cash	**3,446,085,741**	2,799,258,322
Include: Cash on hand	**73,655**	119,148
Balances in banks without restriction	**3,446,012,086**	2,799,139,174
Balances in other cash and bank balances without restriction	**–**	–
Ending balance of cash and cash equivalents	**3,446,085,741**	2,799,258,322

56. DIVIDENDS*

The board of directors did not recommend distribution of any interim dividends to shareholders for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

Notes to Interim Financial Statements (Continued)

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

57. RESTRICTED ASSETS

	30 June 2017 Unaudited	31 December 2016 Audited	
Cash and bank balances (Note V.1)	**1,386,880,986**	987,969,354	(i)
Notes receivable (Note V.3）	**567,646,581**	738,206,842	(ii)
	1,954,527,567	1,726,176,196	

(i) As of 30 June 2017, the Group's restricted cash and bank balances amounting to RMB1,386,880,986 (31 December 2016: RMB987,969,354) had been pledged to banks, including cash deposits as collateral amounting to RMB853,919,992 (31 December 2016: RMB493,121,436) pledged as security for bank acceptance notes and performance bonds, and mandatory reserves with the central bank of RMB532,960,994 (31 December 2016: RMB494,847,918).

(ii) As of 30 June 2017, the Company had bank acceptance notes of RMB567,646,581 (31 December 2016: RMB738,206,842) pledged as security to obtain long-term bank loans of RMB400,000,000 (31 December 2016: RMB600,000,000) which will be due in one year.

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Original Currency	Exchange Rate	Equivalent of RMB	Original Currency	Exchange Rate	Equivalent of RMB
Cash and bank balances						
HKD	**49,261,210**	**0.8679**	**42,753,804**	2,584,446	0.8945	2,311,787
USD	**251,549,882**	**6.7744**	**1,704,099,521**	249,525,036	6.9370	1,730,955,175
EUR	**21,403,464**	**7.7496**	**165,868,285**	17,340,991	7.3068	126,707,153
JPY	**4,842**	**0.0604**	**292**	3,311	0.0596	197
AUD	**14,350,932**	**5.2099**	**74,766,921**	15,816,608	5.0157	79,331,361
CAD	**1,095,044**	**5.2144**	**5,709,997**	1,226,862	5.1406	6,306,807
GBP	**573**	**8.8144**	**5,051**	1,389	8.5094	11,820
ZAR	**4,707,944**	**0.5208**	**2,451,897**	–	0.5083	–
			1,995,655,768			1,945,624,300
Trade receivables						
USD	**29,116,707**	**6.7744**	**197,248,220**	23,181,111	6.9370	160,807,367
EUR	**10,340,217**	**7.7496**	**80,132,546**	9,366,726	7.3068	68,440,794
CAD	**–**	**5.2144**	**–**	172,568	5.1406	887,103
AUD	**5,005,017**	**5.2099**	**26,075,638**	5,535,040	5.0157	27,762,100
HKD	**15,258,738**	**0.8679**	**13,243,059**	5,306,863	0.8945	4,746,989
ZAR	**7,110,000**	**0.5208**	**3,702,888**	15,097,946	0.5083	7,674,286
			320,402,351			270,318,639

Notes to Interim Financial Statements (Continued)

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

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES *(CONTINUED)*

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Original Currency	Exchange Rate	Equivalent of RMB	Original Currency	Exchange Rate	Equivalent of RMB
Other receivables						
HKD	8,289,336	0.8679	7,194,315	7,265,781	0.8945	6,499,241
EUR	1,769,927	7.7496	13,716,226	1,165,632	7.3068	8,517,040
AUD	5,422,160	5.2099	28,248,911	4,019	5.0157	20,158
USD	17,061	6.7744	115,578	–	6.9370	–
			49,275,030			15,036,439
Accounts payable						
AUD	60,022	5.2099	312,709	60,135	5.0157	301,619
USD	194,639	6.7744	1,318,562	7,012	6.9370	48,642
EUR	14,541,157	7.7496	112,688,150	12,798,731	7.3068	93,517,768
JPY	76,150,000	0.0604	4,599,460	–	0.0596	–
HKD	–	0.8679	–	47,251,614	0.8945	42,266,569
			118,918,881			136,134,598
Other payables						
AUD	254,303	5.2099	1,324,893	208,721	5.0157	1,046,882
HKD	34,342,341	0.8679	29,805,718	81,210,639	0.8945	72,642,917
EUR	2,038,692	7.7496	15,799,048	1,862,155	7.3068	13,606,394
USD	861	6.7744	5,833	–	6.9370	–
			46,935,492			87,296,193
Short-term loans						
USD	130,404,180	6.7744	883,410,077	219,672,148	6.9370	1,523,865,691
EUR	30,000,000	7.7496	232,488,000	29,868,315	7.3068	218,241,804
			1,115,898,077			1,742,107,495
Long-term loans due within one year						
USD	12,700,000	6.7744	86,034,880	7,360,000	6.9370	51,056,320
Long-term loans						
EUR	9,700,000	7.7496	75,171,120	–	7.3068	–
USD	18,400,000	6.7744	124,648,960	22,080,000	6.9370	153,168,960
			199,820,080			153,168,960

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VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARY

For the six months ended 30 June 2017, 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
Anhui Ma Steel Antirust Materials Technology Co., Ltd. ("Ma Steel Antirust")	April 2017	RMB10,000,000	51%	Cash	RMB1,530,000

2. BUSINESS COMBINATION NOT UNDER COMMON CONTROL

(1) Business combination not under common control during the current period

Name of acquiree	Time at which the acquirer obtains control	Consideration of equity interest	Ratio of equity interest	Method of obtaining equity interest	Acquisition date	Basis for acquisition date	Acquiree's revenue from acquisition date to the end of the period	Acquiree's net profit from acquisition date to the end of the period
Mascometal	5 June 2017	127,368,631	66%	Non-cash	5 June 2017	The board of directors' approval for revising the Articles of Association	–	–

Mascometal, in which the Company held 66% equity interests, was originally a joint venture of the Company. On 5 June 2017, Mascometal held the first board of directors' 6th meeting, and approved the revised Article of Association which changed the approval criteria from unanimous approval of all the directors to more than 50% of the directors' approval in respect of some key board of directors' resolution matters. According to the revised Article of Association, as directors of the Company represent that the Company holds more than 50% of voting rights in the board of directors of Mascometal, the Company is able to exercise control over Mascometal. Mascometal is accounted for as a subsidiary and included in the scope of consolidation of the Group.

Based on the availability of financial data and taking into account the timeliness requirement of financial information, the financial information of Mascometal based on 30 June 2017 is disclosed as follows.

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VI. CHANGE IN THE SCOPE OF CONSOLIDATION *(CONTINUED)*

2. BUSINESS COMBINATION NOT UNDER COMMON CONTROL *(CONTINUED)*

(2) Identifiable assets and liabilities of acquiree on the acquisition date

	Fair value on the acquisition date (Note 1)	**Carrying amount on the acquisition date**
ASSETS		
Cash and bank balances	115,777,566	115,777,566
Trade receivables	281,580	281,580
Inventories	507,360	507,360
Other receivables	1,691,964	1,691,964
Prepayments	13,794,701	13,794,701
Other current assets	7,237,420	7,237,420
Property, plant and equipment	184,852	184,852
Construction in progress	56,834,490	56,834,490
LIABILITIES		
Accounts payable	2,055,346	2,055,346
Payroll and employee benefits payable	968,659	968,659
Taxes payable	6,964	6,964
Other payables	296,190	296,190
Net assets	192,982,774	192,982,774
Less: Non-controlling interests	65,614,143	65,614,143
Net assets acquired	127,368,631	127,368,631
66% equity interests' fair value	127,368,631	
Effect of gains or losses during the current period	–	
Consideration (Note 2)	127,368,631	

Note 1: As of the reporting date, the valuation of the identifiable assets and liabilities of Mascometal has not yet been completed, therefore the Company initially recorded assets and liabilities of Mascometal with its carrying amount as of 30 June 2017 and would adjust it after the completion of the valuation.

Note 2: The Company's acquisition consideration in the business combination is the carrying amount of the long-term equity investment in Mascometal amounted to RMB127,368,631 originally held by the Company on the acquisition date.

Notes to Interim Financial Statements (Continued)

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VI. CHANGE IN THE SCOPE OF CONSOLIDATION *(CONTINUED)*

3. DISPOSAL OF A SUBSIDIARY

	Place of registration	Business nature	Total equity interests that the Group holds	Total voting right that the Group holds	Reason for not being a subsidiary any longer
Maanshan Masteel"Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Anhui Province, PRC	Manufacturing	90%	90%	Note

Note: The Company signed an equity interest transfer agreement with Xinchuang Economize Resource on 1 January 2017 to sell 90% equity interests of Huayang Equipment held by the Company at a consideration of RMB8,696,084, which was based on the results of an independent third-party valuation agency. The disposal date was 1 January 2017. Therefore, Xinchuang Economize Resource will no longer be included in the scope of consolidation of the Group since 1 January 2017. The related financial information of Xinchuang Economize Resource is as follows:

	Carrying amount as at 1 January 2017
Current assets	9,903,072
Non-current assets	2,112,160
Current liabilities	3,171,742
Non-current liabilities	–
	8,843,490
Non-controlling interests	884,349
Disposal gains or losses	736,943
Disposal consideration	8,696,084

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VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Subsidiaries acquired by establishment or investment	Place of incorporation	Place of registration	Business nature	Registered 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	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	91	–
Holly Industrial	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	26.39
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	Mine production and sale	AUD21,737,900	100	–
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	–
Masteel Shanghai Trading	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	–
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Maanshan (Guangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd. ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	–

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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	Registered capital	Percentage of equity (%) Direct	Indirect
Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd. ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Heifei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	–	100
Ma'anshan Chang Jiang Iron and Steel Trading Co., Ltd. ("Chang Jiang Iron and Steel Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES (Note 1)	France	France	Manufacturing	EUR55,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America	USA	USA	Service industry	USD500,000	100	–
Ma Steel Antirust (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	–

Subsidiaries acquired not under common control	Place of incorporation	Place of registration	Business nature	Registered capital	Percentage of equity (%) Direct	Indirect
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Equipment Co., Ltd. ("Ma-Steel Rail Transportation")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB360,000,000	100	–
Mascometal (Note 3)	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	–

Subsidiary acquired under common control	Place of incorporation	Place of registration	Business nature	Registered capital	Percentage of equity (%) Direct	Indirect
Masteel Financial (Note 4)	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	–

Note1: In June 2017, the Company injected capital of EUR15,000,000 which is equivalent to RMB113,877,000 to MG-VALDUNES.

