2018 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 of the Company 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 profit distribution plan for the reporting period or the plan for converting the public reserve fund into share capital after consideration by the board of directors.**
   The Board of Directors recommended to distribute 2018 interim cash dividend of RMB0.05 per share (including tax), and no capital reserve will be transferred to share capital in the interim. The resolution must be approved by the EGM before implementation.

6. **The risk statement of forward-looking statements**
   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. **Significant risk warning**
   The report analyzes major risks faced by the Company. Please refer to "(2) Potential risks" of "2. Other Disclosures" of "IV. Discussion and Analysis on Operation".

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

I. Definitions

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
yuan	means	RMB yuan
CSRC	means	China Securities Regulatory Commission
CISA	means	China Iron and Steel Association

The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Masteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Hefei Company	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
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
Changjiang Steel	means	Anhui Changjiang Steel Co.,Ltd., a controlling subsidiary of the Company
CRCC	means	China Railway Test & Certification Center
Magang Investment Limited	means	Magang Group Investment Limited, a wholly owned subsidiary of the Group Company
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly owned subsidiary of the Company
Hong Kong Company	means	Ma Steel (Hong Kong) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Jinma Energy	means	Henan Jinma Energy Co., Ltd., a investee of the Company
reporting period	means	From 1 January 2018 to 30 June 2018

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

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

2. CONTACT PERSON

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

3. BASIC INFORMATION

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

4. INFORMATION DISCLOSURE AND 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

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	40,063,041,443	35,187,579,640	13.86
Net profit attributable to owners of the parent	3,428,518,933	1,643,396,514	108.62
Net profit excluding non-recurring gains or losses attributable to owners of the parent	3,056,663,763	1,531,119,148	99.64
Net cash flows from operating activities	4,180,394,974	1,459,592,056	186.41

	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 to the end of the previous year (%)
Net assets attributable to owners of the parent	26,039,263,608	23,895,739,812	8.97
Total assets	73,078,028,237	72,191,589,979	1.23

II. Company Introduction and Major Financial Indicators (Continued)

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)	0.4452	0.2134	108.62
Diluted earnings per share (RMB/share)	0.4452	0.2134	108.62
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.3969	0.1988	99.65
Return on net assets (weighted average) (%)	13.39	7.98	Increased by 5.41 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	11.94	7.44	Increased by 4.50 percentage points

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

☐ Applicable ✔ Not applicable

8. NON-RECURRING GAINS OR LOSSES ITEMS AND AMOUNT

Unit: RMB

Non-recurring gains or losses items	**Amount**
Gains from disposal of non-current assets	53,182,354
Losses from disposal of non-current assets	–578,928
Government grants not related to the Company's daily activities	93,314,943
Government grants related to the Company's daily activities	44,152,109
Employee termination benefits	–53,852,419
Reversal of provision for receivables assessed for impairment individually	487,578
Loss on fair value changes of financial assets held for trading at fair value through profit or loss	–8,960,465
Investment income from disposal of a subsidiary	173,624,062
Investment income from disposal of financial assets held for trading at fair value through profit or loss	61,809,574
Investment income from disposal of debt instruments investments	26,523,097
Net non-operating income and expenses other than the above items	392,285
Impact of income tax	–10,306,386
Impact of non-controlling interests	–7,932,634
Total	371,855,170

III. Overview of the Company's Business

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

(1) MAIN BUSINESS AND OPERATION

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are produces and sales of iron and steel products; the main production processes include iron making, 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 plates and medium plates. Thin plates can be further categorized into hot and cold-rolled thin plates, galvanized plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, 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 buildings, 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, shipbuilding, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six ship classification societies from China, the United Kingdom, Germany, the United States, France and Norway.

Long Products: Major products include section steel and wire rod. H beams is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. 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 beams have been certified under the Japanese JIS standards, Korean KS standards, European Union CE mark, H beams for offshore petroleum platform have been endorsed by certificates issued by ship classification societies from China and German. 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 onsite review of China Railways Product Certification Center ("CRCC"). Highspeed wire rod products are mostly used in the production of fasteners, strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold heading steel with online softening. Hot-rolled ribbed bars are 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 ribbed bars 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 steels for high-speed train wheels. 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: 2016, ISO/TS 22163 and AAR M-1003. Train wheels have been endorsed by a variety of product certification including AAR M-107 issued by North American Railway Committee, TSI issued by European Union and RISAS issued by United Kingdom. They have been certificated by many foreign customers, including General Electric Company, Deutsche Bahn and Alstom.

During the reporting period, the operation modes, major driving factors of performance did not experience substantial change.

(2) INDUSTRY PERFORMANCE

During the first half of 2018, international trade environment became increasingly complicated, China's national economic performance remained steady and showed improvement, GDP grew by 6.8%. The government continued to promote structural reforms on the supply side, vigorously carried out environmental protection supervision, and consolidated the results of de-capacity through measures such as prohibiting new steel production capacity, and the supply and demand of steel were basically balanced. During the first half of the year, the average composite price index for domestic steel products was approximately 114.60 points, representing a year-on-year increase of 14.84%. The consolidated price index for domestic steel products as at the end of June was 115.80 points, up 14.51% compared with corresponding period of the previous year, and down 4.93% compared with the end of last year. According to China Iron and Steel Association (CISA), member companies posted an average profit margin of 7.07% in the first half of this year, indicating a year-on-year improvement, basically reached the profit rate of industrial enterprises above designated size.

As for raw materials and fuels, iron ore price remained stable in the second quarter after a leap-up and tall-down in the first quarter. During the first half of 2018, according to China Customs, average price of imported iron ore decreased approximately 13% year-on-year. While according to CISA until the end of June, the price of coking coal rose 18.59% year-on-year, coke prices rose 36.89% year-on-year, scrap prices rose 47.41% year-on-year, the price of accessories such as electrodes and limestone also increased significantly, and the cost pressure of steel companies increased.

As for imports and exports, according to CISA, exported steel products during the first half of 2018 amounted to 35,460,000 tonnes, a decrease of 13.2% as compared with corresponding period of the previous year, while imported steel products amounted to 6,670,000 tonnes, a decrease of 1.9% as compared with corresponding period of the previous year. The accumulated net export of equivalent crude steel amounted to 29,950,000 tonnes, a decrease of 15.5% as compared with corresponding period of the previous year.

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

During the reporting period, the Company's equity assets, fixed assets, intangible assets, construction in progress and other major assets did not undergo material changes.

Among them: overseas assets amounted to RMB3.5 billion, accounting for 4.79% of total assets.

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

1. LOCATION ADVANTAGE

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

2. PRODUCT STRUCTURE ADVANTAGE

The Company is expertized in three products, "plates, long products and wheels and axles", which flexibly configured, enable to enlarge the percentage of high value-added products.

3. TECHNICAL ADVANTAGE

In the first six months, the Company has applied 165 patents, which included 110 invention patents; applied 1 PCT patent and issued 80 patents, which included 38 invention patents. As of 30 June 2018, the Company had owned 1,168 valid patents and 3,828 technical know-hows (non-patent technologies).

4. TALENTS ADVANTAGE

The Company has always attached great importance to core technical team building. On one hand, it makes double efforts to attract and retain talents of high caliber and to foster leadership. On the other hand, it seeks to turn out leaders in each discipline from the team of senior technology leaders. The Company has 67 senior technology leaders, due to the end of the report period.

IV. Discussion and Analysis on Operation

1. THE MANAGEMENT DISCUSSIONS AND ANALYSIS

1. PRODUCTION AND OPERATION OF THE COMPANY

During the first half of 2018, faced with the new trends in the country and new changes in the industry, the Company held on closely to the work morale of "accelerating the enhancement of innovative competitiveness" and the fundamental requirement of high quality development implemented the innovation-driver strategy, grasped the favourable opportunities, insisted on strengthening the brand and adjusted the structure to optimize the resource allocation in real time. Under the active implementation of the policy to reduce excess capacity, as well as the elimination of two 420m^3 shaft furnaces, the favourable trend in production and operation last year continued with a significant improvement in operating performance.

During the reporting period, the Group produced an aggregate of 9.17 million tonnes of pig iron, representing a decrease of 1.61% as compared to the same period last year;produced 9.99 million tonnes of crude steel and 9.52 million tonnes of steel, representing increases of 0.20% and 0.95% respectively as compared to the same period last year (of which the Company produced 7.3 million tonnes of pig iron, representing a slight decrease as compared to the same period last year; produced 7.93 million tonnes of crude steel and 7.41 million tonnes of steel, representing growth of 1.15% and 1.09% as compared to the same period last year respectively). The Group's revenue amounted to approximately RMB40.063 billion, representing an increase of 13.86% as compared to the same period last year; net profit attributable to owners of the parent amounted to approximately RMB3.429 billion, representing an increase of 108.62% as compared to the same period last year. At the end of the reporting period,the Group's asset-liability ratio was 59.83%, representing a decerease of 2.44 percentage points as compared to the end of 2017. Upon joint assessment by China Chengxin International Credit Rating Co., Ltd. and China Lianhe Credit Rating Co., Ltd, the Company's credit rating was adjusted upward from "AA+" to "AAA".

During the reporting period, principal activities of the Company included:

- Enhanced the competitiveness of technological innovation with stable and highly-efficient production. Iron-making system shaft furnaces operated steadily. Under a controlled low iron/steel ratio, steel rolling system mainly relied on advances in technological indicators to effectively control the exhaustion of steel and iron. Iron ore consumption in iron-making process recorded a year-on-year decrease of 10kg/t. Metal consumption in steel-making process recorded a year-on-year decrease of 7.3kg/t. Comprehensive energy consumption per ton of steel recorded a year-on-year decrease of 9.15 kg/t.

- Commenced lean factory construction activities and continued to promote lean management. Model unit acted as the pioneer while other units bridged actively, with operation standard continued to improve. During the activities, the motto “all members, all area and at all time” is highlighted and integrated with standardized practice, efficiency control and corporate culture, optimizing iron-steel ratio and unleash iron-making capacity. In the first half of the year, coke ratio recorded a year-on-year decrease of 11 kg per tonne iron and coal injection rate recorded a year-on-year increase of 12.8 kg per tonne iron. Converter utilization coefficient and output per heat of steel also showed improvement.

- Diversified product types, strengthened brand image and enhanced competitiveness of product innovation. The Company continued to improve product structure, during the first half of the year, steel proportion is 54.5%, representing an increase of 4.6 percentage points as compared to the same period last year. Product mix adjustment for hot-rolled product showed distinct effect where the production for bulk container steel, submerged pipeline steel, railroad steel and construction mechanical device steel etc increased by approximately 40%. New progress is attained in high-end customers’ recognition: auto-sheet and special steel are gradually introducing new customers. In the first half of 2018, the output of auto sheet reached 1.42 million tonnes, representing an increase of 31.5% year-on-year.

- Lean sales and enhancement of market innovative enhancement. The Company strengthend its prediction of steel market, seized the trend of price differentiation in the plates and long products markets to optimize resource allocation and realized higher production and better efficiency of products with higher returns. In addition, we improved the sales framework by increasing the proportion of high value-added products and enlarged the brand impact in circulated product market. In the first half of the year, the Group’s total sales of steel products amounted to 9.49 million tonnes, among which 4.48 million tonnes are long products, 4.90 million tonnes are steel plates and 0.11 million tonnes are wheels and axles.

- Adopt the environmental management philosophy with strict fulfillment of responsibilities, create an environmentally-friendly enterprise. In the first half of the year, the Company vigorously implemented comprehensive environmental rectification, completed environmental protection projects such as silicon steel water treatment and efficiency improvement, accelerated the transition from “required to be environmental-friendly” to “want to be environmental-friendly”, promoted the change of mindset through system, and effectively solved environmental risks. With the optimization of industrial structure and the implementation of upgrading and rebuilding of environmental protection equipment, total energy consumption and total pollutant emissions of the Company have been noticeably reduced, with the total emissions of SO_2 and smoke dust decreased by 4.8% respectively, as compared to to the same period last year.

2. THE ENVIRONMENT FOR PRODUCTION AND OPERATION AND COPING STRATEGIES

In the second half of the year, with a more challenging international trade environment, the state will expand domestic demand, deepen reforms and lay the foundation for achieiving stable and healthy economic development by various policies. The steel industry will continue to adhere to the philosophy of green development, unwaveringly address overcapacity and consolidate the results of overcapacity reduction in recent years, and maintain the operating environment of the industry which shows improvement. The Company will firmly grasp the opportunity of supply side structural reform of the industry, and the improvement of corporate efficiency, adhere to the theme of "accelerating the improvement of innovation competitiveness", and strive to strengthen benchmarking and continuous improvement through innovation in terms of technology, products, market, site, management and culture etc., and address major contradictions and issues affecting the current and long-term development of the Company; take "The Brand Is Around Us" project as the central task to expand varieties of products, improve quality, strengthen brands, and pursue excellence. At the same time, faced with the tightening of the country's environmental protection policy, which transformed the pressure into driving force, the Company continuously improve the quality of economic operations, and strive to achieve breakthroughs in improving environmental-friendly manufacturing and pollution prevention and control, as well as achieving high quality development.

3. FINANCIAL POSITION AND EXCHANGE RATE RISKS

As of 30 June 2018, the total loans of the Group amounted to RMB13,453 million, including short-term loans of RMB6,843 million and long-term loans of RMB6,610 million. Among loans of the Group, there were loans amounting to US$414 million (of which US$216 million was import deposit) and Euro 24 million, and all other loans were denominated in Renminbi. Among the Renminbi-denominated loans of the Group, loans amounting to RMB3,387 million carried fixed interest rates and loans amounting to RMB7,142 million carried floating interest rates. Among the foreign currency loans, loans amounting to US$396 million carried fixed interest rates and US$18 million carried floating interest rates. Euro denominated loans amounting to Euro 14 million carried fixed interest rates, and Euro 10 million carried floating interest rates.

The Group issued two tranches of medium-term note totalling RMB4 billion in 2015, which due with payment completed in July and August 2018 respectively; and issued two tranches of short-term commercial paper totalling RMB3 billion in 2017, of which, RMB2 billion of the first tranche due with payment completed in April 2018. Short-term commercial paper of RMB1 billion was issued in June 2018. The Group's magnitude of loans and borrowings varies along with the scale of production and construction projects and there were no overdue loans in the current period.

At present, the Group finance 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 RMB41,891 million, of which RMB25,701 million was unutilized.

As of 30 June 2018, the Group's cash and bank balances amounted to RMB7,538 million and notes receivable amounted to RMB6,806 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.

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 effectively recognize and control its major risks.

The Board reviewed and approved the "2017 Internal Control Assessment Report" on 20 March 2018. The report confirms that the Company implemented an effective internal control related to financial report over all important aspects pursuant to the enterprises internal control norms system 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 2017 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.

The hearing of "2017 Risk Supervision and Evaluation Report" by the Board of Directors was made on 20 March 2018, confirming that the Company would take appropriate control measures for strategic risks, financial risks, market risks, operational risks, legal risks and environmental risks, etc. in 2017 and the risks were under control.

IV. Discussion and Analysis on Operation (Continued)

(1) ANALYSIS OF PRINCIPAL OPERATION

1 Analysis of the change in accounts of the financial statements

Unit: RMB

Accounts	Amount of the current period	Amount of the same period of last year	Change (%)
Revenue	40,063,041,443	35,187,579,640	13.86
Cost of sales	34,002,350,727	31,308,620,140	8.60
Selling expenses	465,095,326	412,156,137	12.84
General and administrative expenses	698,585,993	653,425,560	6.91
Financial expenses	574,785,327	528,207,382	8.82
Net cash flows from operating activities	4,180,394,974	1,459,592,056	186.41
Net cash flows used in investing activities	–1,966,097,407	–2,128,708,572	N/A
Net cash flows used in financing activities	–255,407,786	–180,321,712	N/A
Research and development expenditure	576,000,000	385,000,000	49.61
R&D expenses	381,791,868	16,593,410	2,200.86
Impairment losses	57,950,358	107,667,257	–46.18
Credit impairment losses	22,658,394	–	N/A
Other income	44,152,109	83,563,376	–47.16
Investment income	560,777,607	286,628,017	95.65
(Loss)/gain on the changes in fair value	–8,960,465	14,148,342	–163.33
Gain/(loss) from disposal of non-current assets	52,603,426	–42,907,112	N/A
Non-operating income	96,622,262	69,899,116	38.23
Non-operating expenses	2,915,034	7,588,005	–61.58
Net profit attributable to owners of the parent	3,428,518,933	1,643,396,514	108.62
Net profit attributable to non-controlling interests	427,726,350	260,737,284	64.04
Exchange differences on translation of foreign operations	–13,094,936	9,821,211	–233.33

Note to changes in revenue: mainly due to increase in steel sales price and sales volume in the current period.

Note to changes in cost of sales: mainly due to increase in procurement price of raw materials and fuel and sales volume in the current period.

Note to changes in selling expenses: mainly due to the increase in transportation costs caused by the increase in steel sales volume in the current period.

Note to changes in general and administrative expenses: mainly due to the increase in salary and surcharge in the current period.

Note to changes in financial expenses: mainly due to the increase in foreign exchange loss and financing costs in the current period.

Note to changes in net cash flows from operating activities: mainly due to the year-on-year increase in cash generated from sale of goods and rendering of services in the current period.

Note to changes in net cash flows used in investing activities: mainly due to the year-on-year increase of cash generated from investment income, disposal of assets and government funding for particular projects in the current period.

Note to changes in net cash flows used in financing activities: mainly due to the amount of repayment of loans exceeded the amount of increase in financing in the current period.

Note to changes in research and development expenditure: mainly because to enhance the overall R&D capability of the Company and enhance its competitiveness in the high-end product market, the Company further intensified its R&D input, expanded the product development and accelerated its product upgrade during the reporting period.