Note2: For the information of the newly established subsidiary, please refer to Note VI.1.

Note3: During the period, the Company obtained control over Mascometal and included it into the scope of consolidation of the Group. Please refer to Note VI.2 for details.

Note4: In January 2017, the Company injected capital of RMB910,000,000 to Masteel Financial.

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Subsidiaries which had material non-controlling interests are as follows:

	30 June 2017 or for the six months ended 30 June 2017 Unaudited	31 December 2016 or for the six months ended 30 June 2016 Audited/ Unaudited
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 or loss attributable to non-controlling interests:		
Ma Steel (Hefei)	**(15,896,512)**	(125,001,761)
Anhui Changjiang Iron and Steel	**245,873,784**	86,601,845
Masteel Financial	**7,608,153**	4,582,180
Dividends paid to non-controlling interests:		
Anhui Changjiang Iron and Steel	**20,670,280**	–
Masteel Financial	**1,127,828**	–
Cumulative balances of non-controlling interests at the end of the reporting period:		
Ma Steel (Hefei)	**603,680,634**	619,631,673
Anhui Changjiang Iron and Steel	**1,354,784,150**	1,128,514,595
Masteel Financial	**239,209,545**	142,729,220

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

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

	Ma Steel (Hefei)	**Anhui Changjiang Iron and Steel**	**Masteel Financial**
30 June 2017 or for the six months ended 30 June 2017 (Unaudited)			
Current assets	**955,268,118**	**2,576,833,580**	**2,576,746,752**
Non-current assets	**3,984,710,562**	**4,363,019,116**	**7,023,046,424**
Total assets	**4,939,978,680**	**6,939,852,696**	**9,599,793,176**
Current liabilities	**(1,964,167,458)**	**(3,858,245,493)**	**(6,938,267,699)**
Non-current liabilities	**(894,153,864)**	**(70,975,758)**	**(4,499,632)**
Total liabilities	**(2,858,321,322)**	**(3,929,221,251)**	**(6,942,767,331)**
Revenue	**1,801,517,243**	**6,608,923,730**	**110,324,959**
Net (loss)/profit	**(54,815,557)**	**546,386,187**	**84,535,032**
Total comprehensive income	**(54,815,557)**	**546,386,187**	**85,393,022**
Net cash flows from/(used in) operating activities	**8,850,474**	**845,222,575**	**(617,918,883)**

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Changjiang Iron and Steel	Masteel Financial
31 December 2016 (Audited) or for the six months ended 30 June 2016 (Unaudited)			
Current assets	781,451,671	2,015,885,136	3,190,666,377
Non-current assets	3,952,650,687	4,314,065,378	5,833,102,023
Total assets	4,734,102,358	6,329,950,514	9,023,768,400
Current liabilities	(1,912,013,349)	(3,794,758,309)	(7,437,233,334)
Non-current liabilities	(685,428,067)	(27,381,995)	(654,837)
Total liabilities	(2,597,441,416)	(3,822,140,304)	(7,437,888,171)
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

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Directly	Indirectly	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Associates							
Henan Jinma Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB400,000,000	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 (Note 1)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	–	Equity method
Anhui Linhuan Chemical (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	–	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method

Note 1: As of 30 June 2017, the Group held 16.34% equity interests of Xinchuang Economize Resource. The directors deemed that the Company was able to exercise significant influence over Xinchuang Economize Resource although the equity interests in Xinchuang Economize Resource held by the Company was less than 20%, as according to the requirements of the Articles of Association of Xinchuang Economize Resource, the Company designated one director and one supervisor to Xinchuang Economize Resource. Thus, the equity investment in Xinchuang Economize Resource was accounted as an associate.

Note 2: As of 30 June 2017, the Group held 12% equity interests of Anhui Linhuan Chemical. The directors deemed that the Company was able to exercise significant influence over Anhui Linhuan Chemical although the equity interests in Anhui Linhuan Chemical held by the Company was less than 20%, as according to the requirement of the Articles of Association of Anhui Linhuan Chemical, the Company designated one director to Anhui Linhuan Chemical. Thus, the equity investment in Anhui Linhuan Chemical was accounted as an associate.

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

BOC-Ma Steel, one of the Group's material joint ventures, principally engaged in the manufacture and sale of gas and liquid products, which include nitrogen, oxygen, argon and other industrial gases products, was accounted under the equity method.

The financial information of BOC-Ma Steel is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements.

	30 June 2017 or for the six months ended 30 June 2017 Unaudited	31 December 2016 or for the six months ended 30 June 2016 Audited/ Unaudited
Current assets	**358,446,055**	428,661,283
Non-current assets	**274,845,196**	299,955,412
Total assets	**633,291,251**	728,616,695
Current liabilities	**56,607,847**	90,580,560
Non-current liabilities	**–**	–
Total liabilities	**56,607,847**	90,580,560
Non-controlling interests	**–**	–
Equity attributable to the parent	**576,683,404**	638,036,135
The Group's share of net assets	**288,341,702**	319,018,068
Adjustment	**–**	–
The carrying amount of the investment	**288,341,702**	319,018,068
Revenue	**277,742,567**	262,608,543
Income tax expense	**29,159,911**	23,838,041
Net profit	**88,428,211**	71,514,124
Other comprehensive income	**–**	–
Total comprehensive income	**88,428,211**	71,514,124
Dividends received	**75,000,000**	79,000,000

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

As the strategic partners and also the material associates of the Group, Henan Jinma Energy and Shenglong Chemical engaged in coke production, were accounted under the equity method.

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

Henan Jinma Energy

	30 June 2017 or for the six months ended 30 June 2017	31 December 2016 or for the six months ended 30 June 2016
	Unaudited	Audited/ Unaudited
Current assets	**1,117,202,291**	1,177,771,242
Non-current assets	**1,232,581,846**	1,101,444,297
Total assets	**2,349,784,137**	2,279,215,539
Current liabilities	**786,280,643**	868,068,750
Non-current liabilities	**440,918,307**	557,179,565
Total liabilities	**1,227,198,950**	1,425,248,315
Non-controlling interests	**90,446,496**	31,199,473
Equity attributable to the parent	**1,032,138,691**	822,767,751
The Group's share of net assets	**371,569,929**	296,196,390
Adjustment	**–**	–
The carrying amount of the investment	**371,569,929**	296,196,390
Revenue	**2,556,554,820**	1,219,617,849
Income tax expense	**83,102,443**	18,902,887
Net profit	**249,241,268**	56,708,660
Other comprehensive income	**–**	–
Total comprehensive income	**249,241,268**	56,708,660
Dividends received	**36,000,000**	–

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

Shenglong Chemical

	30 June 2017 or for the six months ended 30 June 2017	31 December 2016 or for the six months ended 30 June 2016
	Unaudited	Audited/ Unaudited
Current assets	**2,085,701,607**	1,201,094,921
Non-current assets	**1,585,303,003**	1,569,224,908
Total assets	**3,671,004,610**	2,770,319,829
Current liabilities	**2,438,561,060**	1,803,456,004
Non-current liabilities	**–**	–
Total liabilities	**2,438,561,060**	1,803,456,004
Non-controlling interests	**–**	–
Equity attributable to the parent	**1,232,443,550**	966,863,825
The Group's share of net assets	**394,381,936**	309,396,424
Adjustment	**–**	–
The carrying amount of the investment	**394,381,936**	309,396,424
Revenue	**2,629,480,948**	1,097,245,577
Income tax expense	**88,393,691**	2,017,157
Net profit	**264,233,722**	29,816,041
Other comprehensive income	**–**	–
Total comprehensive income	**264,233,722**	29,816,041
Dividends received	**–**	–

Notes to Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Joint ventures		
The carrying amount of the investments	**541,433**	53,825,470

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	**(4,347,403)**	(330,010)
Other comprehensive income	**–**	–
Total comprehensive income	**(4,347,403)**	(330,010)

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Associates		
The carrying amount of the investments	**268,136,835**	261,339,961

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	**6,577,202**	3,456,779
Other comprehensive income	**–**	–
Total comprehensive income	**6,577,202**	3,456,779

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

30 June 2017 (Unaudited)

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial investments	Held-to-maturity investments	Total
	Initial recognition	Held for trading				
Cash and bank balances	–	–	4,832,966,727	–	–	4,832,966,727
Financial assets at fair value through profit or loss	827,186,934	–	–	–	–	827,186,934
Notes receivable	–	–	4,687,305,835	–	–	4,687,305,835
Trade receivables	–	–	928,199,991	–	–	928,199,991
Other receivables	–	–	265,756,476	–	–	265,756,476
Interest receivable	–	–	2,839,596	–	–	2,839,596
Loans and advances to customers	–	–	1,513,036,793	–	–	1,513,036,793
Available-for-sale financial investments	–	–	–	1,428,658,949	–	1,428,658,949
Held-to-maturity investments	–	–	–	–	201,463,387	201,463,387
	827,186,934	–	12,230,105,418	1,428,658,949	201,463,387	14,687,414,688

Financial liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short-term loans	–	–	4,588,142,228	4,588,142,228
Customer deposits	–	–	2,878,114,976	2,878,114,976
Repurchase agreements	–	–	198,900,000	198,900,000
Notes payable	–	–	3,620,019,631	3,620,019,631
Accounts payable	–	–	5,937,434,223	5,937,434,223
Interest payable	–	–	227,033,926	227,033,926
Dividends payable	–	–	9,050,620	9,050,620
Other payables	–	–	1,697,052,075	1,697,052,075
Other current liabilities	–	–	4,122,870,685	4,122,870,685
Non-current liabilities due within one year	–	–	549,859,584	549,859,584
Long-term loans	–	–	8,024,820,080	8,024,820,080
Bonds payable	–	–	3,991,666,667	3,991,666,667
Long-term payables	–	–	210,000,000	210,000,000
	–	–	36,054,964,695	36,054,964,695

Notes to Interim Financial Statements (Continued)

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

1. CLASSIFICATION OF FINANCIAL INSTRUMENTS *(CONTINUED)*

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

31 December 2016 (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	–	–	5,312,101,041	–	5,312,101,041
Financial assets at fair value through profit or loss	555,322,261	–	–	–	555,322,261
Notes receivable	–	–	3,608,459,121	–	3,608,459,121
Trade receivables	–	–	859,929,107	–	859,929,107
Other receivables	–	–	98,676,949	–	98,676,949
Interest receivable	–	–	4,044,939	–	4,044,939
Financial assets purchased under agreements to resell	–	–	230,047,000	–	230,047,000
Loans and advances to customers	–	–	1,555,212,556	–	1,555,212,556
Available-for-sale financial investments	–	–	–	577,947,698	577,947,698
	555,322,261	–	11,668,470,713	577,947,698	12,801,740,672

Financial Liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short-term loans	–	–	6,942,952,420	6,942,952,420
Customer deposits	–	–	3,708,225,021	3,708,225,021
Repurchase agreements	–	–	596,565,698	596,565,698
Notes payable	–	–	3,584,228,362	3,584,228,362
Accounts payable	–	–	6,668,807,923	6,668,807,923
Interest payable	–	–	107,691,398	107,691,398
Dividends payable	–	–	8,713,584	8,713,584
Other payables	–	–	1,785,430,167	1,785,430,167
Other current liabilities	–	–	2,046,438,356	2,046,438,356
Non-current liabilities due within one year	–	–	3,211,056,320	3,211,056,320
Long-term loans	–	–	5,163,168,960	5,163,168,960
Bonds payable	–	–	3,987,666,667	3,987,666,667
	–	–	37,810,944,876	37,810,944,876

Notes to Interim Financial Statements (Continued)

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

2. OFFSETTING OF FINANCIAL INSTRUMENTS

For the six months ended 30 June 2017, there were no offsetting arrangements for trade receivables (2016: Nil).

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognised

As of 30 June 2017, the Group endorsed to its suppliers (but not yet fully derecognised) bank acceptance notes for settlement of accounts payable and discounted to banks the bank acceptance notes with carrying amount of RMB61,323,524 and RMB1,000,000 respectively. As of 30 June 2017, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to recognise them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 30 June 2017, the carrying amount of accounts payable settled by the Group through them amounted to RMB61,323,524 (31 December 2016: RMB156,827,864), and short-term loans which were secured by notes receivable amounted to RMB1,000,000 (31 December 2016: Nil).

Transferred financial assets fully derecognised but with continuing involvement

As of 30 June 2017, the Group endorsed to its suppliers (and fully derecognised) bank acceptance notes for settlement of accounts payable and discounted to banks the bank acceptance notes with carrying amount of RMB2,919,669,060 and RMB7,842,049 (31 December 2016: RMB5,196,770,076 and nil respectively). As of 30 June 2017, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognised them and then settled accounts payable associated therewith.

For the six months ended 30 June 2017, no gain or loss was recognised in the date of transfer. No income or expense was 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.

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK

The Group's principal financial instruments are comprised of bank loans, other interest bearing borrowings, cash and bank balances, etc. The main purpose of these financial instruments is to finance for the Group's 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 only trades 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, the balances of trade receivables and notes receivable are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the recording currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

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

Since the Group only trades 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 13% (2016: 13%) and 32% (2016: 29%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are stated in Note V.4 and Note V.6 to the financial statements.

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

As of 30 June 2017, the aging analysis of financial assets that are not considered to be impaired is as follows:

			Overdue	
	Total	**Neither overdue nor impaired**	**Less than six months**	**Over six months**
Trade receivables	**928,199,991**	**732,941,045**	**121,149,662**	**74,109,284**
Notes receivable	**4,687,305,835**	**4,687,305,835**	**–**	**–**
Other receivables	**265,756,476**	**199,772,167**	**56,841,960**	**9,142,349**
Available-for-sale financial investments	**1,428,658,949**	**1,428,658,949**	**–**	**–**
Interest receivable	**2,839,596**	**2,839,596**	**–**	**–**
Loans and advances to customers	**1,513,036,793**	**1,513,036,793**	**–**	**–**
Held-to-maturity investments	**201,463,387**	**201,463,387**	**–**	**–**

As of 31 December 2016, the aging analysis of financial assets that are not considered to be impaired is as follows:

			Overdue	
	Total	Neither overdue nor impaired	Less than six months	Over six months
Trade receivables	859,929,107	675,367,022	84,033,404	100,528,681
Notes receivable	3,608,459,121	3,608,459,121	–	–
Other receivables	98,676,949	88,771,552	921,610	8,983,787
Available-for-sale financial investments	577,947,698	577,947,698	–	–
Interest receivable	4,044,939	4,044,939	–	–
Loans and advances to customers	1,555,212,556	1,555,212,556	–	–
Financial assets purchased under agreements to resell	230,047,000	230,047,000	–	–

As of 30 June 2017, the Group's trade receivables that were not considered to be impaired or overdue mainly relate to a number of independent customers that had a good track record with the Group.

Based on past experience, the directors of the Group were of the opinion that no provision for impairment was necessary in respect of these balances that were overdue but not impaired, as there had not been a significant change in credit quality and the balances were still considered fully recoverable as of 30 June 2017.

Notes to Interim Financial Statements (Continued)

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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 bank loans and other interest-bearing borrowings. 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 2017, 66% of the Group's debts were due within 12 months (31 December 2016: 76%).

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

30 June 2017 (Unaudited)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short-term loans	4,588,142,228	–	–	–	–	4,588,142,228
Customer deposits	2,878,114,976	–	–	–	–	2,878,114,976
Notes payable	3,620,019,631	–	–	–	–	3,620,019,631
Accounts payable	5,937,434,223	–	–	–	–	5,937,434,223
Dividends payable	9,050,620	–	–	–	–	9,050,620
Other payables	1,697,052,075	–	–	–	–	1,697,052,075
Repurchase agreements	198,900,000	–	–	–	–	198,900,000
Long-term loans due within one year	549,859,584	–	–	–	–	549,859,584
Long-term loans	–	6,904,030,704	999,859,584	24,929,792	96,000,000	8,024,820,080
Bonds payable	–	4,000,000,000	–	–	–	4,000,000,000
Long-term payables	–	210,000,000	–	–	–	210,000,000
Other current liabilities	4,122,870,685	–	–	–	–	4,122,870,685
Interest payable for interest-bearing liabilities	573,271,054	127,378,618	34,341,341	1,037,523	4,308,360	740,336,896
Total	24,174,715,076	11,241,409,322	1,034,200,925	25,967,315	100,308,360	36,576,600,998

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(Continued)*

31 December 2016 (Audited)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short-term loans	6,942,952,420	–	–	–	–	6,942,952,420
Customer deposits	3,708,225,021	–	–	–	–	3,708,225,021
Repurchase agreements	596,565,698	–	–	–	–	596,565,698
Notes payable	3,584,228,362	–	–	–	–	3,584,228,362
Accounts payable	6,668,807,923	–	–	–	–	6,668,807,923
Dividends payable	8,713,584	–	–	–	–	8,713,584
Other payables	1,785,430,167	–	–	–	–	1,785,430,167
Long-term loans due within one year	3,211,056,320	–	–	–	–	3,211,056,320
Long-term loans	–	4,255,056,320	761,056,320	51,056,320	96,000,000	5,163,168,960
Bonds payable	–	4,000,000,000	–	–	–	4,000,000,000
Other current liabilities	2,046,438,356	–	–	–	–	2,046,438,356
Interest payable for interest-bearing liabilities	708,657,506	265,441,922	11,595,323	1,633,260	4,807,920	992,135,931
Total	29,261,075,357	8,520,498,242	772,651,643	52,689,580	100,807,920	38,707,722,742

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's liabilities 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).

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
For the six months ended 30 June 2017 (Unaudited)		
RMB	**50**	**(12,540,867)**
USD	**50**	**(336,919)**
EUR	**50**	**(73,762)**
RMB	**(50)**	**12,540,867**
USD	**(50)**	**336,919**
EUR	**(50)**	**73,762**
2016 Audited		
RMB	50	(37,553,708)
USD	50	(965,033)
EUR	50	(358,115)
RMB	(50)	37,553,708
USD	(50)	965,033
EUR	(50)	358,115

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Foreign currency risk

The Group has 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 recording currencies.

The businesses of the Group are principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings are denominated in United States dollars, Euros and Japanese Yen. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, other receivables, short-term loans, accounts payable, other payables and long-term loans are stated in Notes V.1, 4, 6, 22, 24, 30, 31, 34 to the financial statements, respectively.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, JPY, AUD, HKD, CAD, GBP and ZAR with all other variables held constant, of the Group's net profit (due to changes in the fair values of monetary assets and liabilities) and equity.