Note to changes in R&D expenses: mainly because the Company intensified R&D of new technologies and products this year for technology-supported transformation and upgrading as well as executed many national key R&D programs and provincial science and technology major projects in the current period.

IV. Discussion and Analysis on Operation (Continued)

Note to changes in impairment losses: mainly due to the year-on-year decrease of impairment of inventories, as the price of steel products during the reporting period is relatively stable compared with corresponding period of the previous year.

Note to changes in credit impairment losses: mainly resulting from the adoption of new financial instruments standards in 2018, the impairment loss from financial assets is included in this account.

Note to changes in other income: mainly resulting from the decrease of government grants as compared with corresponding period of the previous year.

Note to changes in investment income: mainly resulting from the increase in share of profits of associates and joint ventures and gains from disposal of a subsidiary in the current period as compared with corresponding period of the previous year.

Note to changes in (loss)/gain on changes in fair value: mainly due to the change in book profit to book loss as the Company's futures products had not been settled at the end of this period.

Note to changes in gain/(loss) from disposal of non-current assets: mainly due to the increase in gain resulting from land disposal by the Company and from Ma Steel (Hefei) disposal of partial obsolete assets during the reporting period.

Note to the changes in non-operating income: mainly resulting from the fund subsidize, which helps to facilitate capacity cuts, increased as compared with corresponding period of the previous year.

Note to changes in non-operating expenses: mainly resulting from the decrease in compensation for trade accrued by the company in this period as compared with corresponding period of the previous year.

Note to the changes in net profit attributable to owners of the parent: mainly due to the increase in gross margin of the steel products this period as compared with corresponding period of the previous year.

Note to the changes in net profit attributable to non-controlling interests: mainly due to the increase in profits of non-wholly-owned subsidiaries this period as compared with corresponding period of the previous year.

Note to the changes in the exchange differences on translation of foreign operation: mainly due to the appreciation in RMB to Australian dollar and Euro during the reporting period.

2 Others

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

IV. Discussion and Analysis on Operation (Continued)

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

(3) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: RMB

Item	Closing balance of the current period	Percentage of closing balance of the current period in total assets (%)	Closing balance of last year	Percentage of closing balance of last year in total assets (%)	Year-on-year change (%)
Cash and bank balances	7,538,181,813	10.32	4,978,352,093	6.90	51.42
Financial assets at fair value through profit or loss	–	–	1,546,139,404	2.14	–100.00
Financial assets held for trading	1,928,207,037	2.64	–	–	N/A
Current portion of held-to-maturity investments	–	–	305,228,376	0.42	–100.00
Loans and advances to customers	1,766,370,623	2.42	1,251,315,253	1.73	41.16
Assets classified as held for sale	117,019,986	0.16	73,454,334	0.10	59.31
Current portion of debt instruments investments	1,490,426,489	2.04	–	–	N/A
Available-for-sale financial investments	–	–	1,111,168,160	1.54	–100.00
Non-current portion of held-to-maturity investments	–	–	100,854,230	0.14	–100.00
Non-current portion of the debt instruments investments	51,148,671	0.07	–	–	N/A
Other equity instruments investments	143,120,746	0.20	–	–	N/A
Construction in progress	2,372,168,752	3.25	1,805,955,609	2.50	31.35
Repurchase agreements	1,013,146,250	1.39	308,100,956	0.43	228.84
Short-term loans	6,843,480,037	9.36	4,630,303,694	6.41	47.80
Financial liabilities at fair value through profit or loss	–	–	10,498,810	0.01	–100.00
Taxes payable	586,371,827	0.80	1,342,836,597	1.86	–56.33
Other payables	5,060,925,606	6.93	2,354,327,866	3.26	114.96
Non-current liabilities due within one year	7,885,584,392	10.79	4,928,758,378	6.83	59.99
Other current liabilities	2,038,424,932	2.79	3,081,026,301	4.27	–33.84
Long-term loans	2,933,486,964	4.01	6,975,958,634	9.66	–57.95
Long-term payables	–	–	210,000,000	0.29	–100.00
Retained earnings	5,432,175,348	7.43	3,643,443,763	5.05	49.09

- Compared with the end of last year, the cash and bank balances increased by 51.42%, which was mainly caused by the increase in operating cash inflows and the increase in financing of forfaiting business at the same time of the Company's profitability in the current period.

- The loans and advances to customers increased by 41.16% from the end of last year, mainly due to the increase in the amount of discount for bills of the group's external entities by the Masteel Financial in the current period.

- The assets classified as held for sale increased by 59.31% from the end of the previous year, mainly due to the accounting of the listed and sold assets of Hefei Company in this period.

- The construction in progress increased by 31.35% compared with the end of last year, mainly due to the increased completion schedule of the special steel bar and wire rod deep processing and other projects in the current period.

- The repurchase agreements increased by 228.84% compared with the end of the previous year, mainly due to the increase in the amount of funds pledged by Masteel Financial into other financial institutions in the current period.

- Short-term loans increased by 47.80% from the end of the previous year, mainly due to the increase in short-term letter of credit financing by the Hong Kong subsidiary in the current period.

- Taxes payable decreased by 56.33% compared with the end of last year, mainly due to the company's payment of taxes payable but not paid at the end of last year.

- Other payables increased by 114.96% from the end of last year, mainly due to the increased dividends declared and unpaid by the Company and its subsidiaries in the current period and the increase in the amount of forfaiting payable by the Company.

- Non-current liabilities due within one year increased by 59.99% over the end of last year, mainly due to the increase in long-term loans due within one year of the Company and its subsidiaries in the current period.

- Other current liabilities decreased by 33.84% from the end of last year, mainly due to the maturity of the 1 billion one-year short-term financing notes issued by the Company last year.

IV. Discussion and Analysis on Operation (Continued)

- Long-term loans decreased by 57.95% compared with that at the end of last year, mainly due to the maturity of the Company's long-term loans in one year and the reclassification of non-current liabilities due in one year.

- Long-term payables were zero and RMB210,000,000 at the end of last year, mainly because those were reclassified to non-current liabilities due within one year.

- The retained earnings increased by 49.09% over the end of last year, mainly due to the profits of the group during the current period.

In addition to the above items, the changes in other items listed in the table above are mainly due to the implementation of the new financial instrument standards and the changes in the accounting policies for the relevant accounts.

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

At the end of the reporting period, the restricted assets of the Company totaling approximately RMB2,533 million consisted of mandatory reserves with the central bank of approximately RMB724 million, bill deposits placed in bank of approximately RMB1,035 million and bank promissory notes pledged for borrowings of approximately RMB774 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	9,755.41
Increase/decrease of investment amount	798.40
Investment amount as at the end of previous year of the Company	8,957.01
Increase/decrease in investment amount as compared with that of last year (%)	8.91

(1) *Significant Equity Investment*

Unit: RMB'000

Invested company	Equity interest	Main business	Additional investment during the reporting period
Anhui Maanshan Iron and Steel Chemical Energy Technology Co. Ltd.	100%	Research, development, production, marketing of chemical products (excluding hazardous chemicals and easy drug production).	600,000
Maanshan Iron & Steel (Shanghai) Commercial Factoring Co. Ltd.	25%	Engaged in receivables financing related to receivables received by the company, sub-account management of sales, receivables collection, bad debt guarantee.	75,000
Maanshan Iron and Steel (Shanghai) Finance Leasing Co., Ltd.	25%	Finance lease business; Leasing business; Purchase leased property at home and abroad; Treatment and maintenance of the residual value of the leased property; Leasing transaction consultation and guarantee.	75,000

- Maanshan Iron and Steel (Shanghai) Finance Leasing Co., Ltd. is a joint venture invested by Maanshan Iron and Steel (Hong Kong) Co., Ltd., Maanshan Jiangdong Finance Holding Co., Ltd. and Anhui Xincheng Investment Co., Ltd.

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	6,634	708	46
Energy-saving and environment protection projects	1,354	257	65
Equipment advancement and other modification projects	1,263	53	33
Other projects	N/A	75	N/A
Total	N/A	1,093	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 of temporary roads, organization of equipment and tendering
Section steel upgrade and public and ancillary supporting project	810	Coordination and elimination of defects in the rolling area and installation of equipment for public and ancillary systems
Special steel bars and wire rods for high-end vehicle spare parts processing and public and ancillary supporting project	650	Installation and adjustment of rolling mill
Overhaul project of 1# blast furnace	520	Civil engineering and equipment ordering
Combination of purification system of coal coking company (Southern District) project	380	Equipment installation and piping fabrication
Beam blank continuous caster engineering	330	Demolition project review, equipment procurement bidding
Silicon steel high grade transformation project for cold rolling factory	260	Commissioning of rolling mill and installation of pipeline
New construction of six – machine and six-strand billet continuous casting project	100	Civil construction
Total	4,246	

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

(3) Financial assets measured at fair value

Unit:RMB

Item	Opening Balance	Closing Balance	Changes during the period	Impact on the profit of the current period
Financial assets held for trading	1,546,139,404	1,928,207,037	382,067,633	–8,960,465
Other equity instruments investments	163,375,912	143,120,746	–20,255,166	–
Total	1,709,515,316	2,071,327,783	361,812,467	–8,960,465

Note: The opening balance is the amount adjusted after the change of accounting policies.

(5) DISPOSAL OF SIGNIFICANT ASSETS AND EQUITY

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

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

- 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 ferrous metallurgy, production of screw threaded steel, round steel, section steel, angle steel, flat steel, deformed steel, tube blank steel, wire, rod, steel billet, pig iron and industrial gas; 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 RMB7,113 million, an operating profit of RMB1,115 million and a net profit of approximately RMB851 million. At the end of the reporting period, its total assets and net assets amounted to RMB9,951 million and RMB4,357 million, respectively.

- 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. Net profit for the reporting period amounted to RMB54 million. As at the end of the reporting period, it had total assets amounting to RMB4,380 million and net assets of RMB2,068 million.

- 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, guarantee provided, bill acceptance and discounting, accepting deposits, loans and finance leasing; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business and investment in marketable securities; entrustment loans for members of the group, internal transfer and bill settlement, design of settlement and liquidation plans; engagement in inter-bank borrowing etc. During the reporting period, it recorded a net profit of approximately RMB135 million. At the end of the reporting period, its total assets and net assets amounted to RMB12,534 million and RMB2,837 million, respectively.

- MG-VALDUNES S.A.S., with registered capital of Euro80.2 million, is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB60 million; at the end of reporting period, the total assets were RMB673 million, and the net assets were RMB223 million.

- Ma Steel (Hong Kong) Co., Ltd. has a registered capital of HK$350 million. It is mainly engaged in the production, sale and agency of steel products and trading of pig iron. Net profit for the reporting period amounted to RMB23 million. As at the end of the reporting period, it had total assets amounting to RMB2,644 million and net assets of RMB282 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilization products and the provision of related technological consultation services. Net profit for the reporting period was RMB48 million. As at the end of the reporting period, it had total assets amounting to RMB370 million and net assets of RMB258 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the company directly holds 50% equity, to mainly produce and sell air or liquid form of air products and engage in preparation for other industrial gas products. In the reporting period, the net profits amounted to RMB87 million; at the end of reporting period, the total assets stood at RMB571 million, and the net assets were RMB516 million.

- Henan Jinma Energy Co., Ltd. has a registered capital of RMB535 million, in which the Company holds a direct stake of 26.89%. 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 RMB371 million. At the end of the reporting period, its total assets and net assets amounted to RMB3,708 million and RMB1,923 million, respectively.

- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million, in which the Company holds a direct stake of 31.99%. Its core business includes the production and sales of coke, ammonium sulfate, coke; the sales of products for industrial use (hazardous chemicals excluded); the repair and processing of mechanical equipment (special equipment excluded). During the reporting period, it recorded a net profit of approximately RMB408 million. At the end of the reporting period, its total assets and net assets amounted to RMB3,508 million and RMB1,778 million, respectively.

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

2. OTHER DISCLOSURES

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

In the first half of the year, the net profit attributable to owners of the parent of the Company was RMB3.429 billion. At present, the business of the company is good and profits are expected to maintain in the third quarter. Accordingly, it is expected that net profit attributable to shareholders of the parent of the Company for the period starting from the beginning of the year to the end of the next reporting period would significantly increase compared to the same period last year (RMB2.74 billion).

(2) POTENTIAL RISKS

(1) Market Risk

The complex and volatile market has brought greater uncertainty to the demand of the steel industry and downstream industries as well as greater difficulty to research the market.

Countermeasures: the company will strengthen market research and judgment, focus on tracking the trend of raw material market, strengthen inventory management, and ensure the stable and smooth operation of production as planned.

(2) Policy Risk

In recent years, the national environmental protection policy has become increasingly strict, among which the expansion of production-restricted area in the heating season has a relatively large impact on the raw materials and fuels supply as well as production and operation of iron and steel enterprises.

Countermeasures: through flexible production organization, the company will enhance the flexibility of production plan, formulate the response plan to limit production, guarantee the supply of raw materials and fuels, and ensure the normal production and operation of the company. The company will carry out the transformation from the aspects of organized discharge, logistics and transportation. While meeting the requirements of the ultra-low emission reconstruction scheme, the company will take measures in management, technology and projects to comprehensively improve the level of sewage treatment, solid disposal, comprehensive utilization and energy utilization.

(3) Foreign Exchange Risk

Since this year, the RMB's exchange rate has fluctuated sharply. The change of exchange rate brings certain price risk to the import of raw materials and the export of products, which may bring risk to the Non-RMB liabilities of the company.

Countermeasures: actively adjust the company's debt structure and capital status, expand financing channels, increase the export of products, increase foreign exchange income, and maintain the basic balance of the company's foreign exchange assets and liabilities.

(3) OTHER DISCLOSURES

- **Work of Audit Committee**

During the reporting period, the Audit Committee of the board of directors held three meetings. Members of the Audit Committee (Ms. Zhu Shaofang, Ms. Zhang Chunxia and Mr. Wang Xianzhu as independent directors) attended all meetings. Main agenda of the meetings were: Discussion of 2017 results forecast and related issues, review of the changes in accounting policies and review of 2017 profit distribution plan, review of 2017 audited financial report, hearing of 2017 internal control work report, review of 2017 internal control evaluation report, hearing of 2017 work report of related party transactions, review of 2017 related party transactions, review of 2017 external guarantees, review of 2017 remuneration and renewal of engagement with auditors and review of unaudited financial report of the first quarter of 2018 etc.

- **Purchase, Sale or Redemption of Listed Securities of the Company**

During the reporting period, the Company did not redeem any of its listed stocks, nor did the Company and its affiliated companies 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 news 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.

- **Shareholders' Rights**

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

V. Significant Events

1. SHAREHOLDERS' GENERAL MEETING

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

The following items were on the agenda of the 2017 Annual General Meeting: reviewing and approving the 2017 Directors' Report, 2017 Supervisors' Report, 2017 Auditors' Report and 2017 Profit Distribution Plan, engaging Ernst & Young Hua Ming LLP as the auditor in 2018 and authorizing the Board to determine its remuneration on the basis of the amount in 2017. As for the amendment of the company's Articles of Association and its annex bill, regarding the company's registration and issuance of short-term financing securities in the inter-bank market with a total amount of no more than RMB7.8 billion, it is required for the shareholders' general meeting to authorize the board of directors and authorized persons of the board of directors to determine the specific terms and conditions of short-term financing securities and other related matters according to the company's requirements. The agenda items were adopted after consideration.

In addition, the meeting heard the report on work for 2017of the company's independent directors.

2. PROFIT DISTRIBUTION PROPOSAL OR THE PLAN FOR CAPITALIZING OF CAPITAL RESERVES

(1) PROFIT DISTRIBUTION PLAN OR PLAN FOR THE CAPITALIZATION OF CAPITAL RESERVE DECLARED FOR THE FIRST HALF OF 2018

Whether to distribute or capitalise	Yes
Bonus Shares Distributed Every Ten Shares (share)	0
Dividends Distributed Every Ten Shares (RMB) (tax included)	0.5
Transferred Shares Every Ten Shares (share)	0

Description of Relevant Information About Profit Distribution or the plan for capitalizing of capital reserves is as follows.

The Board recommended 2018 interim cash dividend of RMB0.05 per share (tax included), and no capitalization of capital reserve will be conducted during the reporting period.

V. Significant Events (Continued)

The aforesaid plan complies with the provisions of the Company's Articles of Association and the review process, fully protects the legitimate rights and interests of small and medium-sized investors, and obtains the approval of all directors including independent directors, which will be submitted to an extraordinary general meeting for review. The plan must be approved by the extraordinary general meeting before it can be implemented.

3. PERFORMANCE OF UNDERTAKINGS

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

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

4. APPOINTMENT AND REMOVAL OF AUDITORS

During the reporting period, the board of directors proposed the renewal of Ernst & Young Hua Ming LLP as the Company's auditor. The resolution was approved by the Company's 2017 Annual General Meeting on 28 June 2018. During the reporting period, the Company did not change to employ accounting firms, nor did accounting firms issue non-standard auditing reports to the Company.

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

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

7. NO PUNISHMENT ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLER AND ACQUIRERS WAS MADE BY COMPETENT AUTHORITIES DURING THE REPORTING PERIOD

8. EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD

During the reporting period, there were no non-fulfillment of the court's effective judgements or unsettled expired debts of large amount by the Company, its controlling shareholders and actual controller.

9 SUBSTANTIAL RELATED PARTY TRANSACTIONS

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATION

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

Summary of matter	Index for enquiry
"Sale and Purchase of Ore Agreement", "Continuing Connected Transaction Agreement" and "Energy Saving and Environmental Protection Agreement" 2016-2018	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-09-11/600808_20150911_4.pdf
Financial Services Agreement 2018	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-12-28/600808_20171228_5.pdf
Integrated Support Services Agreement 2018	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2017-12-28/600808_20171228_3.pdf

V. Significant Events (Continued)

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

(1) *The continuing connected transactions under the "Sale and Purchase of Ore Agreement"*

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

In the period between 1 January 2018 and 30 June 2018, the transaction between the Company and the Group Company in respect of the 2016-2018 Sale and Purchase of Ore Agreement, which was signed in 2015, was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
Purchase of iron ore, limestone and dolomite	1,874,412	23

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

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

(2) *The continuing connected transactions under the "Energy Saving and Environmental Protection Agreement"*

In the period between 1 January 2018 and 30 June 2018, the transaction between in respect of the 2016-2018 Energy Saving and Environmental Protection Agreement, which was signed in 2015, was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category Amount** (%)
Energy saving and environmental protection engineering and services	352,456	12
Sales of useful resources for steel production including slag and coal ash (wastes)	5,262	–
Total	357,718	

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

The Energy Saving and Environmental Protection Agreement between the Group and Environment Protection Company was approved by the shareholders at the shareholders' general meeting. All Directors of the Board who are not associated with the Group Company (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. Their transaction amount did not exceed the annual cap of RMB645 million specified in the agreement.

V. Significant Events (Continued)

(3) *The continuing connected transactions under the "Continuing Connected Transaction Agreement"*

In the period between 1 January 2018 and 30 June 2018, the transaction in respect of the 2016-2018 Continuing Connected Transaction Agreement, which was signed in 2015, was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
Sales of finished goods related commodities and provision of services	300,521	–
Purchase of infrastructure spare-parts and related services	2,338,912	96
Total	2,639,433	

All Directors of the Board who are not associated with the Group Company (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and the Group Company in their normal course of business in compliance with normal commercial requirements, and the terms of such transactions using market price as the pricing benchmark were at least as favorable to the Company when they were compared with normal commercial terms. Those transactions were approved by the Board and conducted under the related terms of the agreement. The transaction amount did not exceed the annual cap of RMB4,954 million.

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

Business Nature		**Amount of loan or deposit** RMB100 million	**Interest income/expenses** RMB'000	
Deposit	Maximum daily deposit	35.1	Interest expenses	16,691
	Monthly average maximum daily deposit	30.8		
Loan	Maximum daily loan	4.98	Interest income	10,702
	Monthly average maximum daily loan	4.98		

Other income	
Net income from handling fee and commission (RMB'000)	183
Income from discount interest (RMB'000)	17,395

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

The continuing related party transactions contemplated under the Financial Services Agreement between Masteel Finance and the Group Company were approved by the Board. All Directors of the Board who are not associated with the Group Company (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. The maximum daily loan did not exceed the daily cap of RMB500 million, while interests, handling and service fees were less than RMB80 million.

V. Significant Events (Continued)

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

For the period between 1 January 2018 and 30 June 2018, transaction of the Group in respect of the Integrated Support Services Agreement was as follows (RMB'000):

	Amount	**Proportion of transaction of the same category** (%)
Energy, technical support and other products or services purchased by the Group Company from the Company	47,156	–
Products, printing services and other professional services purchased from the Group Company by the Company	98,984	4
Total	146,140	

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

The continuing related party transactions contemplated under the Integrated Support Services Agreement between the Group and the Group Company were approved by the Board. All Directors of the Board who are not associated with the Group Company (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. The transaction amount did not exceed the annual cap of RMB408 million.

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

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

Summary of matter	Index of enquiry
The purchase of the properties of Maanshan Iron & Steel Surface Engineering Technology Co., Ltd. and Anhui Ma steel Automation Information Technology Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_5.pdf

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

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

Summary of matter	Index of enquiry
Share participation to establish Ma steel (Shanghai) Commercial Factoring Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_4.pdf
Wholly-owned subsidiary Ma Steel (Hong Kong) Limited shares in the establishment of Ma steel (Shanghai) Finance Leasing Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-04-03/600808_20180403_2.pdf

V. Significant Events (Continued)

10. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1 THERE WAS NO ENTRUSTMENT, CONTRACTING OR LEASING MADE BY THE COMPANY NEITHER DURING THE REPORTING PERIOD NOR LASTING FROM PREVIOUS YEARS.

2 GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	–
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	–
Guarantees Offered to Subsidiaries	
Total amount of guarantees newly offered to subsidiaries during the reporting period	–
Total ending balance of guarantees offered to subsidiaries (B)	34.71
Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	34.71
Total amount of guarantees as a percentage of net assets of the Company (%)	13.33
of which:	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	–
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	–
Amount of total guarantees in excess of 50% of net assets (E)	–
Total amount of the preceding three types of guarantees (C+D+E)	–

Explanation on guarantees	During the reporting period, the Company provided MG-Valdunes S.A.S with a guarantee of Euro42 million (equivalent to RMB321 million); and provided the Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing. Additionally, at the end of the reporting period, Changjiang Steel provided its wholly-owned subsidiary with a guarantee of RMB150 million.

3 DURING THE REPORTING PERIOD, THERE WAS NO OTHER MATERIAL CONTRACTS

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY

1. RESULTS OF TARGETED POVERTY RELIEF EFFORTS

Unit: RMB'10 thousands

Indicator	Figures and Progress
I. Summary	
1. Funding	60
II. Breakdown	
1. Poverty relief by industries	
1.1 Sector of industrial poverty alleviation programs	✔ Agriculture and forestry ☐ Tourism ☐ Online ☐ Retailers ☐ Return on Assets ☐ Science and technology ☐ Others
1.2 Number of industrial poverty alleviation programs	1
1.3 Funding for industrial poverty alleviation programs	60

12. THERE WERE NO CONVERTIBLE CORPORATE BONDS ISSUED BY THE COMPANY DURING THE REPORTING PERIOD OR SUBSISTING TO THE REPORTING PERIOD

13. ENVIRONMENTAL INFORMATION

1. DESCRIPTION OF ENVIRONMENTAL INFORMATION IN RELATION TO THE COMPANY AND ITS SUBSTANTIAL SUBSIDIARIES IDENTIFIED AS KEY POLLUTANT-DISCHARGING UNITS BY THE STATE ENVIRONMENT AUTHORITY

1. Pollutant emission information

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

Name of Company	Pollutant Category	Typical Pollutants	Way of Discharge	Processing Equipment	Number and Distribution of Discharge Outlets
Magang	Waste gases	Dust, NOX, SO_2	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	205 sets	309, distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	70 sets	30
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Recycled totally	36 sets	–
Changjiang Steel	Waste gases	Dust, NOx, SO_2	Discharged after up-to-standard processing	44 sets	49, distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	10 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Treatment by qualified service provider	–	–
Hefei Company	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged after up-to-standard processing	11 sets	9 distributed along the production lines
	Waste water	acid and alkali, oil	Discharged after up-to-standard processing	3 sets	1
	Solid wastes	emulsified liquid slag, oil sludge, used oil	Treatment by qualified service provider	–	–

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

Name of Company	Pollutant Category	Typical Pollutants	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang	Waste gases	Dust	34,489.82	2,729
		SO_2	21,404.30	3,548
		NO_x	40,533.80	8,586
	Waste water	COD	1,564	329
		ammonia nitrogen	160.4	18.6
Changjiang Steel	Waste gases	Dust	10,682.51	5,778.78
		SO_2	4,462.12	462.14
		NO_x	7,420.48	2,151.44
	Waste water	COD	270	0.03
		ammonia nitrogen	27	0
Hefei Company	Waste gases	Dust	51.82	3.86
		SO_2	6.04	0.99
		NO_x	38.06	7.94
	Waste water	COD	106.82	0
		ammonia nitrogen	16.10	0
	Hazardous wastes	emulsified liquid slag	700	258.74
		oil sludge	650	283.18
		used oil	80	10.36

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

V. Significant Events (Continued)

2. **Construction and operation of pollution prevention and control facilities**

The pollution prevention facilities of the above key polluting enterprises are designed, constructed and operated at the same time with corresponding production facilities, and the operation of environmental protection facilities is stable and effective.

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

The construction projects of the above key pollutant discharge enterprises have environmental impact assessment documents and approvals. Steel, self-supplied power plants, and coking are all audited by environmental protection agencies to obtain sewage permits.

4. **Prepared Environment Emergency Response Plans**

All of them have prepared environment emergency response plans and selftest plans, and have filed these documents with the local environment authority.

5. **Environmental self-monitoring program**

All of them have prepared environment emergency response plans and selftest plans, and have filed these documents with the local environment authority.

The Company strictly abides by The Environmental Protection Law, Environmental Impact Assessment Law, Air Pollution Prevention and Control Law, Water Pollution Prevention and Control Law, and Solid Waste Pollution Prevention and Control Law, and imposes internal controls stricter than national emission limits on certain pollutants. The Company monitors closely key points exposed to environment risk; maintains a weekly examination plan, carries out examination regularly and put any defect found to rights timely. The Company reinforces online management of pollution sources and process data monitoring in an effort to discover and address any problem timely. The Company maintains automated detection of key pollutants around the clock by using monitoring devices approved by the state environment authority. Data acquisition devices submit real-time data, minutely data, hourly data and daily data to Anhui Provincial Administration of Environment. The Company has 211 sets of online pollution source monitoring devices and 25 sets of visual monitoring devices.

6. **Other Environmental Information that Should be Disclosed**

The environmental impact assessment of the construction projects of the above enterprises has been published online before accepting the public notice and examination and approval. The acceptance status of the completed project "three simultaneously" is published on the network and put on record; The environmental self-monitoring program and its annual implementation are published online by the local Environmental Protection Bureau.

14. OTHER MAJOR EVENTS

(1) THE CIRCUMSTANCES, CAUSES AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHODS COMPARED WITH THE PREVIOUS ACCOUNTING PERIOD

- **THE CHANGES TO ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

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

- **Changes In Accounting Policies Related To Financial Instruments**

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

The New Financial Instruments Standards changed the classification and measurement of financial instruments.

On the first implementation date of the New Financial Instruments Standards, the group assessed the classification and measurement results of its financial instruments as of 1 January 2018 in accordance with the provisions of the unrevised and revised financial instruments standards, and adjusted the classification and measurement results of financial instruments as of 1 January 2018. Such change of accounting policies has resulted in an increase of RMB13,521,768 in total assets and an increase of RMB4,154,774 in net assets at the opening balance of the consolidated financial statements of the Group (including an increase of RMB32,360,498 in other comprehensive income attributable to owners of the parent, and a decrease of RMB20,317,968 in retained earnings attributable to owners of the parent). The Company's total assets increased by RMB36,653,752, and its net assets increased by RMB27,490,314 at the opening balance of the financial statements of the Company (including an increase in the other comprehensive income of RMB27,490,314).

V. Significant Events (Continued)

- **Change in Financial Statements Format**

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

(2) CASES IN WHICH MAJOR ACCOUNTING ERROR CORRECTION OCCURS DURING THE REPORTING PERIOD SHALL BE RESTATED RETROSPECTIVELY, THE AMOUNT OF CORRECTION, THE CAUSE AND ITS IMPACT

During the reporting period, the Company doesn't have significant accounting errors that need to be retrospectively restated.

VI. Movements in Share Capital and Shareholders

I. 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	77.5	–	–	–	–	–	5,967,751,186	77.5
2. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
3. Foreign shares listed overseas	1,732,930,000	22.5	–	–	–	–	–	1,732,930,000	22.5
4. Other shares	–	–	–	–	–	–	–	–	–
C. Total	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100

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

VI. Movements in Share Capital and Shareholders (Continued)

II. SHAREHOLDERS

(1) TOTAL SHAREHOLDER

Numbers of Shareholder as end of the reporting period (account) 229,411

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

Unit: Share

	Shareholding of the top ten shareholders						
					Pledged or Frozen Situations		
Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	No. of Shares at the End of Period	Percentage	No. of Shares under Restricted Condition for Sales	Share status	Number	Shareholder
			(%)				
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.54	–	No	–	Stated Owned
Hong Kong Securities Clearing Nominees Limited	2,176,000	1,716,192,900	22.29	–	Unknown	Unknown	Unknown
Central Huijin Investment Ltd	–	142,155,000	1.85	–	Unknown	Unknown	Stated Owned
China Merchants Bank Co., Ltd. – Everbright BaoDeXin's Advantageous Allocation of Mixed -type Securities Investment Funds	Unknown	44,524,390	0.58	–	Unknown	Unknown	Unknown
Hong Kong Securities Clearing Limited	Unknown	41,948,530	0.54	–	Unknown	Unknown	Unknown
Hu Zhongxiang	Unknown	29,848,511	0.39	–	Unknown	Unknown	Unknown
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	Unknown	28,653,912	0.37	–	Unknown	Unknown	Unknown
China Galaxy Securities Co., Ltd	Unknown	25,906,600	0.34	–	Unknown	Unknown	Unknown
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	Unknown	19,916,449	0.26	–	Unknown	Unknown	Unknown
Industrial and Commercial Bank of China LTD. – Everbright China Manufacturing 2025 Flexible Allocation of Hybrid Securities Investment Funds	Unknown	19,000,000	0.25	–	Unknown	Unknown	Unknown

Top Ten Shareholders with unrestricted selling condition

Name of Share Holder	The number of unrestricted outstanding shares held	Type and Quantity of Shares	
		Type	Quantity
Magang (Group) Holding Co., Limited	3,506,467,456	ordinary shares in RMB	3,506,467,456
Hong Kong Securities Clearing Nominees Limited	1,716,192,900	Overseas listed shares	1,716,192,900
Central Huijin Investment Ltd	142,155,000	ordinary shares in RMB	142,155,000
China Merchants Bank Co., Ltd.-Everbright BaoDeXin's Advantageous Allocation of Mixed-type Securities Investment Funds	44,524,390	ordinary shares in RMB	44,524,390
Hong Kong Securities Clearing Limited	41,948,530	ordinary shares in RMB	41,948,530
Hu Zhongxiang	29,848,511	ordinary shares in RMB	29,848,511
Beijing Haoqing Wealth Investment Management Co., Ltd. – Haoqing Value Investment Fund No. 8	28,653,912	ordinary shares in RMB	28,653,912
China Galaxy Securities Co., Ltd	25,906,600	ordinary shares in RMB	25,906,600
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	19,916,449	ordinary shares in RMB	19,916,449
Industrial and Commercial Bank of China LTD. – Everbright China Manufacturing 2025 Flexible Allocation of Hybrid Securities Investment Funds	19,000,000	ordinary shares in RMB	19,000,000

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

Top Ten Shareholders with Restricted Selling Condition and the Related Condition

In the reporting period, no other shares held by the Magang(Group) were pledged, frozen or hosted. However, the Company was unaware whether shares held by other shareholders who have 5% and above of the total were pledged, frozen or hosted.

Hong Kong Securities Clearing Company Nominees Limited held 1,716,192,900 H Shares of the Company on behalf of multiple clients.

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

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

As at 30 June 2018, the Company was aware of below interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

Name of the Shareholder	Identity held or deemed to be interested	Number of shares held or deemed to be in equity (shares)	Percentage of the company's issued H shares (%)
TT International (Hong Kong) Limited	Invest Manager	117,501,000 (Long position)	6.78

Save as disclosed above, as at 30 June 2018, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

(3) THERE WERE NO STRATEGIC INVESTORS OR GENERAL LEGAL PERSONS AS THE TOP 10 SHAREHOLDERS DUE TO THE PLACEMENT OF NEW SHARES

III. THE COMPANY'S CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER HAVE NO CHANGE DURING THE REPORTING PERIOD

VII. Directors, Supervisors and Senior Management

I. CHANGES IN SHAREHOLDING AND EMOLUMENTS

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

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

(2) EQUITY INCENTIVES GRANTED TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

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

II. PERSONAL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement
Gao Haichao	Standing Deputy General Manager, Chief Engineer	Resignation
He Hongyun	Secretary of the board	Appointment

NOTES ON PERSONAL MOVEOMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

VIII. Financial Statements

CONTENTS

Note: The notes to the interim 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

30 June 2018
Renminbi Yuan

ASSETS	Note V	30 June 2018 Unaudited	31 December 2017 Audited
CURRENT ASSETS			
Cash and bank balances	1	**7,538,181,813**	4,978,352,093
Financial assets at fair value through profit or loss	2	**–**	1,546,139,404
Financial assets held for trading	3	**1,928,207,037**	–
Notes and trade receivables	4	**7,917,108,224**	9,341,614,275
Prepayments	5	**618,402,366**	750,818,831
Other receivables	6	**340,412,767**	285,228,074
Inventories	7	**11,333,539,937**	11,445,747,808
Financial assets purchased under agreements to resell	8	**884,886,602**	1,204,603,000
Loans and advances to customers	9	**1,766,370,623**	1,251,315,253
Assets classified as held for sale	10	**117,019,986**	73,454,334
Held-to-maturity investments	11	**–**	305,228,376
Debt instruments investment	12	**1,490,426,489**	–
Other current assets	13	**881,678,929**	916,037,331
Total current assets		**34,816,234,773**	32,098,538,779
NON-CURRENT ASSETS			
Available-for-sale financial assets	14	**–**	1,111,168,160
Held-to-maturity investments	11	**–**	100,854,230
Debt instruments investment	12	**51,148,671**	–
Long-term equity investments	15	**1,782,379,366**	1,525,225,202
Other equity instruments investments	16	**143,120,746**	–
Investment properties	17	**56,634,034**	57,508,684
Property, plant and equipment	18	**31,449,475,633**	33,130,499,862
Construction in progress	19	**2,372,168,752**	1,805,955,609
Intangible assets	20	**1,907,760,736**	1,883,604,173
Deferred tax assets	21	**499,105,526**	478,235,280
Total non-current assets		**38,261,793,464**	40,093,051,200
TOTAL ASSETS		**73,078,028,237**	72,191,589,979

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

Consolidated Statement of Financial Position (Continued)