Notes to Interim Financial Statements (Continued)

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*)

Market risk *(Continued)*

Foreign currency risk (Continued)

30 June 2017 (Unaudited)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
Depreciation of RMB to USD	1%	6,036,371	(18,015)
Depreciation of RMB to EUR	1%	198,696	(2,224,522)
Depreciation of RMB to JPY	1%	(34,494)	–
Depreciation of RMB to AUD	1%	–	(2,100,744)
Depreciation of RMB to HKD	1%	417	(1,829,363)
Depreciation of RMB to CAD	1%	42,825	–
Depreciation of RMB to GBP	1%	38	–
Depreciation of RMB to ZAR	1%	46,164	–
Appreciation of RMB to USD	(1%)	(6,036,371)	18,015
Appreciation of RMB to EUR	(1%)	(198,696)	2,224,522
Appreciation of RMB to JPY	(1%)	34,494	–
Appreciation of RMB to AUD	(1%)	–	2,100,744
Appreciation of RMB to HKD	(1%)	(417)	1,829,363
Appreciation of RMB to CAD	(1%)	(42,825)	–
Appreciation of RMB to GBP	(1%)	(38)	–
Appreciation of RMB to ZAR	(1%)	(46,164)	–

Notes to Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*)

Market risk *(Continued)*

Foreign currency risk (Continued)

31 December 2016 (Audited)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
Depreciation of RMB to USD	1%	(1,209,031)	(29,008)
Depreciation of RMB to EUR	1%	(341,902)	(1,340,107)
Depreciation of RMB to JPY	1%	(1)	–
Depreciation of RMB to AUD	1%	–	(1,870,414)
Depreciation of RMB to HKD	1%	(99)	(1,752,142)
Depreciation of RMB to CAD	1%	(53,954)	–
Depreciation of RMB to GBP	1%	(89)	–
Depreciation of RMB to ZAR	1%	(57,553)	–
Appreciation of RMB to USD	(1%)	1,209,031	29,008
Appreciation of RMB to EUR	(1%)	341,902	1,340,107
Appreciation of RMB to JPY	(1%)	1	–
Appreciation of RMB to AUD	(1%)	–	1,870,414
Appreciation of RMB to HKD	(1%)	99	1,752,142
Appreciation of RMB to CAD	(1%)	53,954	–
Appreciation of RMB to GBP	(1%)	89	–
Appreciation of RMB to ZAR	(1%)	57,553	–

Note: Except for retained earnings.

Notes to Interim Financial Statements (Continued)

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

5. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the six months ended 30 June 2017 and the year of 2016, the capital management objectives, policies or procedures of the Group did not change.

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes customer deposits, bank loans, notes payable, bonds payable, accounts payable, payroll and employee benefits payable, 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 was as follows:

Notes to Interim Financial Statements (Continued)

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

5. CAPITAL MANAGEMENT *(CONTINUED)*

	30 June 2017 Unaudited	31 December 2016 Audited
Customer deposits	**2,878,114,976**	3,708,225,021
Repurchase agreements	**198,900,000**	596,565,698
Short-term loans	**4,588,142,228**	6,942,952,420
Notes payable	**3,620,019,631**	3,584,228,362
Accounts payable	**5,937,434,223**	6,668,807,923
Payroll and employee benefits payable	**569,393,753**	550,444,683
Interest payable	**227,033,926**	107,691,398
Dividends payable	**9,050,620**	8,713,584
Other payables	**1,825,213,618**	1,912,575,078
Other current liabilities	**4,307,180,685**	2,273,058,356
Non-current liabilities due within one year	**549,859,584**	3,211,056,320
Long-term loans	**8,024,820,080**	5,163,168,960
Bonds payable	**3,991,666,667**	3,987,666,667
Long-term payables	**210,000,000**	–
Long-term employee benefits payable	**162,590,718**	159,173,203
Less: Cash and bank balances	**4,832,966,727**	5,312,101,041
Net liabilities	**32,266,453,982**	33,562,226,632
Capital attributable to owners of the parent	**21,426,635,020**	19,764,171,955
Adjusted capital	**21,426,635,020**	19,764,171,955
Capital and net liabilities	**53,693,089,002**	53,326,398,587
Gearing ratio	**60%**	63%

Notes to Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE

30 June 2017 (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				
(i) Investments in debt instrument	**460,706,459**	**305,977,074**	**–**	**766,683,533**
(ii) Others	**60,503,401**	**–**	**–**	**60,503,401**
Available-for-sale financial investments				
(i) Investments in debt instrument	**1,301,936,789**	**–**	**–**	**1,301,936,789**

31 December 2016 (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	555,322,261	–	–	555,322,261
Available-for-sale financial investments				
Investments in debt instrument	451,225,538	–	–	451,225,538

Notes to Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. FINANCIAL LIABILITIES DISCLOSED AT FAIR VALUE

30 June 2017 (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	–	8,374,041,322	–	8,374,041,322
Bonds payable	–	4,184,901,171	–	4,184,901,171
Long-term payables	–	191,417,331	–	191,417,331

31 December 2016 (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	–	5,490,140,427	–	5,490,140,427
Bonds payable	–	4,086,113,423	–	4,086,113,423

3. VALUATION OF FAIR VALUE

Fair value of financial instruments

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

	Carrying amounts		Fair values	
	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Financial liabilities				
Long-term loans	8,024,820,080	5,163,168,960	8,374,041,322	5,490,140,427
Bonds payable	3,991,666,667	3,987,666,667	4,184,901,171	4,086,113,423
Long-term payables	210,000,000	–	191,417,331	–

Notes to Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE *(CONTINUED)*

Fair value of financial instruments *(Continued)*

Management had assessed the fair value of cash and bank balances, notes receivable, trade receivables, dividends receivable, interest receivable, other receivables, financial assets purchased under agreements to resell, notes payable, accounts payable, interest payable, dividends payable, other payables, loans and advances to customers, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities. Since the residual terms of the above-mentioned items were not long, the fair values were similar to the book values.

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

The fair value of the financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction rather than under circumstances of forced sell–out or bankruptcy. 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, long-term payables, medium-term note payable and bonds payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 30 June 2017, default risk of long–term loans was evaluated as not significant.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

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

The Company is ultimately controlled by the Holding.

2. SUBSIDIARIES

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

Notes to Interim Financial Statements (Continued)

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

3. ASSOCIATES AND JOINT VENTURES

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) logistics Co., Ltd.	Controlled by the Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by the Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Masteel Engineering Technology (Group) Co., Ltd.	Controlled by the Holding
Masteel Automation and Information Technology Co., Ltd.	Controlled by the Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by the Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by the Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by the Holding
Masteel Group Mapping Co., Ltd.	Controlled by the Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by the Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by the Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by the Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by the Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by the Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by the Holding
Maanshan Gang Chen Industry Co., Ltd.	Controlled by the Holding
Masteel Shen Ma Metal Co., Ltd.	Controlled by the Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by the Holding
Masteel Green Energy Technology Development Co., Ltd.	Controlled by the Holding
Tongling Yuanda Co., Ltd.	Controlled by the Holding
Maanshan Gang Chen Steel Logistics Park Co., Ltd.	Controlled by the Holding
Maanshan Gang Chen Hydrogen Industry Co., Ltd.	Controlled by the Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Controlled by the Holding
Masteel Refractory Materials Co., Ltd.	Controlled by the Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by the Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by the Holding

Notes to Interim Financial Statements (Continued)

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Xinchuang Economize Resource	Controlled by the Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by the Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by the Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by the Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by the Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by the Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by the Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by the Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding
Ma Steel Gongchang United Roller Co., Ltd. (Note 1)	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Anhui Masteel Dongli Transmission Equipment Co., Ltd.	Controlled by the Holding
Ma Steel (Hefei) Logistics Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd. (Note 2)	Controlled by the Holding
Huayang Equipment (Note 2)	Controlled by the Holding
Hefei Industrial Investment Holding Co., Ltd.	Non-controlling interests

Note 1： During the current period, Ma Steel United Electric Steel Roller Co., Ltd. changed its name to Ma Steel Gongchang United Roller Co., Ltd.

Note 2： The newly established companies are controlled by the Holding.

Notes to Interim Financial Statements (Continued)

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

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

(1) Purchases of ore from related parties

	Note	For the six months ended 30 June **2017** Unaudited Amount	2016 Unaudited Amount
The Holding	(i)	**1,978,192,113**	1,081,236,119
Ma Steel International Trade and Economic Co., Ltd.	(i)	**923,430**	68,483,092
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	**51,621,848**	–
Masteel Shen Ma Metal Co., Ltd.	(i)	**177,805**	–
Tongling Yuanda Co., Ltd.	(i)	**–**	16,723,217
Anhui Masteel Luo He Mining Co., Ltd.	(i)	**–**	1,815,419
		2,030,915,196	1,168,257,847

(i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 10 September 2015 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index. The Group purchased ore from Tongling Yuanda Co., Ltd., Ma Steel International Trade and Economic Co., Ltd., and Anhui Masteel Luo He Mining Co., Ltd., and the price was subject to negotiation according to market prices.