30 June 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**30 June 2018 Unaudited**	31 December 2017 Audited
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	23	**200,000,000**	200,000,000
Customer deposits	24	**2,101,060,111**	2,947,639,610
Repurchase agreements	25	**1,013,146,250**	308,100,956
Short-term loans	26	**6,843,480,037**	4,630,303,694
Financial liabilities at fair value through profit or loss	27	**–**	10,498,810
Notes and trade payables	28	**8,690,455,040**	11,778,382,830
Advances from customers	29	**3,949,852,811**	3,842,903,332
Payroll and employee benefits payable	30	**827,076,654**	654,822,505
Taxes payable	31	**586,371,827**	1,342,836,597
Other payables	32	**5,060,925,606**	2,354,327,866
Non-current liabilities due within one year	33	**7,885,584,392**	4,928,758,378
Provision	34	**35,828,320**	38,537,369
Other current liabilities	35	**2,038,424,932**	3,081,026,301
Total current liabilities		**39,232,205,980**	36,118,138,248
NON-CURRENT LIABILITIES			
Long-term loans	36	**2,933,486,964**	6,975,958,634
Long-term payables	38	**–**	210,000,000
Long-term employee benefits payable	39	**163,763,617**	160,896,586
Deferred revenue	40	**1,368,276,758**	1,462,490,533
Deferred tax liabilities	21	**25,349,304**	26,841,665
Total non-current liabilities		**4,490,876,643**	8,836,187,418
Total liabilities		**43,723,082,623**	44,954,325,666

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

Consolidated Statement of Financial Position (Continued)

30 June 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)	Note V	30 June 2018 Unaudited	31 December 2017 Audited
SHAREHOLDERS' EQUITY			
Share capital	41	**7,700,681,186**	7,700,681,186
Capital reserve	42	**8,352,287,192**	8,352,287,192
Other comprehensive income	43	**(120,854,748)**	(124,156,060)
Special reserve	44	**34,563,637**	31,929,722
Surplus reserve	45	**4,448,864,325**	4,100,007,341
General reserve	46	**191,546,668**	191,546,668
Retained earnings	47	**5,432,175,348**	3,643,443,763
Equity attributable to owners of the parent		**26,039,263,608**	23,895,739,812
Non-controlling interests		**3,315,682,006**	3,341,524,501
Total shareholders' equity		**29,354,945,614**	27,237,264,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**73,078,028,237**	72,191,589,979

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

The financial statements were signed by the following persons:

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

Consolidated Income Statement

For the six months ended 30 June 2018
Renminbi Yuan

	Note V	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Revenue	48	**40,063,041,443**	35,187,579,640
Less: Cost of sales	48	**34,002,350,727**	31,308,620,140
Taxes and surcharges	49	**399,818,296**	322,600,519
Selling expenses	50	**465,095,326**	412,156,137
General and administrative expenses	51	**698,585,993**	653,425,560
R&D expenses		**381,791,868**	16,593,410
Financial expenses	52	**574,785,327**	528,207,382
including: interest expense		**476,375,706**	475,699,142
interest income		**(17,490,196)**	(17,007,814)
Impairment losses	53	**57,950,358**	107,667,257
Credit impairment losses	54	**22,658,394**	–
Add: Other income	55	**44,152,109**	83,563,376
Investment income	56	**560,777,607**	286,628,017
including: share of profits of associates and joint ventures		**298,820,874**	241,096,593
(Loss)/gain on the changes in fair value		**(8,960,465)**	14,148,342
Gain/(loss) from disposal of non-current assets	57	**52,603,426**	(42,907,112)
Operating profit		**4,108,577,831**	2,179,741,858
Add: Non-operating income	58	**96,622,262**	69,899,116
Less: Non-operating expenses	59	**2,915,034**	7,588,005
Profit before tax		**4,202,285,059**	2,242,052,969
Less: Income tax expense	60	**346,039,776**	337,919,171
Net profit		**3,856,245,283**	1,904,133,798
Categorized by operation continuity			
Net profit from continuing operations		**3,856,245,283**	1,904,133,798
Net profit from discontinued operations		**–**	–
Categorized by ownership			
Net profit attributable to owners of the parent		**3,428,518,933**	1,643,396,514
Net profit attributable to non-controlling interests		**427,726,350**	260,737,284

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

Consolidated Income Statement (Continued)

For the six months ended 30 June 2018
Renminbi Yuan

	Note V	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Other comprehensive income, net of tax		**(29,059,186)**	8,534,036
Other comprehensive income attributable to owners of the parent, net of tax	43	**(29,059,186)**	9,040,441
Other comprehensive income that could not be reclassified to profit or loss		**(15,964,250)**	–
Changes in fair value of other equity instruments investments		**(15,964,250)**	–
Other comprehensive income to be reclassified to profit or loss		**(13,094,936)**	9,040,441
Fair value changes of available-for-sale financial assets		**–**	(780,770)
Exchange differences on translation of foreign operation		**(13,094,936)**	9,821,211
Other comprehensive income attributable to non-controlling interests, net of tax		**–**	(506,405)
Total comprehensive income		**3,827,186,097**	1,912,667,834
Attributable to:			
Owners of the parent		**3,399,459,747**	1,652,436,955
Non-controlling interests		**427,726,350**	260,230,879
EARNINGS PER SHARE:			
Basic earnings per share	61	**44.52 cents**	21.34 cents
Diluted earnings per share	61	**44.52 cents**	21.34 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 2018
Renminbi Yuan

For the six months ended 30 June 2018

	Attributable to owners of the parent									
	Share capital (Note V 41)	**Capital reserve** (Note V 42)	**Other comprehensive income** (Note V 43)	**Special reserve** (Note V 44)	**Surplus reserve** (Note V 45)	**General reserve** (Note V 46)	**Retained earnings** (Note V 47)	**Sub-total**	**Non-controlling interests**	**Total shareholder's equity**
1. At 31 December 2017	**7,700,681,186**	**8,352,287,192**	**(124,156,060)**	**31,929,722**	**4,100,007,341**	**191,546,668**	**3,643,443,763**	**23,895,739,812**	**3,341,524,501**	**27,237,264,313**
(1) Changes in accounting policies (Note III.31)	**-**	**-**	**32,360,498**	**-**	**-**	**-**	**(20,317,968)**	**12,042,530**	**(7,887,756)**	**4,154,774**
2. At 1 January 2018	**7,700,681,186**	**8,352,287,192**	**(91,795,562)**	**31,929,722**	**4,100,007,341**	**191,546,668**	**3,623,125,795**	**23,907,782,342**	**3,333,636,745**	**27,241,419,087**
3. Increase/(decrease) during the period										
(1) Total comprehensive income	**-**	**-**	**(29,059,186)**	**-**	**-**	**-**	**3,428,518,933**	**3,399,459,747**	**427,726,350**	**3,827,186,097**
(2) Profits appropriation										
(i) Transfer to surplus reserve	**-**	**-**	**-**	**-**	**348,856,984**	**-**	**(348,856,984)**	**-**	**-**	**-**
(ii) Distribution to shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**(1,270,612,396)**	**(1,270,612,396)**	**(446,066,572)**	**(1,716,678,968)**
(3) Special reserve										
(i) Additions	**-**	**-**	**-**	**40,661,994**	**-**	**-**	**-**	**40,661,994**	**6,672,313**	**47,334,307**
(ii) Utilisation	**-**	**-**	**-**	**(40,110,027)**	**-**	**-**	**-**	**(40,110,027)**	**(6,286,830)**	**(46,396,857)**
(iii) Changes in the share of associates and joint ventures' special reserve, net	**-**	**-**	**-**	**2,081,948**	**-**	**-**	**-**	**2,081,948**	**-**	**2,081,948**
4. At 30 June 2018 (Unaudited)	**7,700,681,186**	**8,352,287,192**	**(120,854,748)**	**34,563,637**	**4,448,864,325**	**191,546,668**	**5,432,175,348**	**26,039,263,608**	**3,315,682,006**	**29,354,945,614**

For the six months ended 30 June 2017

	Attributable to owners of the parent									
	Share capital (Note V 41)	Capital reserve (Note V 42)	Other comprehensive income (Note V 43)	Special reserve (Note V 44)	Surplus reserve (Note V 45)	General reserve (Note V 46)	(Accumulated losses)/retained earnings (Note V 47)	Sub-total	Non-controlling interests	Total 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	–	–	–	–	–	–	–	–	65,614,143	65,614,143
(iii) Disposal of a subsidiary	–	–	–	–	–	–	–	–	(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 (Unaudited)	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

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018
Renminbi Yuan

	Note V	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		**42,195,059,784**	39,139,433,476
Cash received for interest charges, fees and commissions		**66,727,395**	50,417,268
Tax refunds received		**4,191,303**	–
Net decrease in loans and advances to customers		**–**	46,218,288
Net decrease in financial assets purchased under agreements to resell		**319,711,999**	230,047,000
Net increase in repurchase agreements of financial assets		**705,045,294**	–
Cash received relating to other operating activities	62	**124,299,060**	127,463,477
Sub-total of cash inflows		**43,415,034,835**	39,593,579,509
Cash paid for purchases of goods and services		**(32,480,242,466)**	(32,905,122,314)
Cash paid to or on behalf of employees		**(2,100,937,079)**	(1,926,494,889)
Taxes and surcharges paid		**(2,683,880,257)**	(1,602,505,535)
Increase in deposits in central bank		**(13,534,484)**	(38,113,076)
Net decrease in repurchase agreements of financial assets		**–**	(397,665,698)
Net decrease in customer deposits and deposits from banks		**(846,579,499)**	(830,110,045)
Net increase in loans and advances to customers		**(528,003,855)**	–
Cash paid for interest charges, fees and commissions		**(31,693,385)**	(27,622,969)
Cash paid relating to other operating activities	62	**(549,768,836)**	(406,352,927)
Sub-total of cash outflows		**(39,234,639,861)**	(38,133,987,453)
Net cash flows from operating activities	63(1)	**4,180,394,974**	1,459,592,056

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2018
Renminbi Yuan

	Note V	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
2. Cash flows from investing activities			
Cash received from disposal of investments		**28,016,492,050**	18,933,948,622
Cash received from investment income		**250,081,329**	121,100,872
Net cash from acquisition of subsidiaries and other operating units		**–**	115,777,566
Proceeds from disposal of property, plant and equipment, intangible assets, and other non-current assets		**59,599,019**	2,987,026
Net cash from disposal of a subsidiary and other operating units		**–**	4,854,451
Cash received relating to other investing activities	62	**57,335,541**	14,908,915
Sub-total of cash inflows		**28,383,507,939**	19,193,577,452
Purchases of property, plant and equipment, intangible assets and other non-current assets		**(1,153,850,786)**	(998,870,449)
Cash paid for investments		**(29,195,716,872)**	(20,121,952,188)
Net increase in held-to-maturity investments		**–**	(201,463,387)
Net cash from disposal of subsidiaries and other operating units	63(2)	**(37,688)**	–
Sub-total of cash outflows		**(30,349,605,346)**	(21,322,286,024)
Net cash flows used in investing activities		**(1,966,097,407)**	(2,128,708,572)

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2018
Renminbi Yuan

	Note V	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
3. Cash flows from financing activities			
Cash received from borrowings		**7,554,707,131**	7,963,827,700
Proceeds from issuing short-term bonds		**1,000,000,000**	–
Cash received relating to other financing activities		**–**	210,000,000
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		**8,554,707,131**	8,265,297,700
Repayment of borrowings		**(8,527,815,996)**	(8,097,524,552)
Cash paid for distribution of dividends or profits and for interest expenses		**(282,298,921)**	(348,094,860)
Including: dividends paid to non-controlling interests by subsidiaries		**(2,481,210)**	(25,671,100)
Sub-total of cash outflows		**(8,810,114,917)**	(8,445,619,412)
Net cash flows used in financing activities		**(255,407,786)**	(180,321,712)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**19,255,014**	(28,607,718)
5. Net increase/(decrease) in cash and cash equivalents	63(3)	**1,978,144,795**	(878,045,946)
Add: cash and cash equivalents at the beginning of the period		**2,940,502,015**	4,324,131,687
6. Cash and cash equivalents at the end of the period	66(3)	**4,918,646,810**	3,446,085,741

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

Statement of Financial Position

30 June 2018
Renminbi Yuan

ASSETS	Note XIV	30 June 2018 Unaudited	31 December 2017 Audited
CURRENT ASSETS			
Cash and bank balances		**6,035,721,281**	4,169,232,422
Financial assets at fair value through profit or loss		**–**	62,721,800
Financial assets held for trading		**23,590,842**	–
Notes and trade receivables	1	**7,983,173,811**	10,170,482,595
Prepayments		**640,148,829**	600,539,572
Other receivables	2	**888,006,640**	188,725,018
Inventories		**7,620,889,649**	7,740,789,448
Other current assets		**275,543,737**	294,632,327
Total current assets		**23,467,074,789**	23,227,123,182
NON-CURRENT ASSETS			
Available-for-sale financial investments		**–**	126,722,160
Long-term equity investments	3	**9,612,286,608**	8,830,290,112
Other equity instruments investments		**143,120,746**	–
Investment properties		**70,690,920**	71,554,652
Property, plant and equipment		**23,532,649,108**	25,089,628,791
Construction in progress		**1,754,601,132**	1,356,492,361
Intangible assets		**977,275,353**	904,435,151
Deferred tax assets		**443,002,514**	438,445,874
Total non-current assets		**36,533,626,381**	36,817,569,101
TOTAL ASSETS		**60,000,701,170**	60,044,692,283

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

Statement of Financial Position (Continued)

30 June 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2018 Unaudited	31 December 2017 Audited
CURRENT LIABILITIES		
Short-term loans	**4,055,188,687**	3,226,709,122
Financial liabilities at fair value through profit or loss	**–**	10,498,810
Notes and trade payables	**7,990,150,284**	10,050,245,456
Advances from customers	**2,537,244,226**	2,626,167,696
Payroll and employee benefits payables	**676,771,402**	502,689,195
Taxes payable	**378,049,564**	795,312,565
Other payables	**4,115,707,132**	1,871,957,462
Non-current liabilities due within one year	**7,801,364,842**	5,928,758,378
Other current liabilities	**2,038,424,932**	3,081,026,301
Total current liabilities	**29,592,901,069**	28,093,364,985
NON-CURRENT LIABILITIES		
Long-term loans	**5,695,229,464**	9,461,264,824
Long-term employee benefits payable	**136,054,823**	132,641,692
Deferred revenue	**717,681,931**	730,152,350
Total non-current liabilities	**6,548,966,218**	10,324,058,866
Total liabilities	**36,141,867,287**	38,417,423,851
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,358,017,477**	8,358,017,477
Other comprehensive income	**11,526,064**	–
Special reserve	**9,719,477**	7,637,529
Surplus reserve	**3,598,807,709**	3,249,950,725
Retained earnings	**4,180,081,970**	2,310,981,515
Total shareholders' equity	**23,858,833,883**	21,627,268,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**60,000,701,170**	60,044,692,283

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

Income Statement

For the six months ended 30 June 2018
Renminbi Yuan

	Note XIV	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Revenue	4	**33,692,258,610**	29,186,631,452
Less: Cost of sales	4	**29,566,665,372**	26,862,921,216
Taxes and surcharges		**305,999,623**	237,603,318
Selling expenses		**220,187,402**	186,194,763
General and administrative expenses		**478,033,907**	410,209,297
R&D expenses		**375,773,915**	16,593,410
Financial expenses		**496,798,257**	525,019,932
including: interest expense		**415,614,854**	480,954,991
interest income		**(31,785,576)**	(25,461,077)
Impairment losses		**53,372,164**	94,777,557
Credit impairment losses		**3,062,918**	–
Add: Other income		**33,003,460**	76,014,555
Investment income	5	**931,980,371**	297,973,623
including: share of profits of associates and joint ventures		**298,163,206**	241,096,593
Loss on the changes in fair value		**(9,981,140)**	(2,273,548)
Gain/(loss) from disposal of non-current assets		**256,779,130**	(43,291,050)
Operating profit		**3,404,146,873**	1,181,735,539
Add: Non-operating income		**96,124,755**	69,105,364
Less: Non-operating expenses		**1,011,864**	7,159,658
Profit before tax		**3,499,259,764**	1,243,681,245
Less: Income tax expense		**10,689,929**	5,382,066
Net profit		**3,488,569,835**	1,238,299,179
Categorized by operation continuity			
Net profit from continuing operations		**3,488,569,835**	1,238,299,179
Net profit from discontinued operation		**–**	–
Other comprehensive income, net of tax		**(15,964,250)**	–
Other comprehensive income that could not be reclassified to profit or loss		**(15,964,250)**	–
Changes in fair value of other equity instruments investments		**(15,964,250)**	–
Total comprehensive income		**3,472,605,585**	1,238,299,179

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

Statement of Changes in Equity

For the six months ended 30 June 2018
Renminbi Yuan

For the six months ended 30 June 2018

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. At 31 December 2017	7,700,681,186	8,358,017,477	–	7,637,529	3,249,950,725	2,310,981,515	21,627,268,432
(1) Changes in accounting policies (Note III-31)	–	–	27,490,314	–	–	–	27,490,314
2. At 1 January 2018	7,700,681,186	8,358,017,477	27,490,314	7,637,529	3,249,950,725	2,310,981,515	21,654,758,746
3. Increase/(decrease) during the period							
(1) Total comprehensive income	–	–	(15,964,250)	–	–	3,488,569,835	3,472,605,585
(2) Capital contributions and withdrawal	–	–	–	–	–	–	–
(3) Profit appropriation							
(i) Transfer to surplus reserves	–	–	–	–	348,856,984	(348,856,984)	–
(ii) Distribution to shareholders	–	–	–	–	–	(1,270,612,396)	(1,270,612,396)
(4) Special reserve							
(i) Additions	–	–	–	22,837,390	–	–	22,837,390
(ii) Utilization	–	–	–	(22,837,390)	–	–	(22,837,390)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	–	2,081,948	–	–	2,081,948
4. At 30 June 2018 (Unaudited)	7,700,681,186	8,358,017,477	11,526,064	9,719,477	3,598,807,709	4,180,081,970	23,858,833,883

For the six months ended 30 June 2017

	Share capital	Capital reserve	Special reserve	Surplus reserve	(Accumulated losses)/ retained earnings	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 contributions 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 (Unaudited)	7,700,681,186	8,357,897,061	12,130,178	2,993,175,001	1,112,006,806	20,175,890,232

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

Statement of Cash Flows

For the six months ended 30 June 2018
Renminbi Yuan

	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	**32,434,580,728**	30,757,114,901
Cash received relating to other operating activities	**352,266,354**	107,961,827
Sub-total of cash inflows	**32,786,847,082**	30,865,076,728
Cash paid for purchase of goods and services	**(23,688,914,407)**	(26,765,548,157)
Cash paid to or on behalf of employees	**(2,020,006,843)**	(1,626,726,082)
Taxes and surcharges paid	**(1,683,603,629)**	(1,072,261,860)
Cash paid relating to other operating activities	**(58,065,765)**	(356,280,616)
Sub-total of cash outflows	**(27,450,590,644)**	(29,820,816,715)
Net cash flows from operating activities	**5,336,256,438**	1,044,260,013
2. Cash flows from investing activities		
Cash received from disposal of investments	**40,952,073**	–
Cash received from investment income	**254,884,445**	124,703,297
Net cash received from disposal of property, plant and equipment, intangible assets and other long-term assets	**173,264,767**	1,016,060
Net cash received from disposal of a subsidiary and other operating units	**–**	8,696,084
Cash received relating to other investing activities	**–**	8,500,000
Sub-total of cash inflows	**469,101,285**	142,915,441
Purchase of property, plant and equipment, intangible assets and other non-current assets	**(903,750,387)**	(408,988,826)
Cash paid for investments	**(890,208,188)**	(1,161,478,300)
Net cash paid for acquisition of a subsidiary and other operating units	**(336,014,040)**	–
Sub-total of cash outflows	**(2,129,972,615)**	(1,570,467,126)
Net cash flows used in investing activities	**(1,660,871,330)**	(1,427,551,685)

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

Statement of Cash Flows (Continued)

For the six months ended 30 June 2018
Renminbi Yuan

	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
3. Cash flows from financing activities		
Cash received from issuing short-term bonds	**1,000,000,000**	–
Cash received from borrowings	**7,054,795,530**	7,637,471,840
Sub-total of cash inflows	**8,054,795,530**	7,637,471,840
Repayment of borrowings	**(10,116,667,147)**	(7,051,341,593)
Cash paid for the distribution of dividend or profits and for interest expenses	**(430,703,666)**	(306,602,492)
Sub-total of cash outflows	**(10,547,370,813)**	(7,357,944,085)
Net cash flows (used in)/generated from financing activities	**(2,492,575,283)**	279,527,755
4. Effect of foreign exchange rate changes on cash and cash equivalents	**21,188,376**	(34,286,195)
5. Increase/(decrease) in cash and cash equivalents	**1,203,998,201**	(138,050,112)
Add: Cash and cash equivalents at the beginning of the period	**3,798,992,422**	3,851,576,750
6. Cash and cash equivalents at the end of the period	**5,002,990,623**	3,713,526,638

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

Notes to the Interim Financial Statements

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I. GENERAL INFORMATION OF THE GROUP

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

As of 30 June 2018, the Company had issued 7,700,681,186 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

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

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

The financial statements were approved by the board of directors on 29 August 2018.

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.

II. BASIS OF PREPARATION

1. BASIS OF PREPARATION

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

The financial statements are prepared on going concern basis.

As of 30 June 2018, the net current liabilities of the Group amounted to RMB4,415,971,207. The directors of the Company have considered the availability of funding sources, including but not limited to an unutilised bank facilities of RMB25.7 billion as at 30 June 2018. The Company’s board of directors believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Company’s board of directors continues to prepare the Group’s interim financial statements for the six months ended 30 June 2018 on a going concern basis.

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

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. STATEMENT OF COMPLIANCE WITH THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely the financial position of the Company and the Group as of 30 June 2018, and the results of their operations and cash flows for the six months ended 30 June 2018.

2. ACCOUNTING PERIOD

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

3. REPORTING CURRENCY

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

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

4. BUSINESS COMBINATION

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 acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

Notes to the Interim Financial Statements (Continued)

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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 consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium, which is included in the capital reserve. If the balance of the share premium reserve is insufficient, any excess is adjusted to retained earnings.

Business combination involving entities not under common control

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the entity (the acquirer) obtains control of other 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, recognise the acquiree's identifiable assets, liabilities and provisions that satisfy the recognition criteria at their fair values at the date of acquisition.

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

Notes to the Interim Financial Statements (Continued)

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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 2018. A subsidiary is a company or entity that is controlled by the Company.

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

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

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

For subsidiaries acquired through a business combination under common control, the operating results and cash flows of the acquiree 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 comparative financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

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

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

6. JOINT ARRANGEMENT AND JOINT OPERATIONS

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

The joint arrangements of the Group are all joint ventures.

Notes to the Interim Financial Statements (Continued)

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

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

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

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

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

9. FINANCIAL INSTRUMENTS

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.

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

Classification and measurement of financial assets

The Group classifies its financial assets, based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, as measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. A financial asset is measured at its fair value at initial recognition.

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

Notes to the Interim Financial Statements (Continued)

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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 depending on their classifications as follows:

Debt instruments investment measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held whose objective is to collect contractual cash flows and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset is measured at amortised cost using effective interest rate method. The gain or loss generated by its' amortisation and impairment should be accounted in the profit or loss for the period.

Debt instruments investment measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective will be achieved by both collecting contractual cash flows and trading financial assets and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset is subsequently measured at fair value. The premiums or discounts are amortised using effective interest rates method and are recognised as interest income or expense. The change in fair value on such financial asset shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gain and loss which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income should be transferred to profit or loss. Interest income related to such type of financial assets should be recognised in profit or loss.

Equity instruments investment measured at fair value through other comprehensive income

The Group irrevocably choose to designate the equity instruments investment not held for trading as financial assets measured at fair value through other comprehensive income at initial recognition. Dividends are recognised in profit or loss and the change in fair value shall be recognised in other comprehensive income. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income should be transferred to retained earning.

Notes to the Interim Financial Statements (Continued)

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Financial assets measured at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. This type of financial asset is measured at fair value and the change in fair value shall be recognised in profit or loss.

Classification and measurement of financial liabilities

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

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

Financial liabilities measured at fair value through profit or loss

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

A financial asset or liability is classified as held for trading if any of the conditions is met: the financial asset or liability is held or obliged, principally for the purpose of trading or redemption in the near future; it is part of a portfolio of identified financial instruments that are managed collectively and for which there is evidence of a recent actual pattern of short-term profit-taking; or it is a derivative (except for derivatives designated as effective hedging instrument or constitute financial guarantee contract). Such trading financial assets and financial liabilities that are subsequently measured at fair value. All fair value changes are recognised in profit or loss except for those related to hedge accounting.

Notes to the Interim Financial Statements (Continued)

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial liabilities *(Continued)*

Financial liabilities measured at fair value through profit or loss (Continued)

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when either of the conditions is met:

(1) it eliminates or significantly reduces a measurement or recognition inconsistency.

(2) a group of financial instruments is managed, evaluated and reported to key management on a fair value basis, in accordance with a documented risk management or investment strategy.

(3) the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract, or apparently should not be separated from the hybrid instrument.

(4) Comprehensive instruments with embedded derivative instruments which need to be separated but can't be measured separately originally and subsequently.

The above financial liabilities of the Group shall subsequently measure at fair value through profit or loss except the change in fair value of the financial liability that is attributable to changes in its own credit risk of the Group shall be recognised in other comprehensive income. The Group shall recognise the change in fair value through profit or loss (including amount of change of self-credit risk), unless the change of fair value recognised in the comprehensive income that is caused by change of the Group's self-credit risk would create or enlarge the accounting mismatch in profit or loss.

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

Other financial liabilities

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

Notes to the Interim Financial Statements (Continued)

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Offsetting of financial instruments

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

Derivative financial instruments

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

The gain or loss arising from change in fair value of derivatives are recognised in profit or loss, except for that the effective portion in cash flow hedging are recognised in other comprehensive income which will be transferred to profit or loss when the hedged item has an impact on profit or loss.

Impairment of financial assets

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

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

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

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

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

For financial assets and loan commitments other than those adopt a simplified approach, the Group assess whether their credit risk at each reporting date has increased significantly. If the credit risk has increased significantly, the Group measures the credit loss at an amount equal to lifetime expected credit losses. If not, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group assesses the credit loss of receivables based on aging analysis unless the receivables are deposit for futures, interest receivable and dividend receivable, which are assessed on individual basis.

When assessing expected credit losses, the Group considers all reasonable and supportable information, including forecast information.

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

Modification of financial assets

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

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial assets, it shall 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.

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

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

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

10. 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 at consumption; accident spare parts are amortised in 8 years with 4% residual rate; large rolls on rolling mills are amortised according to the grinding amount.

Inventories are accounted for using the perpetual inventory system.

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

Net realizable value is the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on a category basis for raw materials, and on an individual basis for finished goods. For the inventories sold, the relevant inventory provision should be written off accordingly, and the current period's cost of sales should be reversed.

11. ASSETS HELD FOR SALE

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

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

Notes to the Interim Financial Statements (Continued)

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

12. LONG-TERM EQUITY INVESTMENTS

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

Long-term equity investments are 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 shall be acquirer's share of the carrying amount of the acquiree's equity 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 the acquisition consideration shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. Upon disposal, any other comprehensive income previously recognised before the acquisition 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 of other comprehensive income 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, other comprehensive income gains or losses are proportionately recognised in profit or loss upon disposal when the investment still constitutes long-term equity investments after the disposal, and are fully charged to profit or loss when the investment are reclassified to financial instruments after the disposal. Investments acquired through business combination involving entities not under common control, the initial investment cost should be the acquisition consideration (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 by the acquire. Upon disposal, the other comprehensive income recognised relating to the investee under equity method prior to the acquisition 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 of other comprehensive income recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) are proportionately charged to profit or loss upon disposal when the investment still constitutes long-term equity investments after disposal, and are fully charged to profit or loss when the investment are reclassified as financial instruments after disposal. The cumulative fair value changes, recognized in other comprehensive income of the equity investment classified as other equity instrument investment before acquisition, are transferred to retained earnings when the investment is accounted for under cost method upon acquisition. The initial investment cost of a long-term equity investment acquired other 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 paid plus any costs, taxes and other necessary expenditures directly attributable to the acquisition; for those acquired by issuance of equity securities, the initial investment cost shall be the fair value of the equity securities issued; for those acquired through non-monetary assets exchange, the initial investment cost is determined in accordance with the "Accounting Standards for Business Enterprises No. 7 – Exchange of Non-Monetary Assets".

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.

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

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

When cost method is adopted, long-term equity investments are recorded at initial investment cost adjusted according to any subsequent addition or reduction of the investment. Dividends declared by the investee should be recognised as investment income in the current period.

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 through 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.

Under equity method, when the initial cost of an investment in excess of fair value of the share of investee's identifiable net assets, the investment cost remains unchanged; when the initial cost of the investment falls short of the fair value of the share of investee's identifiable net assets, the investment cost shall be adjusted accordingly, with difference charged to profit or loss.

Under equity method, the carrying amount of long-term equity investment are subsequently adjusted for the shared profit or other comprehensive income of the investee, which are charged into profit or loss and other comprehensive income, respectively. The share of profit or other comprehensive income of investee shall be recognised based on fair value of investee's identifiable net assets upon investment, and adjusted according to the Group's accounting policies and accounting period, if difference. Any unrealized profit or loss arising from the intercompany transaction between the Group and its joint venter and associate are eliminated from the shared profit to the extend as attributable to the Group's share of interest, unless the loss is arising from impairment loss of assets. However, the elimination is exempted when the assets disposed constitute a 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 substantial interest in the investee is reduced to zero, unless the investor has an obligation to assume extra loss. Any other changes in equity of investee than profit or loss, other comprehensive income or profit distribution, the Group adjusts the carrying amount of the investment through shareholders' equity.

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 are charged to profit or loss. After disposal, if long-term equity investment cease being accounted for under equity method, any other comprehensive income originally recognised under equity method are accounted on the same basis as if the investee would have disposed directly the relevant assets or liabilities, and any reserve recognised based on changes in investee's equity other than profit or loss, other comprehensive income or profit distribution are fully transferred to profit or loss. If long-term equity investment continue being accounted for under equity method, any other comprehensive income originally recognised under equity method are accounted on the same basis as if the investee would have disposed directly the relevant assets or liabilities, and transferred to profit or loss proportionally, and any reserve recognised based on changes in investee's equity other than profit or loss, other comprehensive income or profit distribution are proportionally transferred to profit or loss.

If the Company loses control of an investee with joint control or significant influence retained after partial disposal of its shares, the equity investment should be accounted as long-term investment in accordance with the rules of conversion from cost method to equity method; If no joint control or significant influence was retained, the equity investment should be accounted as financial assets. The difference between the fair value on the day of losing control and the book value is recognised in 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 costs related to investment properties, if the economic benefits of the assets are likely to flow to the Company and its cost can be measured reliably, then it will be included in the cost of investment property. Otherwise, the subsequent cost will be charged to profit or loss when it occurs.

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

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

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

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

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

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

15. CONSTRUCTION IN PROGRESS

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

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

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

The capitalization of borrowing costs commences when:

(1) Expenditures for the assets are incurred;

(2) Borrowing costs are incurred; or

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

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

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

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

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

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

Notes to the 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 right	25 years
Land use rights	50 years
Mining rights	25 years
Patent	3 years

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

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

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

18. IMPAIRMENT OF ASSETS

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

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

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

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

Post-employment benefit (defined contribution plans)

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

Post-employment benefit (defined benefit plans)

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

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to shareholder's 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 or curtailment, and the date the Group recognises restructuring costs or termination benefits.

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 income statement by function:

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

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

Termination benefits

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

Other long-term employee benefits

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

20. PROVISIONS

Except for contingent considerations or contingent liability assumed in business combination, 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 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, time value of money, etc. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Notes to the 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 an interest income and is accrued over the life of the agreement using the effective interest rate method.

22. REVENUE

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

Contracts for the sale of goods

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

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

22. REVENUE *(CONTINUED)*

Contracts for rendering of services

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

Variable considerations

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

Sales involving right of return

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

Significant financing component

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

Notes to the Interim Financial Statements (Continued)

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

22. REVENUE *(CONTINUED)*

Principal consideration

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

Interest income

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

Lease income

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

23. GOVERNMENT GRANTS

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

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

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

Notes to the Interim Financial Statements (Continued)

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

23. GOVERNMENT GRANTS *(CONTINUED)*

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

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

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 those arising from:

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

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

Notes to the Interim Financial Statements (Continued)

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

24. INCOME TAX *(CONTINUED)*

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

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

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

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

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

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

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 is incurred.

As lessor in operating leases

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

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

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

28. GENERAL RESERVE

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

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.

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

29. FAIR VALUE MEASUREMENT *(CONTINUED)*

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

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

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

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

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

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

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 provision, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

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

Going concern

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

Notes to the Interim Financial Statements (Continued)

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

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

Judgments *(Continued)*

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

As of 30 June 2018, the Group held 12% equity interests in Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical"). The Company designates one director to Anhui Linhuan Chemical according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Anhui Linhuan Chemical, despite the equity share is under 20%. Thus, the Company had accounted for the investment in Anhui Linhuan Chemical as an associate.

Notes to the Interim Financial Statements (Continued)

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

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

Judgments *(Continued)*

Business model

The classification of a financial asset at initial recognisation depends on the Group's business model of managing financial assets. To determine whether the Group's business model for managing financial assets is to collect contractual cash flows, the Group needs to analysis the sale of financial assets before the due date. The determination of whether a sale of a financial asset is occasional or not and whether the sale price is insignificant or not requires judgment.

The characteristics of contractual cash flows

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

Estimation uncertainty

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

Impairment of financial assets

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

Notes to the 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 *(Continued)*

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Sales involving right of return

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

Notes to the 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 *(Continued)*

Constraint in variable consideration estimate

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

Estimation of useful life of fixed assets

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

Estimation of inventories net realizable value

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

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

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

31. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes in accounting policies

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

New Revenue Standard

The New Revenue Standard establishes a new model to account for revenue arising from contracts with customers. The revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment and estimation, taking into consideration of the contract costs, performance obligations, variable considerations, principal versus agent. The Group measured the cumulative effect for the uncompleted contracts as at 1 January 2018 under the New Revenue Standard, and for the contract change occurred before 1 January 2018, the Group identified fulfilled and outstanding performance obligations, determine the consideration of the transaction, and the allocation of the consideration between the fulfilled and outstanding performance obligations according to the final arrangement of the contract change. Based on the assessment on uncompleted sales contracts as at January 1, 2018, the Group believed that the impact by adopting the New Revenue Standard on the Group's financial statements was insignificant which was mainly due to the revenue recognition upon the transfer of risks and rewards coincided with the fulfilment of performance obligations for sales contract for the Group, and also the Group's sales contracts generally include one performance obligation. The assessment results showed that the adoption of the New Revenue Standard did not have significant impact on the Group's and the Company's revenue, net profit and shareholders' equity. Therefore, the Group and the Company did not adjust the financial statements upon initial adoption.