Notes to Interim Financial Statements (Continued)

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

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

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

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
The Holding	(ii)	**28,952,993**	42,680,667
Masteel Refractory Materials Co., Ltd.	(ii)	**447,873,597**	311,489,554
Xinchuang Economize Resource	(ii)	**213,870,442**	139,113,059
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**101,375,670**	98,628,803
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**154,763,989**	126,109,589
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	**291,941,833**	240,826,607
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	**96,481,534**	75,881,042
Ma Steel International Trade and Economic Co., Ltd.	(ii)	**47,301,550**	19,389,803
Masteel Automation and Information Technology Co., Ltd.	(ii)	**83,514,567**	70,477,169
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**46,177,349**	36,946,832
Maanshan Gang Chen Industry Co., Ltd.	(ii)	**7,261,974**	2,011,285
Anhui Zhonglian Shipping Co., Ltd.	(ii)	**53,505,920**	32,113,568
Magang (Group) logistics Co., Ltd.	(ii)	**73,362,774**	5,915,581
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(ii)	**24,377,732**	–
Others	(ii)	**93,721,826**	50,165,040
		1,764,483,750	1,251,748,599

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services, telecommunications service, contract of transportation service, equipment repair and maintenance services, and engineering design services, were determined in accordance with a service agreement between the Group and the Holding.

Notes to Interim Financial Statements (Continued)

30 June 2017
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(3) Agency fees paid to related parties

	Note	For the six months ended 30 June **2017** **Unaudited** **Amount**	2016 Unaudited Amount
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**–**	509,977
Masteel Shen Ma Metal Co., Ltd.	(iii)	**–**	2,320
Ma Steel International Trade and Economic Co., Ltd.	(iii)	**174,149**	–
		174,149	512,297

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(4) Rental expenses

	Note	For the six months ended 30 June **2017** **Unaudited** **Amount**	2016 Unaudited Amount
The Holding	(iv)	**20,416,706**	21,182,169

(iv) The Holding leased a building to the Group and the rental was determined by the terms of mutually agreed between the Group and the Holding.

Notes to Interim Financial Statements (Continued)

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

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

(5) Purchases of fixed assets and construction services

	Note	For the six months ended 30 June **2017** Unaudited Amount	2016 Unaudited Amount
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**133,892,131**	263,776,746
Xinchuang Economize Resource	(iii)	**21,814,810**	22,640,457
Masteel Automation and Information Technology Co., Ltd.	(iii)	**17,478,462**	36,060,822
Masteel Group Kang Cheng Building and Installing Co., Ltd.	(iii)	**–**	861,385
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**314,800**	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**7,248,000**	–
Maanshan Masteel Electric Repair Co., Ltd.	(iii)	**–**	402,479
Others	(iii)	**1,607,039**	7,884
		182,355,242	323,749,773

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to Interim Financial Statements (Continued)

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

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

(6) Sales of steel products and other by-products

	Note	For the six months ended 30 June **2017** **Unaudited** **Amount**	2016 Unaudited Amount
The Holding	(iii)	**225,017**	–
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**92,104,703**	54,182,623
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**27,708,246**	597,979
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**577,653,008**	1,187,711
Masteel International Trade and Economic Co., Ltd.	(iii)	**10,901,153**	558,607
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	**10,270,315**	–
Anhui Luo He Mining Co., Ltd.	(iii)	**4,435,754**	–
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**1,717,240**	–
		725,015,436	56,526,920

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to Interim Financial Statements (Continued)

30 June 2017
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

	Note	For the six months ended 30 June **2017** **Unaudited** **Amount**	 2016 Unaudited Amount
The Holding	(iii)	**1,761,556**	1,943,674
Xinchuang Economize Resource	(iii)	**116,444,340**	43,959,957
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**638,655**	4,623,036
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**12,204,652**	9,542,416
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	**26,229,142**	5,715,689
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	**8,670,709**	14,600,123
Masteel Refractory Materials Co., Ltd.	(iii)	**4,702,138**	3,758,009
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	**7,868,218**	2,531,304
Masteel Automation and Information Technology Co., Ltd.	(iii)	**2,407,821**	2,459,750
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	**774,058**	990,792
Masteel Gang Chen Industry Co., Ltd.	(iii)	**484,347**	437,749
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	**20,104**	6,436
Shanghai Masteel International Trade and Economic Co., Ltd.	(iii)	**–**	6,242,294
Others	(iii)	**7,339,568**	9,105,080
		189,545,308	105,916,309

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to Interim Financial Statements (Continued)

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

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

(8) Financial service interest cost paid to related parties

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
The Holding	(v)	**9,858,995**	4,190,907
Masteel Engineering Technology (Group) Co., Ltd.	(v)	**1,208,342**	625,762
Maanshan Gang Chen Industry Co., Ltd.	(v)	**221,400**	2,874
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	**961,785**	863,243
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	**245,375**	–
Masteel International Trade and Economic Co., Ltd.	(v)	**611,002**	173,359
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(v)	**2,229,353**	336,248
Xinchuang Economize Resource	(v)	**271,084**	–
Anhui Luo He Mining Co., Ltd.	(v)	**125,518**	–
Masteel Group Kang Tai Land Development Co., Ltd.	(v)	**246,509**	–
Others	(v)	**2,355,662**	1,191,877
		18,335,025	7,384,270

(v) Masteel Financial absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranging from 0.42% to 3.99% for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 0.42% – 3.30%).

Notes to Interim Financial Statements (Continued)

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

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

(9) Financial service income received from related parties

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
The Holding	(vi)	**17,210,070**	4,009,309
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	**8,509,600**	6,183,592
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	**2,447,323**	2,521,875
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	**769,105**	261,664
Maanshan Gang Chen Industry Co., Ltd.	(vi)	**1,752,305**	1,286,367
Xinchuang Economize Resource	(vi)	**–**	135,402
Masteel Engineering Technology (Group) Co., Ltd.	(vi)	**38,251**	67,786
Ma Steel International Trade and Economic Co., Ltd.	(vi)	**9,434**	299,388
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(vi)	**333,504**	–
Others	(vi)	**202,180**	205,769
		31,271,772	14,971,152

(vi) Masteel Financial, a subsidiary of the Group, obtained financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance notes discounting and entrusted loan. The lending rates were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

Notes to Interim Financial Statements (Continued)

30 June 2017
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(10) Purchases of coke from an associate

	Note	For the six months ended 30 June 2017 Unaudited Amount	2016 Unaudited Amount
Henan Jinma Energy	(vii)	**459,954,023**	–

(vii) These transactions were made between the Group and Henan Jinma Energy and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(11) Sales of coke-related products to an associate

	Note	For the six months ended 30 June 2017 Unaudited Amount	2016 Unaudited Amount
Ma-Steel OCI Chemical	(viii)	**160,132,068**	–

(viii) These transactions were made between the Group and Ma-Steel OCI Chemical and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Interim Financial Statements (Continued)

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

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

(12) Fees received for the supply of electricity from an associate

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
Ma-Steel OCI Chemical	(viii)	**7,214,477**	–

(viii) These transactions were made between the Group and Ma-Steel OCI Chemical and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(13) Rental income from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**1,250,000**	1,250,000

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Interim Financial Statements (Continued)

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

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

(14) Fees received for the supply of electricity from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**118,030,601**	122,578,450

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(15) Fees received for utilities and facilities from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**5,595,376**	5,519,644

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Interim Financial Statements (Continued)

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

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

(16) Fees received for supply of gas from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**1,473,581**	1,992,183

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(17) Fees received for providing electricity and broadband from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**18,515**	18,416

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Interim Financial Statements (Continued)

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

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

(18) Purchase of gas products from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**272,320,596**	257,608,018

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(19) Fees received for providing equipment inspection from a joint venture

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	**Amount**	Amount
BOC-Ma Steel	(ix)	**320,755**	–

(ix) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Interim Financial Statements (Continued)

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

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

(20) Guarantee from a related party

30 June 2017 (Unaudited)

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured or not
The Holding	**(x)**	**The Company**	**2.897 billion**	**2014.7**	**2025.10**	**Not yet as of the approval date of the report**

31 December 2016 (Audited)

	Note	Guarantee name	Guarantee amount (RMB)	Start date	End date	Has guarantee matured or not
The Holding	(x)	The Company	2.487 billion	2014.7	2025.10	Not yet as of the approval date of the report

(x) For the six months ended 30 June 2017, the Holding had guaranteed additional certain bank loans of the Group amounting to RMB1.7 billion (the holding had guaranteed addition certain bank loans and bonds of the Group amounting to RMB0.94 billion in 2016) without attached conditions. As of 30 June 2017, the Holding had guaranteed part of bank loans and bonds without attached conditions amounting to approximately RMB2.897 billion (31 December 2016: approximately RMB2.487 billion).

Notes to Interim Financial Statements (Continued)

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

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

(21) Borrowings from related parties

30 June 2017 (Unaudited)

	Note	**Amount**	**Start date**	**End date**
Anhui Zhonglian Shipping Co., Ltd.	(xi)	**70,000,000**	**2016/09/27**	**2017/9/26**
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	**20,000,000**	**2016/07/29**	**2017/7/28**
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	**20,000,000**	**2016/11/18**	**2017/11/17**
The Holding	(xi)	**40,000,000**	**2016/08/30**	**2017/8/29**
Anhui Zhonglian Shipping Co., Ltd.	(xi)	**30,000,000**	**2017/05/04**	**2018/5/3**
Hefei Industrial Investment Holding Co., Ltd.	(xi)	**210,000,000**	**2017/06/12**	**2019/6/12**

31 December 2016 (Audited)

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xi)	70,000,000	2016/09/27	2017/09/26
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	20,000,000	2016/07/29	2017/07/28
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xi)	20,000,000	2016/11/18	2017/11/17
The Holding	(xi)	40,000,000	2016/08/30	2017/08/29

Notes to Interim Financial Statements (Continued)

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

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

(21) Borrowings from related parties *(Continued)*

(xi) On 27 September 2016, Anhui Zhonglian Shipping Co., Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB70,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB1,377,863, which was paid yet as of 30 June 2017.

On 29 July 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB393,675, which was paid yet as of 30 June 2017.

On 18 November 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB393,675, which was paid yet as of 30 June 2017.