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

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

Changes in accounting policies *(Continued)*

New Financial Instruments Standards

New Financial Instruments Standards changed the classification and measurement for financial instruments and designated 3 categories of the financial assets: financial assets measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is based on the Group's business model for managing the asset and the instruments' contractual cash flows characteristic. Equity investments are measured at fair value through profit or loss, but entity can choose irrevocably at initial recognition at fair value through other comprehensive income (no gain or loss on disposal recycled to profit or loss except the dividends).

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

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

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

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

Changes in accounting policies *(Continued)*

New Financial Instruments Standards (Continued)

A reconciliation on the financial instruments' classification and measurement (including the change of impairment provision using the ECL approach as at 1 January 2018) as at 1 January 2018 upon initial adoption of the New Financial Instruments Standards is as follows:

The Group

	Under Original Accounting Standards	Changes in accounting policies		Under New Accounting Standards
	31 December 2017	Reclassification	Remeasurement	1 January 2018
Assets				
Financial assets at fair value through profit or loss	1,546,139,404	(1,546,139,404)	–	–
Financial assets held for trading	–	1,546,139,404	–	1,546,139,404
Notes and trade receivables	9,341,614,275	–	(9,861,282)	9,331,752,993
Other receivables	285,228,074	–	(15,693,097)	269,534,977
Financial assets purchased under agreements to resell	1,204,603,000	–	(6,523)	1,204,596,477
Loans and advances to customers	1,251,315,253	–	(2,735,732)	1,248,579,521
Held-to-maturity investments	406,082,606	(406,082,606)	–	–
Debt instruments investment	–	1,390,528,606	6,948,601	1,397,477,207
Available-for-sale financial assets	1,111,168,160	(1,111,168,160)	–	–
Other equity instrument investments (Note)	–	126,722,160	36,653,752	163,375,912
Deferred tax assets	478,235,280	–	(1,783,951)	476,451,329
Liabilities				
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Financial liabilities held for trading	–	10,498,810	–	10,498,810
Provision (loan commitment)	–	–	203,555	203,555
Deferred tax liabilities	26,841,665	–	9,163,438	36,005,103
Shareholders' equity				
Other comprehensive income	(124,156,060)	–	32,360,498	(91,795,562)
Retained earning	3,643,443,763	–	(20,317,968)	3,623,125,795
Equity attributable to owners of parent	23,895,739,812	–	12,042,530	23,907,782,342
Non-controlling interests	3,341,524,501	–	(7,887,756)	3,333,636,745
Total shareholders' equity	27,237,264,313	–	4,154,774	27,241,419,087

Notes to the Interim Financial Statements (Continued)

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

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

Changes in accounting policies *(Continued)*

New Financial Instruments Standards (Continued)

The Company

	Under Original Accounting Standards 31 December 2017	Changes in accounting policies		Under New Accounting Standards 1 January 2018
		Reclassification	Remeasurement	
Assets				
Financial assets at fair value through profit or loss	62,721,800	(62,721,800)	–	–
Financial assets held for trading	–	62,721,800	–	62,721,800
Notes receivable and accounts receivable	10,170,482,595	–	–	10,170,482,595
Other receivables	7,740,789,448	–	–	7,740,789,448
Available-for-sale financial assets	126,722,160	(126,722,160)	–	–
Other equity instrument investments (Note)	–	126,722,160	36,653,752	163,375,912
Liabilities				
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Financial liabilities held for trading	–	10,498,810	–	10,498,810
Deferred tax liabilities	–	–	9,163,438	9,163,438
Shareholders' equity				
Other comprehensive income	–	–	27,490,314	27,490,314

Note: Other equity instruments investments are financial assets measured at fair value through other comprehensive income.

Financial Statements Format

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

Notes to the Interim Financial Statements (Continued)

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IV. TAX

1. THE MAJOR TAXES AND RELATED TAX RATES

Value-added tax	Before 1 May, 2018, the output VAT rate of domestic sales is 17%. Since 1 May 2018, the output VAT rate of domestic sales is 16%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refund rates of 9% to 16%.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Income tax	The Group and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their taxable profits. Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") was established and registered in Hong Kong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia")) was established and registered in Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered in France, the applicable income tax rate is 33.3%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, the applicable income tax rate is 30%.
Land appreciation tax	Payable based on appreciation of land use right and building at a progressive tax rate of 30%-60% as a result of the transfer of ownership.
Education surcharge	Payable based on 3% of the turnover taxes to be paid.
Local education surcharge	Payable based on 2% of the turnover taxes to be paid.
Property tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Environment protection tax	Payable based on the actual air pollution generated with RMB1.2 per pollution equivalent. Environment protection tax was levied since 1 January 2018.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	30 June 2018 Unaudited	31 December 2017 Audited
Cash on hand	**5,126**	69,222
Bank balances	**5,778,799,684**	3,317,292,945
Other monetary assets	**1,035,019,064**	950,166,471
Mandatory reserves of Masteel Finance deposited in the central bank	**724,357,939**	710,823,455
	7,538,181,813	4,978,352,093

As of 30 June 2018, the Group's other monetary assets amounting to RMB1,035,019,064 have been pledged to banks as security (31 December 2017: RMB950,166,471) for bank acceptance notes, letters of credit and performance guarantees.

As of 30 June 2018, the Group had cash and bank balances amounting to RMB890,678,739 that have been deposited outside the PRC (31 December 2017: RMB405,464,133).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months to one year respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 30 June 2018, the Group had time deposits amounting to RMB860,158,000 (31 December 2017: RMB376,860,152) with terms of over three months.

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 Unaudited	31 December 2017 Audited
Financial assets designated as at fair value through profit or loss		
Including: – derivative financial assets futures contracts	**–**	62,721,800
– investments in equity instruments	**–**	1,483,417,604
	–	1,546,139,404

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

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(CONTINUED)*

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

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

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

3. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2018 Unaudited	31 December 2017 Audited
Financial assets at fair value through profit or loss		
Equity investment	**1,904,616,195**	1,020,675
Derivative financial instruments – futures contracts	**19,789,892**	(24,280,900)
Derivative financial instruments – forward foreign exchange contracts	**3,800,950**	14,299,760
	1,928,207,037	(8,960,465)

As of 30 June, 2018, the Group's equity instruments investment was mainly for its financial products.

As of 30 June, 2018, there were no major restrictions on the realization of the Group's equity instruments investment.

The fair value of the futures contract is determined based on the settlement price of the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange on the last trading day of June 2018.

As of 30 June 2018, the fair value of forward foreign exchange contracts held by the Group was determined based on the forward foreign exchange rates on the last trading day of June 2018.

Notes to the Interim Financial Statements (Continued)

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

4. NOTES AND TRADE RECEIVABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Notes receivable	**6,805,738,623**	8,375,166,683
Trade receivables	**1,183,198,528**	1,014,120,802
	7,988,937,151	9,389,287,485
Less: Provisions for bad debts	**71,828,927**	47,673,210
	7,917,108,224	9,341,614,275

Notes receivable	**30 June 2018 Unaudited**	31 December 2017 Audited
Bank acceptance notes	**6,800,538,623**	8,369,466,683
Commercial acceptance notes	**5,200,000**	5,700,000
	6,805,738,623	8,375,166,683

The pledged notes receivable were as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Bank acceptance notes	**774,389,336**	–

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance notes	**7,591,140,954**	**222,902,072**	4,778,024,515	53,676,353

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

As of 30 June 2018 and 31 December 2017, there was no trade receivables transferred from notes receivable because of the drawers' inability to pay.

Trade receivables

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

The aging of trade receivables, based on the invoice date, is analysed below:

	30 June 2018 Unaudited	31 December 2017 Audited
Within one year	**1,062,939,322**	915,981,378
One to two years	**55,173,112**	50,266,296
Two to three years	**17,564,201**	8,034,401
Over three years	**47,521,893**	39,838,727
	1,183,198,528	1,014,120,802
Less: Provisions for bad debts	**71,828,927**	47,673,210
	1,111,369,601	966,447,592

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

	Opening balance	Accounting policies changes	Increase during the year/period	Reversal	Write-back	Write off	Other changes	Closing balance
30 June 2018	47,673,210	9,861,282	14,806,822	(487,578)	–	–	(24,809)	71,828,927
31 December 2017	20,729,808	–	30,468,944	(3,632,383)	–	–	106,841	47,673,210

Notes to the Interim Financial Statements (Continued)

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

The balances of trade receivables are analysed as follows:

	30 June 2018 (Unaudited)			
	Book value		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed bad debt provision individually	**–**	**–**	**–**	**–**
Assessed bad debt provision in portfolios based on credit risk characteristics	**1,183,198,528**	**100**	**(71,828,927)**	**6**
	1,183,198,528	**100**	**(71,828,927)**	

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

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

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

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

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

Provision for bad debts of trade receivables of the Group analysed by aging is disclosed as follows:

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value expected to default	**Expected credit loss percentage (%)**	**Expected credit loss during lifetime**	Book value	Ratio (%)	Provision for bad debts
Within one year	**1,062,939,322**	**1**	**(10,629,393)**	911,939,548	–	–
One to two years	**55,173,112**	**12**	**(6,620,773)**	49,657,707	10	(4,965,771)
Two to three years	**17,564,201**	**51**	**(8,957,743)**	7,735,144	20	(1,547,029)
Over three years	**47,521,893**	**96**	**(45,621,018)**	3,218,808	50	(1,609,404)
	1,183,198,528		**(71,828,927)**	972,551,207		(8,122,204)

During the current period, provision for bad debts was RMB14,806,822 and the recovery or reversal of provision for bad debts was RMB487,578.

During the current period, there was no write-off of provision for bad debts.

Notes to the Interim Financial Statements (Continued)

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

4. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

As of 30 June 2018 and 31 December 2017, there was no trade receivables that were derecognised due to the transfer of financial assets.

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

30 June 2018	**Relationship with the Group**	**Ending balance**	**Aging**	**Percentage of trade receivables**	**Ending balance of bad debts provision**
Company 1	**Third Party**	**52,780,911**	**Within 1 year**	**5%**	**(527,809)**
Company 2	**Third Party**	**49,742,227**	**Within 1 year**	**4%**	**(497,422)**
Company 3	**Third Party**	**48,312,244**	**Within 3 years**	**4%**	**(46,379,754)**
Company 4	**Third Party**	**47,172,173**	**Within 1 year**	**4%**	**(471,722)**
Company 5	**Third Party**	**46,665,191**	**Within 1 year**	**4%**	**(466,652)**
		244,672,746		**21%**	**(48,343,359)**

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

As of 30 June 2018, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continuingly involved (31 December 2017: Nil).

Notes to the Interim Financial Statements (Continued)

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

5. PREPAYMENTS

An aging analysis of the prepayments is as follows:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Book value	**Ratio (%)**	Book value	Ratio (%)
Within one year	**601,100,684**	**97**	729,997,738	97
One to two years	**5,084,367**	**1**	6,785,513	1
Two to three years	**1,060,733**	**–**	2,301,075	–
Over three years	**11,156,582**	**2**	11,734,505	2
	618,402,366	**100**	750,818,831	100

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

The top five prepayments classified by debtors are as follows:

30 June 2018	**Relationship with the Group**	**Ending balance**	**Aging**	**Percentage of prepayments**
Company 1	**Third Party**	**155,856,095**	**Within 1 year**	**25%**
Company 2	**Third Party**	**112,836,621**	**Within 1 year**	**18%**
Company 3	**Associate**	**34,337,449**	**Within 1 year**	**6%**
Company 4	**Third Party**	**29,910,750**	**Within 1 year**	**5%**
Company 5	**Third Party**	**24,335,794**	**Within 1 year**	**4%**
		357,276,709		**58%**

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

Notes to the Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Interest receivable		
Interest from loans and advances	**5,315,576**	6,390,787
Dividends receivable		
Associate-Shenlong Chemical	**32,000,000**	–
Government grants receivable	**237,911**	5,237,911
Payment on behalf of other companies	**50,733,791**	50,733,791
Prepaid import tariff and VAT deposit	**18,799,531**	39,396,766
Prepayment for trading	**415,916,327**	585,534,699
Deposit for steel futures	**126,462,731**	131,482,895
Others	**128,927,358**	60,143,385
	778,393,225	878,920,234
Less: Provision for bad debts	**437,980,458**	593,692,160
	340,412,767	285,228,074

An aging analysis of other receivables is as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Within one year	**295,159,041**	213,071,211
One to two years	**8,253,941**	66,060,251
Two to three years	**50,963,144**	615,046
Over three years	**424,017,099**	599,173,726
	778,393,225	878,920,234
Less: Provision for bad debts	**437,980,458**	593,692,160
	340,412,767	285,228,074

Notes to the Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

The movement of bad debt provision provided based on the lifetime credit losses is as follows:

	Opening balance	Accounting policies changes	Increase during the period	Reversal	Write-back due to disposal of a subsidiary	Other changes	Closing balance
Expected credit loss during the lifetime	593,692,160	15,693,097	43,316	(1,823,390)	(169,618,372)	(6,353)	437,980,458

The other receivables balance is analysed as follows:

	30 June 2018 (Unaudited)			
	Book value		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed expected credit losses individually	**163,778,305**	**21**	**–**	**–**
Assessed expected credit losses in portfolios based on credit risk characteristics	**614,614,920**	**79**	**(437,980,458)**	**71**
	778,393,225	**100**	**(437,980,458)**	

	31 December 2017 (Audited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	587,934,699	67	(587,934,699)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	215,595,435	25	(2,966,381)	1
Individually insignificant but assessed for bad debt provision individually	75,390,100	8	(2,791,080)	4
	878,920,234	100	(593,692,160)	

Notes to the Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	76,821,224	(76,821,224)	100	(ii)
Company 4	60,939,960	(60,939,960)	100	(i)
Company 5	57,988,833	(57,988,833)	100	(iv)
Company 6	37,243,732	(37,243,732)	100	(i)
Company 7	34,783,463	(34,783,463)	100	(ii)
Company 8	17,079,513	(17,079,513)	100	(ii)
Company 9	10,056,058	(10,056,058)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	5,143,596	(5,143,596)	100	(ii)
Company 14	4,069,419	(4,069,419)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
	587,934,699	(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, management assessed that it was difficult for the Company to collect the receivables as the second in line pledgee, therefore, a full provision for the bad debts was made.

(ii) The companies were former steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd. ("Shanghai Trading") (Disposed in 2018, as reference to Note VI Changes in the scope of consolidation), a subsidiary of the Company. Management of the Group has assessed that it was difficult to collect the receivables because that the companies were in operating difficulties, and therefore made a full provision for the bad debts.

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

(iv) As the customer had broken the contract and paid part of the debt with real estate, the Company estimated that the rest of the receivables amounting to RMB57,988,833 were uncollectible and therefore made a full provision for bad debts as of 31 December 2017.

Notes to the Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

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

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value expected default	Expected credit loss percentage (%)	Expected credit loss	Book value	Ratio (%)	Provision for bad debts
Within one year	131,380,736	2	(2,627,615)	206,680,424	–	–
One to two years	8,253,941	22	(1,815,867)	3,420,290	10	(342,029)
Two to three years	50,963,144	27	(13,760,049)	410,026	20	(82,005)
Over three years	424,017,099	99	(419,776,928)	5,084,695	50	(2,542,347)
	614,614,920		(437,980,459)	215,595,435		(2,966,381)

During the current period, the provision for bad debts was RMB43,316, recovery of provision for bad debts was RMB1,823,390 and write-back reversal of provision for bad debts was RMB169,618,372 due to the change of consolidation scope.

During the current period, there was no write-off of provision for bad debts.

As of 30 June 2018, the top five other receivables were as follows:

	Book value	Ratio in other receivables (%)	Nature	Aging	Provision for bad debts
Company 1	132,058,434	17	Prepayments	More than 3 years	(132,058,434)
Company 2	127,685,367	16	Prepayments	More than 3 years	(127,685,367)
Company 3	67,731,041	9	Guarantee	Within 1 year	–
Company 4	60,939,960	8	Prepayments	More than 3 years	(60,939,960)
Company 5	57,988,833	7	Prepayments	More than 3 years	(57,988,833)
	446,403,635	57			(378,672,594)

Notes to the Interim Financial Statements (Continued)

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

6. OTHER RECEIVABLES *(CONTINUED)*

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

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

As of 30 June 2018, the government grants receivable were as follows:

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

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

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

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Changjiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and full tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. During the current period, Anhui Changjiang Iron and Steel collected RMB5,000,000, and the remaining amount was expected to collect in 2018.

The balances of other receivables as of 30 June 2018 and 31 December 2017 did not contain any amount derecognised due to the transfer of financial assets.

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

7. INVENTORIES

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Raw materials	**5,332,820,823**	**(25,203,965)**	**5,307,616,858**	5,151,178,511	(25,064,421)	5,126,114,090
Work in progress	**1,426,268,883**	**(35,960,731)**	**1,390,308,152**	1,435,040,464	(35,139,247)	1,399,901,217
Finished goods	**3,501,448,420**	**(78,801,665)**	**3,422,646,755**	3,678,581,632	(57,103,281)	3,621,478,351
Spare parts	**1,061,266,729**	**(81,773,206)**	**979,493,523**	1,146,576,477	(81,796,976)	1,064,779,501
Others	**233,474,649**	**–**	**233,474,649**	233,474,649	–	233,474,649
	11,555,279,504	**(221,739,567)**	**11,333,539,937**	11,644,851,733	(199,103,925)	11,445,747,808

The movements of impairment provision against inventories for the period are disclosed in Note V.22.

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

As of 30 June 2018, the Group had no constraint inventories (31 December 2017: Nil).

8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	30 June 2018 Unaudited	31 December 2017 Audited
Bonds	**884,891,001**	1,204,603,000
Less: Provision for impairment	**4,399**	–
	884,886,602	1,204,603,000

The movements of impairment provision against financial assets purchased under agreements to resell for the period are disclosed in Note V.22.

Financial assets purchased under agreements to resell are bonds that are bought first and to be sold at a fixed price by Masteel Finance according to the resale agreements. The ending balance was bonds repurchased by pledge.

Notes to the Interim Financial Statements (Continued)

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

9. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2018 Unaudited	31 December 2017 Audited
Loans	**540,000,000**	531,000,000
Discounted notes	**1,273,468,227**	734,464,372
Factoring	**–**	20,000,000
	1,813,468,227	1,285,464,372
Less: Bad debt provision for loans and advances	**47,097,604**	34,149,119
	1,766,370,623	1,251,315,253

The movement of the provision for bad debts against loans and advances to customers for the current period is disclosed in Note V.22.

As of 30 June 2018, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from related parties as of 30 June 2018 and 31 December 2017 are stated in Note X.6 to the financial statements.

10. ASSETS CLASSIFIED AS HELD FOR SALE

	30 June 2018 Unaudited	31 December 2017 Audited
Assets classified as held for sale	**117,019,986**	73,454,334

On 18 May 2018, Ma Steel (Hefei) Co., Ltd. ("Ma Steel (Hefei)"), a subsidiary of the Company listed certain assets for sale through Anhui Assets and Equity Exchange. These assets are neither included in the assets scope to be acquired by Hefei Land Reserve Center, nor as the assets to be preserved as industrial heritage. On 15 June 2018, Jiangxi Baishengda Metal Co., Ltd. and Anhui Xinguangde Renewable Resources Co., Ltd. accepted the transaction terms and committed to acquire the listing assets. As at 30 June 2018, the carrying amount of the above assets was RMB117,019,986 which is in line with the appraisal result provided by third party evaluator less any transaction costs. The Company believed the transaction will complete in the second half of 2018, and therefore classified the above assets as held for sale.

Notes to the Interim Financial Statements (Continued)

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

11. HELD-TO-MATURITY INVESTMENT

	31 December 2017 (Audited)		
	Book value	Provision for impairment	Carrying amount
Current asset			
Treasury bonds	305,228,376	–	305,228,376
Non-current asset			
Treasury bonds	100,854,230	–	100,854,230
	406,082,606	–	406,082,606

Significant held-to-maturity investments are as follows:

	Par value	Nominal interest rate	Actual interest rate	Purchase date	Maturity date
Current asset					
17 interest-bearing bonds 03	100,000,000	2.78%	3.11%	28 April 2017	9 February 2018
17 interest-bearing bonds 03	100,000,000	2.78%	3.53%	21 June 2017	13 February 2018
15 Anhui bonds 01	50,000,000	2.90%	3.79%	9 August 2017	6 June 2018
15 Jiangsu bonds 09	50,000,000	2.89%	3.84%	8 August 2017	6 November 2018
Non-current asset					
12 interest-bearing bonds 10	50,000,000	3.14%	3.565%	18 October 2017	7 June 2019
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019

Notes to the Interim Financial Statements (Continued)

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

12. DEBT INSTRUMENTS INVESTMENT

	30 June 2018 (Audited)		
	Book value	**Provision for impairment**	**Carrying amount**
Current asset			
National and local bonds	**100,678,832**	**–**	**100,678,832**
Interbank deposits	**1,390,010,078**	**(262,421)**	**1,389,747,657**
	1,490,688,910	**(262,421)**	**1,490,426,489**
Non-current asset			
National and local bonds	**51,148,671**	**–**	**51,148,671**
	1,541,837,581	**(262,421)**	**1,541,575,160**

Significant national bonds are as follows:

	Par value	Nominal interest rate	Effective interest rate	Purchase date	Maturity date
Current asset					
15 Jiangsu bonds 09	50,000,000	2.89%	3.11%	8 August 2017	6 November 2018
15 interest-bearing bonds 10	50,000,000	3.14%	3.565%	18 October 2017	7 June 2019
Non-current asset					
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019

The changes in bad debt provision for debt instruments investment based on 12-month expected credit losses are as follows:

	Opening balance	Accounting policies changes	Increase during the period	Reversal	Write-back	Write-off	Closing balance
12-month expected credit losses	–	(187,201)	(75,220)	–	–	–	(262,421)

Notes to the Interim Financial Statements (Continued)

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

13. OTHER CURRENT ASSETS

	30 June 2018 Unaudited	31 December 2017 Audited
Prepaid income tax	**280,838,458**	295,578,934
Deductible value added tax	**600,840,471**	620,091,558
Others	**–**	366,839
	881,678,929	916,037,331

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017 (Audited)		
	Book value	Provision for impairment	Carrying amount
Available-for-sale debt instruments	984,446,000	–	984,446,000
Available-for-sale equity instruments measured at cost	126,722,160	–	126,722,160
	1,111,168,160	–	1,111,168,160

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

	31 December 2017 Audited
Available-for-sale debt instruments	
Debt instruments' amortised cost	991,581,802
Fair value	984,446,000
Accumulated fair value changes recognised in other comprehensive income	(7,135,802)
Provision	–

Note: Available-for-sale debt instruments held by the Group were mainly interbank deposits owned by Masteel Finance.

Notes to the Interim Financial Statements (Continued)

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

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

Available-for-sale financial assets measured at cost:

31 December 2017 (Audited)

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

15. LONG-TERM EQUITY INVESTMENTS

30 June 2018 (Unaudited)

		Movements during the period								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment	Closing balance	Impairment at the end of the period
Joint ventures										
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	334,457,696	-	-	43,632,202	-	-	(120,000,000)	-	258,089,898	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	546,153	-	-	(535)	-	-	-	-	545,618	-
Associates										
Henan JinMa Energy Co., Ltd. ("Henan JinMa Energy")	441,184,749	-	-	97,728,664	-	573,382	(40,320,000)	-	499,166,795	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	469,646,241	-	-	130,406,068	-	635,492	(32,000,000)	-	568,687,801	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	22,759,705	-	-	(1,093,073)	-	-	-	-	21,666,632	-
Xinchuang Environmental Protection	48,584,024	-	-	4,972,583	-	198,584	(1,428,658)	-	52,326,533	-
Anhui Linhuan Chemical	80,254,391	-	-	13,722,355	-	80,614	-	-	94,057,360	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	127,792,243	-	-	8,479,637	-	593,876	-	-	136,865,756	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring") (Note 1)	-	75,000,000	-	315,304	-	-	-	-	75,315,304	-
Ma Steel (Shanghai) Finance Leasing Co., Ltd. ("Ma-Steel Finance Leasing") (Note 2)	-	75,000,000	-	657,669	-	-	-	-	75,657,669	-
	1,525,225,202	150,000,000	-	298,820,874	-	2,081,948	(193,748,658)	-	1,782,379,366	-

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

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

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

Note 1: On 17 April 2018, the Company jointly established Ma-Steel Commercial Factoring with registered capital amounting to RMB300,000,000 with Magang (Group) Investment Co., Ltd., Masteel International Trade and Economic Co., Ltd., Maanshan Iron & Steel Group Mining Co., Ltd. and Anhui Masteel Engineering Technology (Group) Co., Ltd. According to the "Articles of Association" of Ma-Steel Commercial Factoring, the Company invests in cash with a capital investment of RMB75,000,000, the capital investment ratio and shareholding ratio are 25%. On 2 May 2018, the Company invested RMB75,000,000 in cash.

According to the "Articles of Association" of Ma-Steel Commercial Factoring, the Company assign one out of five directors in the board and has the right to participate in decision-making on its financial and operating policies, but cannot control or jointly control with other parties. These policies were formulated so that the Company has significant influence on Ma-Steel Commercial Factoring and adopt the equity method to account for its long-term equity investments as an associate.

Note 2: On 10 April 2018, Ma Steel (HK), the subsidiary of the Company jointly established Ma-Steel Finance Leasing with registered capital amounting to RMB300,000,000 with Magang (Group) Investment Co., Ltd., Ma'anshan Jiangdong Finance Holding Co., Ltd. and Anhui Xincheng Investment Co., Ltd. According to the "Articles of Association" of Ma Steel Finance Leasing, Ma Steel (HK) invests in RMB cash amounting to RMB75,000,000, and the capital investment ratio and shareholding ratio are 25%.

According to the "Articles of Association" of Ma Steel Finance Leasing, Ma Steel (HK) assign one out of five directors in the board and has the right to participate in decision-making on its financial and operating policies, but cannot control or jointly control with other parties. These policies are formulated so that Ma Steel (HK) has significant influence on Ma Steel Finance Leasing and adopt equity method to account for its long-term equity investments as an associate.

31 December 2017 (Audited)

		Movements during the year								
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment	Closing balance	Impairment at the end of the year
Joint ventures										
BOC-Ma Steel	319,018,068	–	–	90,439,628	–	–	(75,000,000)	–	334,457,696	–
MASTEEL-CMI	541,433	–	–	4,720	–	–	–	–	546,153	–
Mascometal	53,284,037	78,431,997	(127,368,631)	(4,347,403)	–	–	–	–	–	–
Associates										
Henan JinMa Energy	296,196,390	–	(22,335,060)	202,392,735	–	930,684	(36,000,000)	–	441,184,749	–
Shenglong Chemical	309,396,424	–	–	179,443,817	–	–	(19,194,000)	–	469,646,241	–
Shanghai Iron and Steel Electronic	27,120,592	–	–	1,639,113	–	–	(6,000,000)	–	22,759,705	–
Xinchuang Environmental Protection	43,780,961	–	–	5,362,627	–	746,827	(1,306,391)	–	48,584,024	–
Anhui Linhuan Chemical	72,000,000	–	–	7,320,968	–	933,423	–	–	80,254,391	–
Ma-Steel OCI Chemical	118,438,408	–	–	8,154,347	–	1,199,488	–	–	127,792,243	–
	1,239,776,313	78,431,997	(149,703,691)	490,410,552	–	3,810,422	(137,500,391)	–	1,525,225,202	–

Notes to the Interim Financial Statements (Continued)

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

16. OTHER EQUITY INSTRUMENTS INVESTMENTS

30 June 2018 (Unaudited)

				Dividend	
	Cost	Changes in fair value cumulatively recognised in other comprehensive income	Fair value	Equity instruments derecognized in the period	Equity instruments held
Henan Longyu	10,000,000	24,238,826	34,238,826	–	–
MCC 17	8,554,800	40,497,871	49,052,671	–	–
Shanghai Luojing	88,767,360	(44,406,212)	44,361,148	–	–
Zhonglian Steel	1,000,000	(123,901)	876,099	–	–
Anshan Huatai	400,000	(4,784)	395,216	–	–
CFHI Maanshan (Note)	16,030,500	(4,615,482)	11,415,018	–	–
Guoqi Institute	3,000,000	(218,232)	2,781,768	–	–
	127,752,660	15,368,086	143,120,746	–	–

Note: In January 2018, the Group increased investment in CFHI Maanshan by RMB1,030,500.

Notes to the Interim Financial Statements (Continued)

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

17. INVESTMENT PROPERTIES

Investment properties measured using the cost method:

30 June 2018 (Unaudited)

	Plant and buildings
Cost:	
At 1 January 2018	65,075,379
Addition	–
At 30 June 2018	65,075,379
Accumulated depreciation:	
At 1 January 2018	7,566,695
Provided	874,650
At 30 June 2018	8,441,345
Provision for impairment:	
At 1 January 2018 and 30 June 2018	–
Net carrying amount:	
At 1 January 2018	56,634,034
At 30 June 2018	57,508,684

Notes to the Interim Financial Statements (Continued)

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

17. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties measured using the cost method: *(Continued)*

31 December 2017 (Audited)

	Plant and buildings
Cost:	
At 1 January 2017	65,075,379
Addition	–
At 31 December 2017	65,075,379
Accumulated depreciation:	
At 1 January 2017	6,241,381
Provided	1,325,314
At 31 December 2017	7,566,695
Provision for impairment:	
At 1 January 2017 and 31 December 2017	–
Net carrying amount:	
At 31 December 2017	57,508,684
At 1 January 2017	58,833,998

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

Notes to the Interim Financial Statements (Continued)

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

18. PROPERTY, PLANT AND EQUIPMENT

30 June 2018 (Unaudited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note)	Total
Cost:						
At 1 January 2018	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Addition	4,943,010	43,013,894	2,320,906	2,478,180	–	52,755,990
Transferred from construction progress (Note V.19)	1,200,280	378,085,530	1,375,906	–	–	380,661,716
Classified as assets held for sale (Note V.10)	–	(1,117,628,405)	–	–	–	(1,117,628,405)
Disposal	(136,318,414)	(3,506,476)	(9,598,279)	–	–	(149,423,169)
Exchange realignment	(110,091)	(2,535,232)	(1,361,602)	(102,962)	(211,869)	(4,321,756)
At 30 June 2018	28,182,139,048	53,886,182,777	378,179,498	270,239,090	10,750,087	82,727,490,500
Accumulated depreciation:						
At 1 January 2018	13,242,580,090	36,046,867,181	301,161,332	251,424,893	–	49,842,033,496
Provided	351,809,906	1,543,282,155	9,698,876	3,031,961	–	1,907,822,898
Classified as assets held for sale (Note V.10)	–	(775,206,717)	–	–	–	(775,206,717)
Disposal	(52,280,364)	(2,688,964)	(8,159,660)	–	–	(63,128,988)
Exchange realignment	(52,916)	(478,122)	(407,607)	(78,241)	–	(1,016,886)
At 30 June 2018	13,542,056,716	36,811,775,533	302,292,941	254,378,613	–	50,910,503,803
Impairment:						
At 1 January 2018	104,408,146	487,885,152	619,468	–	–	592,912,766
Classified as assets held for sale (Note V.10)	–	(225,401,702)	–	–	–	(225,401,702)
At 30 June 2018	104,408,146	262,483,450	619,468	–	–	367,511,064
Net carrying amount:						
At 30 June 2018	14,535,674,186	16,811,923,794	75,267,089	15,860,477	10,750,087	31,449,475,633
At 1 January 2018	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862

Notes to the Interim Financial Statements (Continued)

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

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

31 December 2017 (Audited)

	Plant and buildings	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	6,054,144	85,124,002	7,273,995	1,716,586	–	100,168,727
Business combination	–	112,713	177,003	7,849	–	297,565
Transferred from construction in progress	566,145,962	1,691,818,944	18,616,780	149,156	–	2,276,730,842
Reclassifications	(104,782,703)	96,823,103	7,959,600	–	–	–
Classified as assets held for sale	(40,142,003)	(222,179,917)	–	–	–	(262,321,920)
Disposal	(438,301,782)	(1,295,397,943)	(35,643,585)	(363,583)	–	(1,769,706,893)
Accrual adjustments for construction	–	(363,572,672)	–	–	–	(363,572,672)
Disposal of a subsidiary	–	(5,705,913)	(805,624)	(365,472)	–	(6,877,009)
Exchange realignment	1,582,382	8,901,013	262,105	318,531	696,160	11,760,191
At 31 December 2017	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Accumulated depreciation:						
At 1 January 2017	12,872,670,351	34,591,216,575	309,217,755	244,653,433	–	48,017,758,114
Provided	790,935,731	2,741,886,074	20,062,209	7,007,485	–	3,559,891,499
Reclassifications	(9,890,291)	4,818,647	5,071,644	–	–	–
Classified as assets held for sale	(20,576,618)	(168,290,968)	–	–	–	(188,867,586)
Disposal	(390,655,903)	(1,120,558,093)	(32,635,145)	(8,090)	–	(1,543,857,231)
Disposal of a subsidiary	–	(3,675,424)	(750,450)	(338,975)	–	(4,764,849)
Exchange realignment	96,820	1,470,370	195,319	111,040	–	1,873,549
At 31 December 2017	13,242,580,090	36,046,867,181	301,161,332	251,424,893	–	49,842,033,496
Impairment:						
At 1 January 2017	6,514,174	32,093,290	–	–	–	38,607,464
Provided	101,594,293	487,885,152	619,468	–	–	590,098,913
Disposal	(3,700,321)	(32,093,290)	–	–	–	(35,793,611)
At 31 December 2017	104,408,146	487,885,152	619,468	–	–	592,912,766
Net carrying amount:						
At 31 December 2017	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862
At 1 January 2017	15,442,683,738	19,969,520,271	78,384,538	21,747,372	10,265,796	35,522,601,715

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

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

Note: Land in fixed assets is the land ownership purchased by MG-VALDUNES, a subsidiary of the Group, in France.