On 30 August 2016, The Holding entrusted Masteel Financial to provide the Company a short-term loan of RMB40,000,000 with the annual interest rate of 4.35%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB874,833, which was paid yet as of 30 June 2017.

On 4 May 2017, Anhui Zhonglian Shipping Co., Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB30,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB189,225, which was paid yet as of 30 June 2017.

On 12 June 2017, as a non-controlling interest of Hefei Steel Plates, Hefei Industrial Investment Holding Co., Ltd. offered Hefei Steel Plates which is a subsidiary of the Company a two years' loan of RMB210,000,000, and the contract stipulated that the loan was interest free.

Notes to Interim Financial Statements (Continued)

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

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

(22) According to the financial service agreement signed by Masteel Financial and the Holding on 29 December 2016, Masteel Financial provides financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2017 to 31 December 2017, the highest daily outstanding loan should be less than RMB500 million, other financial service charge should be less than RMB60 million. The annual cap was the highest demand for daily deposits, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement. During the current period, the highest daily deposit balance was RMB4.69 billion (2016: RMB4.35 billion); the highest average daily deposit balance on a monthly basis was RMB4.17 billion (2016: RMB3.63 billion); the highest daily loan balance was RMB0.498 billion (2016: RMB0.498 billion); the highest average daily loan balance on a monthly basis was RMB0.497 billion (2016: RMB0.496 billion).

(23) In January 2017, the Company transferred 90% of equity interests of Huayang Equipment to Xinchuang Economize Resource, which constituted a related party transaction. Please refer to Note VI.3 for details.

Notes to Interim Financial Statements (Continued)

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

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES

	30 June 2017 Unaudited	31 December 2016 Audited
Trade receivables		
The Holding and its subsidiaries		
The Holding	**55,016**	–
Maanshan Jiahua Commodity Concrete Co., Ltd.	**6,930,082**	5,212,842
Masteel Heavy Machinery Manufacturing Co., Ltd.	**15,617,537**	8,234,542
Ma Steel Powder Metallurgy Co., Ltd.	**20,874,910**	10,355,549
Anhui Masteel Luo He Mining Co., Ltd.	**4,394,144**	3,458,390
Masteel Engineering Technology (Group) Co., Ltd.	**7,130,071**	12,304,092
Other entities controlled by the Holding	**4,868,450**	2,986,118
	59,870,210	42,551,533
Joint venture of the Group		
BOC-Ma Steel	**–**	24,738,742
Notes receivable		
The Holding and its subsidiaries		
Maanshan Gang Chen Industry Co.,Ltd.	**7,017,719**	897,719
Anhui BRC & Masteel Weldmesh Co.,Ltd.	**252,907**	1,965,529
Masteel Heavy Machinery Manufacturing Co.,Ltd.	**100,000**	100,000
	7,370,626	2,963,248
Associate of the Group		
Henan Jinma Energy	**36,000,000**	–

Notes to Interim Financial Statements (Continued)

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

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES *(CONTINUED)*

	30 June 2017 Unaudited	31 December 2016 Audited
Prepayments		
The Holding and its subsidiaries		
The Holding	**328,164**	28,164
Ma Steel International Trade and Economic Co., Ltd.	**45,457,448**	25,316,196
Other entities controlled by the Holding	**313,060**	313,060
	46,098,672	25,657,420
Associate of the Group		
Henan Jinma Energy	**155,591,317**	100,000,000
Other receivables		
The Holding and its subsidiaries		
Magang (Group) Investment Co., Ltd.	**4,938,202**	–
Masteel Engineering Technology (Group) Co., Ltd.	**–**	4,000
Masteel Automobile Transportation Service Co., Ltd.	**–**	323
	4,938,202	4,323
Short-term loans		
The Holding and its subsidiaries		
The Holding	**40,000,000**	40,000,000
Anhui Zhonglian Shipping Co., Ltd.	**100,000,000**	70,000,000
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**40,000,000**	40,000,000
	180,000,000	150,000,000

Notes to Interim Financial Statements (Continued)

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

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES *(CONTINUED)*

	30 June 2017 Unaudited	31 December 2016 Audited
Accounts payable		
The Holding and its subsidiaries		
The Holding	**90,529,515**	988,765
Xinchuang Economize Resource	**42,785,768**	54,584,324
Masteel Engineering Technology (Group) Co., Ltd.	**344,871,557**	150,278,616
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**37,394,206**	47,203,701
Masteel Automation and Information Technology Co., Ltd.	**19,354,799**	19,950,761
Masteel Automobile Transportation Service Co., Ltd.	**23,277,774**	21,490,195
Masteel Shen Ma Metal Co., Ltd.	**6,898,344**	5,314,349
Masteel Heavy Machinery Manufacturing Co., Ltd.	**36,070,994**	44,360,504
Other entities controlled by the Holding	**39,508,588**	75,002,591
	640,691,545	419,173,806
Joint ventures and associates of the Group		
BOC-Ma Steel	**53,025,591**	55,481,931
Ma-Steel OCI Chemical	**–**	159,811
Shenglong Chemical	**366,902**	366,902
	53,392,493	56,008,644

Notes to Interim Financial Statements (Continued)

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

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES *(CONTINUED)*

	30 June 2017 Unaudited	31 December 2016 Audited
Advances from customers		
The Holding and its subsidiaries		
The Holding	**178,120**	190,788
Maanshan Gang Chen Industry Co., Ltd.	**34,208,789**	32,651,727
Anhui BRC & Masteel Weldmesh Co., Ltd.	**17,085**	5,283,354
Other entities controlled by the Holding	**6,778,254**	11,987,789
	41,182,248	50,113,658
Associates of the Group		
Ma-Steel OCI Chemical	**22,811,548**	7,078,117
Shenglong Chemicals	**–**	11
	22,811,548	7,078,128
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	**8,438,483**	6,295,101
Masteel Engineering Technology (Group) Co., Ltd.	**10,300,724**	13,720,456
Xinchuang Economize Resource	**14,662,983**	22,495,594
Maanshan Masteel Electric Repair Co., Ltd.	**844,787**	963,873
Maanshan Gang Chen Industry Co., Ltd.	**200,000**	110,040
Other entities controlled by the Holding	**7,179,086**	3,233,755
	41,626,063	46,818,819
Joint venture of the Group		
BOC-Ma Steel	**70,000**	70,000
Long-term payables		
Non-controlling interests		
Hefei Industrial Investment Holding Co., Ltd.	**210,000,000**	–

Notes to Interim Financial Statements (Continued)

30 June 2017
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES *(CONTINUED)*

	30 June 2017 Unaudited	31 December 2016 Audited
Loans and advances to customers		
The Holding and its subsidiaries		
The Holding	**–**	16,698,711
Anhui Masteel Luo He Mining Co., Ltd.	**166,135,701**	112,224,379
Anhui BRC & Masteel Weldmesh Co., Ltd.	**46,452,891**	31,811,230
Ma Steel International Trade and Economic Co., Ltd.	**–**	50,982,046
Maanshan Iron & Steel Group Mining Co., Ltd.	**1,197,520,993**	1,193,527,145
Other entities controlled by the Holding	**101,068,437**	136,864,275
	1,511,178,022	1,542,107,786
Customer deposits		
The Holding and its subsidiaries		
The Holding	**1,145,675,194**	1,830,191,701
Masteel Engineering Technology (Group) Co., Ltd.	**351,907,841**	273,754,756
Maanshan Gang Chen Industry Co., Ltd.	**24,912,685**	19,128,371
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**310,693,139**	252,042,388
Ma Steel International Trade and Economic Co., Ltd.	**25,711,714**	304,878,663
Masteel Group Kang Tai Land Development Co., Ltd.	**78,941,343**	49,183,147
Masteel Heavy Machinery Manufacturing Co., Ltd.	**97,277,291**	94,000,665
Other entities controlled by the Holding	**648,185,658**	621,115,481
	2,683,304,865	3,444,295,172

The fee charged by Masteel Financial for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the two parties.

* As of 30 June 2017, in current assets and current liabilities, except for the interests charge for the deposit and loans provided by Masteel Financial, all these receivables and payables had no interest, no pledge and would be paid in the future.

Notes to Interim Financial Statements (Continued)
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 30 June 2017, the Group did not make any commitments to the related parties. (As of 31 December 2016, the Company had made an investment commitment to Mascometal, which was a Joint Venture, amounting to EUR16.07 million).

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	30 June 2017 Unaudited	31 December 2016 Audited
Contracted, but not provided for		
Capital commitments	**1,983,800,244**	2,419,658,635
Investment commitments	**15,000,000**	155,870,276
	1,998,800,244	2,575,528,911

The group did not have matters that was accounted in the joint venture capital commitment during the current period, please refer to Note X.7.

2. CONTINGENT EVENTS

Difference of corporate income tax

The State Administration of Taxation issued "The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other eight companies listed overseas corporation" (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the "People's Republic of China Administration of Tax Collection Law".

The Company 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.

Notes to Interim Financial Statements (Continued)

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XI. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

2. CONTINGENT EVENTS *(CONTINUED)*

Difference of corporate income tax *(Continued)*

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year's income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any provision or adjustments related to the income tax differences.

Pending litigation

As of 30 June 2017, the Group and the Company did not have significant pending litigation.

XII. EVENTS AFTER THE BALANCE SHEET DATE

As of the date of approval of the financial statements, the Group had no significant event after the balance sheet date that needs to be disclosed.

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group had leased certain of its investment properties under operating lease arrangements ranging from one to eighteen years. The periodic rental was fixed during the operating lease periods.

	30 June 2017 Unaudited	31 December 2016 Audited
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,301,120
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	**3,282,534**	3,907,534
	7,032,534	7,708,654

Notes to Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services into two operating segments which are determined based on the internal organisation structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and its subsidiaries except for Masteel 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 iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Sale of steel products	**32,685,470,879**	19,705,371,213
Sale of steel billets and pig iron	**982,818,293**	371,861,145
Sale of coke by-products	**210,793,879**	155,735,957
Others	**850,778,575**	377,155,183
	34,729,861,626	20,610,123,498

Notes to Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Other information *(Continued)*

Geographical information

External principal operating income

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
The PRC	**32,372,797,968**	18,866,675,458
Overseas	**2,357,063,658**	1,743,448,040
	34,729,861,626	20,610,123,498

Non-current assets

	30 June 2017	31 December 2016
	Unaudited	Audited
The PRC	**39,406,551,890**	40,595,765,043
Overseas	**317,336,644**	305,407,308
	39,723,888,534	40,901,172,351

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.

Notes to Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

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

An aging analysis of trade receivables is as follows:

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year	**2,150,606,463**	1,782,014,214
One to two years	**129,783,597**	125,625,110
Two to three years	**15,303,962**	27,273,361
Over three years	**46,847,382**	31,693,096
	2,342,541,404	1,966,605,781
Less: Provisions for bad debts	**19,673,359**	13,382,203
	2,322,868,045	1,953,223,578

* The aging analysis of trade receivables of the Company is based on the invoice date.

The trade receivable balances are analysed as follows:

	30 June 2017 (Unaudited)				31 December 2016 (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	**2,312,597,065**	**99**	**(13,218,196)**	**1**	1,952,062,818	99	(6,927,040)	–
Other insignificant but assessed for impairment individually	**29,944,339**	**1**	**(6,455,163)**	**22**	14,542,963	1	(6,455,163)	44
	2,342,541,404	**100**	**(19,673,359)**		1,966,605,781	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the period are disclosed in Note XIV.4.

Notes to Interim Financial Statements (Continued)

30 June 2017
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

As of 30 June 2017, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	**770,779,205**	**–**	**–**	/
Company 2	**194,088,011**	**–**	**–**	/
Company 3	**161,162,237**	**–**	**–**	/
Company 4	**121,652,399**	**–**	**–**	/
Company 5	**110,890,578**	**–**	**–**	/
Company 6	**105,098,986**	**–**	**–**	/
Company 7	**95,823,216**	**–**	**–**	/
Company 8	**92,667,392**	**–**	**–**	/
Company 9	**90,809,606**	**–**	**–**	/
Company 10	**58,680,735**	**–**	**–**	/
Company 11	**48,312,244**	**–**	**–**	/
Company 12	**39,914,420**	**–**	**–**	/
Company 13	**28,797,957**	**–**	**–**	/
Company 14	**28,555,094**	**–**	**–**	/
Company 15	**28,149,429**	**–**	**–**	/
Others	**337,215,556**	**(13,218,196)**		Note1
	2,312,597,065	**(13,218,196)**		

Note 1: The Company had confirmed that two of the Company's trade receivables cannot be recovered, therefore, full provision for the bad debts amounting to RMB6,927,040 and RMB6,291,156 were made, respectively.

During the current period, the provision for bad debts was RMB6,291,156 (for the six months ended 2016: Nil), and there was no recovery or reversal of provision for bad debts (for the six months ended 2016: Nil).

During the current period, there was no trade receivables that had been written off (for the six months ended 2016: Nil).

Notes to Interim Financial Statements (Continued)

30 June 2017
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	694,446,823	–	–	/
Company 2	214,069,244	–	–	/
Company 3	117,299,709	–	–	/
Company 4	92,487,872	–	–	/
Company 5	90,266,047	–	–	/
Company 6	64,514,240	–	–	/
Company 7	61,374,572	–	–	/
Company 8	55,798,074	–	–	/
Company 9	48,312,244	–	–	/
Company 10	35,735,250	–	–	/
Company 11	29,117,360	–	–	/
Company 12	24,738,742	–	–	/
Company 13	24,563,898	–	–	/
Company 14	21,908,132	–	–	/
Company 15	21,573,834	–	–	/
Others	355,856,777	(6,927,040)		
	1,952,062,818	(6,927,040)		

Notes to Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

The top five trade receivables classified by debtor:

30 June 2017 (Unaudited)

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	**Subsidiary**	**770,779,205**	**Within one year**	**33%**	**–**
Company 2	**Subsidiary**	**194,088,011**	**Within one year**	**8%**	**–**
Company 3	**Subsidiary**	**161,162,237**	**Within one year**	**7%**	**–**
Company 4	**Third party**	**121,652,399**	**Within one year**	**5%**	**–**
Company 5	**Subsidiary**	**110,890,578**	**Within one year**	**5%**	**–**
		1,358,572,430		**58%**	

31 December 2016 (Audited)

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	694,446,823	Within one year	36%	–
Company 2	Subsidiary	214,069,244	Within one year	11%	–
Company 3	Third party	117,299,709	Within one year	6%	–
Company 4	Subsidiary	92,487,872	One to two years	5%	–
Company 5	Subsidiary	90,266,047	Within one year	5%	–
		1,208,569,695		63%	

Notes to Interim Financial Statements (Continued)

30 June 2017
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES

An aging analysis of the other receivables is as follows:

	30 June 2017 Unaudited	31 December 2016 Audited
Within one year	**166,431,627**	39,486,862
One to two years	**297,870**	615,777
Two to three years	**154,154**	1,093,937
Over three years	**423,615,434**	422,691,173
	590,499,085	463,887,749
Less: Provisions for bad debts	**422,847,240**	422,847,240
	167,651,845	41,040,509

The movements of provisions for bad debts against other receivables for the period are disclosed in Note XIV.4.

The other receivables balances are analysed as follows:

	30 June 2017 (Unaudited)				31 December 2016 (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	**562,331,493**	**95**	**(418,316,326)**	**74**	452,496,848	98	(418,316,326)	92
Individually insignificant but assessed for impairment individually	**28,167,592**	**5**	**(4,530,914)**	**16**	11,390,901	2	(4,530,914)	40
	590,499,085	**100**	**(422,847,240)**		463,887,749	100	(422,847,240)	

Notes to Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

As of 30 June 2017, those individually significant and assessed for impairment individually were as follows:

	Book value	Provision for bad debts	Ratio(%)	Reason
Company 1	132,058,434	(132,058,434)	100	Note
Company 2	127,685,367	(127,685,367)	100	Note
Company 3	60,939,960	(60,939,960)	100	Note
Company 4	57,988,833	(57,988,833)	100	Note
Company 5	37,243,732	(37,243,732)	100	Note
Company 6	2,400,000	(2,400,000)	100	Note
Others	144,015,167	–		/
	562,331,493	(418,316,326)		

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

	Book value	Provision for bad debts	Ratio(%)	Reason
Company 1	132,058,434	(132,058,434)	100	Note
Company 2	127,685,367	(127,685,367)	100	Note
Company 3	60,939,960	(60,939,960)	100	Note
Company 4	57,988,833	(57,988,833)	100	Note
Company 5	37,243,732	(37,243,732)	100	Note
Company 6	2,400,000	(2,400,000)	100	Note
Others	34,180,522	–		/
	452,496,848	(418,316,326)		

Note: Provision for bad debts were made as a result of these long-term uncollected other receivables were less expected to recover.

Notes to Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

During the current period, there was no provision for bad debts of other receivables (for the six months ended 2016: Nil), and there was no recovery or reversal of provision for bad debts (for the six months ended 2016: Nil).

During the current period, there were no other receivables that had been written off (for the six months ended 2016: Nil).

Other receivables classified by nature:

	30 June 2017 Unaudited	31 December 2016 Audited
Prepayment for trading	**415,916,327**	415,916,327
Guarantee for steel futures	**141,706,521**	28,061,996
Prepayment of custom duties and VAT	**5,893,845**	11,167,848
Others	**26,982,392**	8,741,578
	590,499,085	463,887,749
Less: Provision for bad debts	**422,847,240**	422,847,240
	167,651,845	41,040,509

As of 30 June 2017, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Aging	Balance of bad debts
Company 1	132,058,434	22	i	More than 3 years	132,058,434
Company 2	127,685,367	22	i	More than 3 years	127,685,367
Company 3	60,939,960	10	i	More than 3 years	60,939,960
Company 4	57,988,833	10	i	More than 3 years	57,988,833
Company 5	37,243,732	6	i	More than 3 years	37,243,732
	415,916,326	70			415,916,326

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

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

	Balance	Ratio to total other receivables (%)	Nature	Aging	Balance of bad debts
Company 1	132,058,434	28	i	More than 3 years	132,058,434
Company 2	127,685,367	28	i	More than 3 years	127,685,367
Company 3	60,939,960	13	i	More than 3 years	60,939,960
Company 4	57,988,833	13	i	More than 3 years	57,988,833
Company 5	37,243,732	8	i	More than 3 years	37,243,732
	415,916,326	90			415,916,326

i The nature of the other receivables was prepayment for trading.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. LONG-TERM EQUITY INVESTMENTS

	30 June 2017 Unaudited	31 December 2016 Audited
Long-term investments under the equity method		
Joint ventures (i)	**288,883,135**	372,843,538
Associates (i)	**1,034,088,700**	866,932,775
Long-term investments under the cost method		
Subsidiaries (ii)	**7,124,265,605**	5,972,389,974
Subtotal	**8,447,237,440**	7,212,166,287
Less: Provision for impairment	**60,000,000**	60,000,000
Total	**8,387,237,440**	7,152,166,287

In the opinion of the directors, there was no material restriction on the realisation of investments as of the balance sheet date.

The movements of impairment provision for long-term investments for the period are disclosed in Note XIV.4.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(i) Joint ventures and associates

30 June 2017 (Unaudited)

		Movements during the period								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the period
Joint ventures										
BOC-Ma Steel	319,018,068	-	-	44,214,106	-	109,528	(75,000,000)	-	288,341,702	-
MASTEEL-CMI	541,433	-	-	-	-	-	-	-	541,433	-
Mascometal (Note)	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
Associates										
Henan Jinma Energy	296,196,390	-	-	110,111,926	-	1,261,613	(36,000,000)	-	371,569,929	-
Shenglong Chemical	309,396,424	-	-	84,540,762	-	444,750	-	-	394,381,936	-
Shanghai Iron and Steel Electronic	27,120,592	-	-	276,442	-	-	-	-	27,397,034	-
Xinchuang Economize Resource	43,780,961	-	-	3,286,876	-	284	(1,306,391)	-	45,761,730	-
Anhui Linhuan Chemical	72,000,000	-	-	-	-	712,744	-	-	72,712,744	-
Ma-Steel OCI Chemical	118,438,408	-	-	3,013,884	-	813,035	-	-	122,265,327	-
	1,239,776,313	78,431,997	(127,368,631)	241,096,593	-	3,341,954	(112,306,391)	-	1,322,971,835	-

Note: Please refer to Note V.13 for details.

31 December 2016 (Audited)

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	316,030,791	–	–	80,857,392	–	1,129,885	(79,000,000)	–	319,018,068	–
MASTEEL-CMI	539,342	–	–	2,091	–	–	–	–	541,433	–
Mascometal	–	58,171,378	(4,879,915)	(7,426)	–	–	–	–	53,284,037	–
Associates										
Henan Jinma Energy	241,098,393	–	–	77,296,589	–	3,361,408	(25,560,000)	–	296,196,390	–
Shenglong Chemical	242,402,338	–	–	66,810,341	–	183,745	–	–	309,396,424	–
Shanghai Iron and Steel Electronic	26,604,521	–	–	4,516,071	–	–	(4,000,000)	–	27,120,592	–
Xinchuang Economize Resource	35,539,691	–	–	3,059,233	–	5,182,037	–	–	43,780,961	–
Anhui Linhuan Chemical	72,000,000	–	–	–	–	–	–	–	72,000,000	–
Ma-Steel OCI Chemical	95,638,431	22,513,793	–	286,184	–	–	–	–	118,438,408	–
	1,029,853,507	80,685,171	(4,879,915)	232,820,475	–	9,857,075	(108,560,000)	–	1,239,776,313	–

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(ii) Subsidiaries

30 June 2017 (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	-	6,356,770
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	6,309,438
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	1,200,028
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 (Note 1)	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 Changjiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	25,263,676
Masteel Financial (Note 2)	933,172,609	910,000,000	-	-	-	1,843,172,609	-	11,403,597
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES (Note 3)	336,695,298	113,877,000	-	-	-	450,572,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma-Steel Rail Transportation	396,021,369	-	-	-	-	396,021,369	-	-
Masteel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antirust (Note 4)	-	1,530,000	-	-	-	1,530,000	-	-
Mascometal (Note 5)	-	127,368,631	-	-	-	127,368,631	-	-
	5,912,389,974	1,152,775,631	900,000	-	-	7,064,265,605	60,000,000	50,533,509

Note 1: In January 2017, as the Company transferred 90% of equity interests of Huayang Equipment to Xinchuang Economize Resource, the Company did not include it in the scope of consolidation of the Group any longer, please refer to Note VI.3.

Note 2: In January 2017, the Company injected capital of RMB910,000,000 to Masteel Financial.

Note 3: In June 2017, the Company injected capital of EUR15,000,000 which is equivalent to RMB113,877,000 to MG-VALDUNES.

Note 4: The newly established subsidiary is included in Note VI.1.

Note 5: Mascometal changed from an associate to a subsidiary of the Company during the current period, please refer to Note V.13 and VI. 2.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(ii) Subsidiaries *(Continued)*

31 December 2016 (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	–	–
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 Changjiang 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	60,000,000	–	–	–	396,021,369	–	–
Masteel Oubang Color-coated	10,050,000	–	–	–	–	10,050,000	–	–
Masteel America	–	3,298,375	–	–	–	3,298,375	–	–
Ma Steel (Cihu)	–	48,465,709	–	–	–	48,465,709	–	–
	5,800,625,890	111,764,084	–	–	–	5,912,389,974	60,000,000	–

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. ASSET IMPAIRMENT PROVISIONS

	30 June 2017 (Unaudited)					
	Opening balance	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	436,229,443	6,291,156	–	–	–	442,520,599
Including: Trade receivables	13,382,203	6,291,156	–	–	–	19,673,359
Other receivables	422,847,240	–	–	–	–	422,847,240
Provisions for inventories (Note)	172,587,098	88,486,401	–	(113,427,766)	–	147,645,733
Including: Raw materials	59,447,545	79,892,834	–	(59,447,545)	–	79,892,834
Work in progress	1,712,855	1,449,133	–	(1,712,855)	–	1,449,133
Finished goods	14,372,398	7,144,434	–	(14,372,398)	–	7,144,434
Spare parts	97,054,300	–	–	(37,894,968)	–	59,159,332
Provisions for long-term investments	60,000,000	–	–	–	–	60,000,000
Including: Subsidiaries	60,000,000	–	–	–	–	60,000,000
Provisions for fixed assets	36,291,208	–	–	–	–	36,291,208
Including: Buildings and plant	6,514,174	–	–	–	–	6,514,174
Machinery and equipment	29,777,034	–	–	–	–	29,777,034
	705,107,749	94,777,557	–	(113,427,766)	–	686,457,540

Note: Generally, the provisions for inventories is assessed and accrued at the end of every half year. The provisions for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	31 December 2016 (Audited)					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	433,543,192	2,686,251	–	–	–	436,229,443
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	420,160,989	2,686,251	–	–	–	422,847,240
Provisions for inventories	650,924,678	883,565,693	–	(1,361,903,273)	–	172,587,098
Including: Raw materials	333,960,186	410,086,420	–	(684,599,061)	–	59,447,545
Work in progress	86,639,975	136,107,577	–	(221,034,697)	–	1,712,855
Finished products	170,751,556	299,376,796	–	(455,755,954)	–	14,372,398
Spare parts	59,572,961	37,994,900	–	(513,561)	–	97,054,300
Provisions for long-term investments	60,000,000	–	–	–	–	60,000,000
Including: Subsidiaries	60,000,000	–	–	–	–	60,000,000
Provisions for fixed assets	–	36,291,208	–	–	–	36,291,208
Including: Buildings and plant	–	6,514,174	–	–	–	6,514,174
Machinery and equipment	–	29,777,034	–	–	–	29,777,034
	1,144,467,870	922,543,152	–	(1,361,903,273)	–	705,107,749

5. REVENUE AND COST OF SALES

	For the six months ended 30 June			
	2017		2016	
	Unaudited		Unaudited	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**28,812,859,261**	**26,489,292,378**	17,719,002,669	15,403,616,320
Other operating income	**373,772,191**	**373,628,838**	339,109,052	354,046,067
	29,186,631,452	**26,862,921,216**	18,058,111,721	15,757,662,387

Notes to Interim Financial Statements (Continued)

30 June 2017
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

Principal operating income is presented as follows:

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Sale of products	**29,164,896,323**	18,039,321,411
Rendering service	**21,735,129**	18,790,310
	29,186,631,452	18,058,111,721

6. INVESTMENT INCOME

	For the six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
Long-term equity investment income under the equity method	**241,096,593**	69,346,926
Long-term equity investment income under the cost method	**50,533,509**	–
Investment income from disposal of a subsidiary	**7,796,084**	–
Investment income from available-for-sale financial assets during the holding period	**1,540,000**	–
Investment loss from disposal of financial assets at fair value through profit or loss	**(2,992,563)**	(2,253,134)
	297,973,623	67,093,792

* During the current period, the Company's investment income from unlisted companies amounted to RMB297,973,623 (for the six months ended 30 June 2016: investment income from unlisted companies amounted to RMB67,093,792).

As of 30 June 2017 and 31 December 2016, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

30 June 2017
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 2017 Unaudited
Items of non-recurring gains or losses	
Gain or loss on disposal of non-current assets	**(42,907,112)**
Government grants unrelated to daily operation	**68,914,690**
Other net non-operating loss, exclude items above	**(6,603,579)**
Government grants related to daily operation	**83,563,376**
Employee termination compensation (Note)	**(46,825,916)**
Reversal of provision for receivables assessed for impairment individually	**1,207,196**
Gain on fair value changes of financial assets at fair value through profit or loss	**14,148,342**
Investment income from disposal of a subsidiary	**736,943**
Investment income from disposal of available-for-sale financial investments	**26,066,785**
Investment income from disposal of financial assets at fair value through profit or loss	**17,187,696**
	115,488,421
Less: Income tax effect of non-recurring gains or losses	**2,476,392**
Non-recurring gains or losses attributable to minority shareholders	**734,663**
Net effect of non-recurring gains or losses	**112,277,366**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	
Net profit attributable to owners of the parent	**1,643,396,514**
Less: net effect of non-recurring gains or losses	**112,277,366**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	**1,531,119,148**

Note: Employee termination compensation is the employee settlement due to addressing overcapacity plan and human resource optimisation during the current period.

Supplementary Information (Continued)

30 June 2017
Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2017 (Unaudited)

	Return on weighted average net assets (%)	**Earnings per share (RMB)**	
		Basic	**Diluted**
Net profit attributable to owners of the Company	**7.98**	**0.213**	**0.213**
Net profit attributable to owners of the Company excluding non-recurring gains or losses	**7.44**	**0.199**	**0.199**

For the six months ended 30 June 2016 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owners of the Company	2.42	0.059	0.059
Net loss attributable to owners of the Company excluding non-recurring gains or losses	2.51	0.061	0.061

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.

IX. 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: 2017-8-23