As of 30 June 2018, certificates of ownership in respect of 35 buildings of the Group in Mainland China, with an aggregate cost of RMB1,343,778,609 (31 December 2017: RMB1,343,778,609), have not been obtained from the relevant government authorities. The directors represented that the Group was in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

19. CONSTRUCTION IN PROGRESS

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value	**Provision for impairment**	**Carrying amount**	Book value	Provision for impairment	Carrying amount
Product quality projects	**1,106,515,494**	**–**	**1,106,515,494**	575,866,740	–	575,866,740
Energy-saving and environmental protection projects	**463,840,964**	**–**	**463,840,964**	345,489,968	–	345,489,968
Equipment advancement and other modification projects	**422,918,881**	**–**	**422,918,881**	565,711,125	–	565,711,125
Other projects	**378,893,413**	**–**	**378,893,413**	318,887,776	–	318,887,776
Total	**2,372,168,752**	**–**	**2,372,168,752**	1,805,955,609	–	1,805,955,609

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

19. CONSTRUCTION IN PROGRESS *(CONTINUED)*

The movements of significant projects are as follows:

30 June 2018 (Unaudited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets RMB (Note V.18)	Transferred to intangible assets RMB (Note V.20)	Other reduction RMB	Closing balance RMB	Source of fund	The proportion of projects investment account for budget (%)
Product quality projects	6,633,515	575,866,740	708,148,095	(177,499,338)	–	–	1,106,515,497	Internally financed/ loan	46
Energy-saving and environmental protection projects	1,354,275	345,489,968	256,692,082	(138,341,085)	–	–	463,840,965	Internally financed/ loan	65
Equipment advancement and other modification projects	1,262,598	565,711,125	52,851,358	(64,513,601)	(131,130,000)	–	422,918,882	Internally financed/ loan	33
Other projects	N/A	318,887,776	75,141,524	(307,692)	(14,828,200)	–	378,893,408	Internally financed/ loan	N/A
		1,805,955,609	1,092,833,059	(380,661,716)	(145,958,200)	–	2,372,168,752		
Less: impairment		–	–	–	–	–	–		
		1,805,955,609	1,092,833,059	(380,661,716)	(145,958,200)	–	2,372,168,752		

31 December 2017 (Audited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Business combination RMB	Transferred to fixed assets RMB	Closing balance RMB	Source of fund	The proportion of projects investment account for budget (%)
Product quality projects	11,023,853	387,560,165	702,524,220	57,634,890	(571,852,535)	575,866,740	Internally financed/ loan	51
Energy-saving and environmental protection projects	2,842,715	448,789,128	347,431,616	–	(450,730,776)	345,489,968	Internally financed/ loan	69
Equipment advancement and other modification projects	1,626,014	856,066,507	249,998,243	–	(540,353,625)	565,711,125	Internally financed/ loan	79
Other projects	N/A	565,775,598	466,906,084	–	(713,793,906)	318,887,776	Internally financed/ loan	N/A
		2,258,191,398	1,766,860,163	57,634,890	(2,276,730,842)	1,805,955,609		
Less: impairment		–	–	–	–	–		
		2,258,191,398	1,766,860,163	57,634,890	(2,276,730,842)	1,805,955,609		

Notes to the Interim Financial Statements (Continued)

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

19. CONSTRUCTION IN PROGRESS *(CONTINUED)*

The movements of significant interest capitalisation are as follows:

30 June 2018 (Unaudited)

Name of projects	**Percentage of completion (%)**	**Accumulative interest capitalisation**	**Including: interest capitalised during the period**	**Interest capitalisation rate (%)**
Product quality projects	**46**	**11,446,953**	**–**	**–**
Energy-saving and environmental protection projects	**65**	**4,816,770**	**–**	**–**
Equipment advancement and other modification projects	**33**	**7,597,740**	**–**	**–**
Other projects	**N/A**	**3,005,256**	**–**	**–**
		26,866,719	**–**	

31 December 2017 (Audited)

Name of projects	Percentage of completion (%)	Accumulative interest capitalisation	Including: interest capitalised during the year	Interest capitalisation rate (%)
Product quality projects	51	11,446,953	1,775,312	4.75
Energy-saving and environmental protection projects	69	4,816,770	–	–
Equipment advancement and other modification projects	79	7,597,740	–	–
Other projects	N/A	3,005,256	–	–
		26,866,719	1,775,312	

Notes to the Interim Financial Statements (Continued)

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

20. INTANGIBLE ASSETS

30 June 2018 (Unaudited)

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2018	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Addition	–	689,200	16,158,226	–	16,847,426
Transferred from construction in progress	14,828,200	131,130,000	–	–	145,958,200
Disposals	–	(8,717,562)	–	–	(8,717,562)
Exchange realignment	–	–	(6,361,513)	(17,020)	(6,378,533)
At 30 June 2018	151,807,610	2,521,180,758	150,964,085	863,569	2,824,816,022
Accumulated amortisation:					
At 1 January 2018	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Provided	2,956,721	28,087,950	98,986,634	–	130,031,305
Disposals	–	(1,628,041)	–	–	(1,628,041)
Exchange realignment	–	–	(4,838,424)	(11,872)	(4,850,296)
At 30 June 2018	39,088,787	726,481,374	150,882,745	602,380	917,055,286
Impairment:					
At 1 January 2018 and at 30 June 2018	–	–	–	–	–
Net carrying amount:					
At 30 June 2018	112,718,823	1,794,699,384	81,340	261,189	1,907,760,736
At 1 January 2018	100,847,344	1,698,057,655	84,432,837	266,337	1,883,604,173

Notes to the Interim Financial Statements (Continued)

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

20. INTANGIBLE ASSETS *(CONTINUED)*

31 December 2017 (Audited)

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2017	136,979,410	2,288,788,651	139,904,847	692,411	2,566,365,319
Addition	–	109,290,469	–	141,222	109,431,691
Exchange realignment	–	–	1,262,525	46,956	1,309,481
At 31 December 2017	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Accumulated amortisation:					
At 1 January 2017	30,218,625	664,229,102	49,837,103	311,562	744,596,392
Provided	5,913,441	35,792,363	6,084,938	281,562	48,072,304
Exchange realignment	–	–	812,494	21,128	833,622
At 31 December 2017	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Impairment:					
At 1 January 2017 and at 31 December 2017	–	–	–	–	–
Net carrying amount:					
At 31 December 2017	100,847,344	1,698,057,655	84,432,837	266,337	1,883,604,173
At 1 January 2017	106,760,785	1,624,559,549	90,067,744	380,849	1,821,768,927

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

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

Notes to the Interim Financial Statements (Continued)

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

21. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred liabilities before offset:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	**467,797,456**	**116,949,364**	445,798,480	111,449,620
Sales incentive	**547,684,628**	**136,921,157**	411,343,608	102,835,902
Payroll payable	**231,117,672**	**57,779,418**	195,634,400	48,908,600
Government grants	**585,770,380**	**146,442,595**	589,766,912	147,441,728
Deductible tax loss	**–**	**–**	157,786,860	39,446,715
Others	**184,756,096**	**46,189,024**	156,086,216	39,021,554
	2,017,126,232	**504,281,558**	1,956,416,476	489,104,119

	30 June 2018 (Unaudited)		31 December 2017 (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	**101,397,216**	**25,349,304**	107,366,660	26,841,665
Changes in fair value of financial products and funds	**2,513,232**	**628,308**	3,111,908	777,977
Changes in fair value of derivatives financial instruments	**2,723,248**	**680,812**	23,203,200	5,800,800
Changes in fair value of other equity instruments investment	**15,368,086**	**3,842,022**	–	–
Others	**99,560**	**24,890**	17,160,248	4,290,062
	122,101,342	**30,525,336**	150,842,016	37,710,504

Notes to the Interim Financial Statements (Continued)

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

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

Net amount of deferred tax assets/liabilities after offset:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Offset amount	**Net amount**	Offset amount	Net amount
Deferred tax assets	**5,176,032**	**499,105,526**	10,868,839	478,235,280
Deferred tax liabilities	**5,176,032**	**25,349,304**	10,868,839	26,841,665

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

	30 June 2018 Unaudited	31 December 2017 Audited
Deductible temporary differences	**1,131,748,860**	1,373,832,413
Deductible tax losses	**3,540,002,735**	6,712,659,253
	4,671,751,595	8,086,491,666

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

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

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

	30 June 2018 Unaudited	31 December 2017 Audited
To expire in 2018	**–**	483,216,836
To expire in 2019	**89,222,479**	781,213,612
To expire in 2020	**2,466,653,416**	4,555,266,671
To expire in 2021	**610,751,778**	614,738,784
To expire in 2022	**255,890,463**	278,223,350
To expire in 2023 and future years (Note)	**117,484,599**	–
Total	**3,540,002,735**	6,712,659,253

Note: Oversea subsidiaries of the Company have deductible tax losses amounting to RMB107,024,833 without expiration date.

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

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

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

Notes to the Interim Financial Statements (Continued)

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

22. ASSETS IMPAIRMENT PROVISIONS

30 June 2018 (Unaudited)

				Decrease during the period			
	Opening balance	Accounting policies changes adjustment	Increase during the period	Reversal	Write-back/ write-off	Other changes	Closing balance
Provisions for bad debts	675,514,489	28,290,111	25,062,891	(2,310,968)	–	(169,649,534)	556,906,989
Including: Trade receivables	47,673,210	9,861,282	14,806,822	(487,578)	–	(24,809)	71,828,927
Other receivables	593,692,160	15,693,097	43,316	(1,823,390)	–	(169,624,725)	437,980,458
Loans and advances to customers	34,149,119	2,735,732	10,212,753	–	–	–	47,097,604
Financial assets purchased under agreements to resell	–	6,523	–	(2,124)	–	–	4,399
Debt instruments investment	–	187,201	75,220	–	–	–	262,421
Inventory impairment provision (i)	199,103,925	–	57,950,358	–	(34,690,874)	(623,842)	221,739,567
Including: Raw materials	25,064,421	–	7,399,706	–	(7,153,347)	(106,815)	25,203,965
Work in progress	35,139,247	–	15,504,844	–	(14,344,889)	(338,471)	35,960,731
Finished goods	57,103,281	–	35,045,808	–	(13,192,638)	(154,786)	78,801,665
Spare parts	81,796,976	–	–	–	–	(23,770)	81,773,206
Property, plant and equipment impairment provision	592,912,766	–	–	–	(225,401,702)	–	367,511,064
Including: Buildings and plant	104,408,146	–	–	–	–	–	104,408,146
Machinery and equipment	487,885,152	–	–	–	(225,401,702)	–	262,483,450
Transportation vehicle and tools	619,468	–	–	–	–	–	619,468
	1,467,531,180	28,483,835	83,088,469	(2,313,092)	(260,092,576)	(170,273,376)	1,146,424,440

Notes to the Interim Financial Statements (Continued)

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

22. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back/ write-off	Other changes	Closing balance
Provisions for bad debts	662,500,880	31,636,265	(17,008,821)	(1,720,676)	106,841	675,514,489
Including: Trade receivables	20,729,808	30,468,944	(3,632,383)	–	106,841	47,673,210
Other receivables	594,245,515	1,167,321	–	(1,720,676)	–	593,692,160
Loans and advances to customers	47,525,557	–	(13,376,438)	–	–	34,149,119
Inventory impairment provision	292,506,001	154,044,086	(12,395,449)	(237,097,173)	2,046,460	199,103,925
Including: Raw materials	83,746,075	90,248,757	–	(149,188,032)	257,621	25,064,421
Work in progress	17,659,670	28,815,862	–	(11,697,458)	361,173	35,139,247
Finished goods	64,188,089	23,880,267	(131,387)	(31,420,615)	586,927	57,103,281
Spare parts	126,912,167	11,099,200	(12,264,062)	(44,791,068)	840,739	81,796,976
Property, plant and equipment impairment provision	38,607,464	590,098,913	–	(35,793,611)	–	592,912,766
Including: Buildings and plant	6,514,174	101,594,293	–	(3,700,321)	–	104,408,146
Machinery and equipment	32,093,290	487,885,152	–	(32,093,290)	–	487,885,152
Transportation vehicle and tools	–	619,468	–	–	–	619,468
	993,614,345	775,779,264	(29,404,270)	(274,611,460)	2,153,301	1,467,531,180

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

23. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018 Unaudited	31 December 2017 Audited
Domestic bank deposits	**200,000,000**	200,000,000

Notes to the Interim Financial Statements (Continued)

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

24. CUSTOMER DEPOSITS

	30 June 2018 Unaudited	31 December 2017 Audited
Demand deposits	**1,733,469,412**	2,365,945,211
Notice deposits	**30,500,000**	186,300,000
Time deposits	**337,090,699**	395,394,399
	2,101,060,111	2,947,639,610

Details of customer deposits of Masteel Finance related to the related parties at 30 June 2018 and 31 December 2017 are disclosed in Note X.6.

25. REPURCHASE AGREEMENTS

	30 June 2018 Unaudited	31 December 2017 Audited
Bonds	**795,000,000**	99,000,000
Notes	**218,146,250**	209,100,956
	1,013,146,250	308,100,956

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

26. SHORT-TERM LOANS

	30 June 2018 Unaudited	31 December 2017 Audited
Pledged loans (Note 1)	**700,000,000**	–
Unsecured loans	**3,978,213,750**	4,062,713,077
Inward documentary notes and letters of credit (Note 2)	**2,165,266,287**	567,590,617
	6,843,480,037	4,630,303,694

Notes to the Interim Financial Statements (Continued)

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

26. SHORT-TERM LOANS *(CONTINUED)*

Note 1: As of 30 June 2018, the Group used bank acceptance notes with a book value of RMB774,389,336 (31 December 2017: Nil) as pledge to obtain bank loans of RMB700,000,000 (31 December 2017: Nil).

Note 2: As of 30 June 2018, the outstanding letters of credit of the Group amounted to RMB2,165,266,287 (31 December 2017: RMB567,590,617).

As of 30 June 2018, the interest rates of the above short-term loans ranged from 1.00%-6.00% (31 December 2017: 0.67%-6.00%).

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017 Audited
Derivative financial liabilities – Forward foreign exchange contracts	10,498,810

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

28. NOTES AND TRADE PAYABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Notes payable		
Bank acceptance notes	**2,296,258,193**	4,724,648,470
Commercial acceptance notes	**29,500,000**	85,200,000
Trade payables	**6,364,696,847**	6,968,534,360
	8,690,455,040	11,778,382,830

As of 30 June 2018 and 31 December 2017, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

Notes to the Interim Financial Statements (Continued)

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

28. NOTES AND TRADE PAYABLES *(CONTINUED)*

The aging analysis of trade payable, based on the invoice date, is as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Within one year	**6,125,863,149**	6,681,492,997
One to two years	**105,115,317**	167,589,414
Two to three years	**32,416,960**	32,970,687
Over three years	**101,301,421**	86,481,262
	6,364,696,847	6,968,534,360

The trade payable is interest-free and is normally settled within three months.

The amounts due to related parties among the balances of notes and trade payables as of 30 June 2018 and 31 December 2017 are stated in Note X.6 to the financial statements.

As of 30 June 2018, the material trade payables aged over one year were as follows:

	Amount due	**Reason for non-settlement**
Company 1	**178,012,081**	Note
Company 2	**19,000,000**	Note
Company 3	**16,614,066**	Note
Company 4	**11,541,401**	Note
Company 5	**5,241,160**	Note
	230,408,708	

Note: The Group's trade payables aged over one year are mainly related to equipment and construction proceeds pending for settlement.

Notes to the Interim Financial Statements (Continued)

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

29. ADVANCES FROM CUSTOMERS

	30 June 2018 Unaudited	31 December 2017 Audited
Advances from customers	**3,949,852,811**	3,842,903,332

As of 30 June 2018, the material advance received aged over one year were as follows:

	Amount of advance received	**Reason for outstanding**
Company 1	**20,908,895**	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
	44,298,895	

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

Notes to the Interim Financial Statements (Continued)

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

30. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

30 June 2018 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term employee benefits	**565,738,070**	**2,100,635,275**	**2,013,924,460**	**652,448,885**
Post-employment benefits (defined contribution plans)	**7,132,446**	**370,850,654**	**272,133,236**	**105,849,864**
Supplementary retirement benefits due within one year (i) (Note V.39)	**1,161,421**	**789,958**	**1,161,421**	**789,958**
One-off termination compensation (ii)	**–**	**23,263,712**	**23,263,712**	**–**
Early retirement benefits due within one year (Note V.39)	**80,790,568**	**30,003,872**	**42,806,493**	**67,987,947**
	654,822,505	**2,525,543,471**	**2,353,289,322**	**827,076,654**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	516,403,174	3,467,001,129	3,417,666,233	565,738,070
Post-employment benefits (defined contribution plans)	471,321	673,267,980	666,606,855	7,132,446
Supplementary retirement benefits due within one year	1,127,023	1,161,421	1,127,023	1,161,421
One-off termination compensation	–	107,286,887	107,286,887	–
Early retirement benefits due within one year	32,443,165	80,790,568	32,443,165	80,790,568
	550,444,683	4,329,507,985	4,225,130,163	654,822,505

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

(ii) One-off termination compensation is the termination compensation paid by the Company to its employees due to human resource optimisation.

Notes to the Interim Financial Statements (Continued)

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

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

Short-term employee benefits:

30 June 2018 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	**506,914,156**	**1,622,619,708**	**1,666,198,091**	**463,335,773**
Welfare	**33,507,007**	**135,340,490**	**76,592,327**	**92,255,170**
Social insurance	**10,262**	**140,162,582**	**98,035,914**	**42,136,930**
Including: Medical insurance	**5,279**	**117,120,068**	**82,084,813**	**35,040,534**
Work-related injury insurance	**4,983**	**18,077,104**	**12,131,132**	**5,950,955**
Maternity insurance	**–**	**4,965,410**	**3,819,969**	**1,145,441**
Housing fund	**19,797,170**	**150,984,778**	**148,406,611**	**22,375,337**
Labour union fee and employee education fee	**5,509,475**	**51,527,717**	**24,691,517**	**32,345,675**
	565,738,070	**2,100,635,275**	**2,013,924,460**	**652,448,885**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	469,991,142	2,784,341,875	2,747,418,861	506,914,156
Welfare	19,192,058	147,716,422	133,401,473	33,507,007
Social insurance	–	192,845,639	192,835,377	10,262
Including: Medical insurance	–	161,571,149	161,565,870	5,279
Work-related injury insurance	–	25,622,179	25,617,196	4,983
Maternity insurance	–	5,652,311	5,652,311	–
Housing fund	20,309,142	263,549,318	264,061,290	19,797,170
Labour union fee and employee education fee	6,910,832	78,547,875	79,949,232	5,509,475
	516,403,174	3,467,001,129	3,417,666,233	565,738,070

Notes to the Interim Financial Statements (Continued)

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

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

Defined contribution plans:

30 June 2018 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	**6,144**	**278,332,670**	**217,830,902**	**60,507,912**
Unemployment insurance	**604**	**10,476,437**	**1,612,125**	**8,864,916**
Supplementary pension scheme	**7,125,698**	**82,041,547**	**52,690,209**	**36,477,036**
	7,132,446	**370,850,654**	**272,133,236**	**105,849,864**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	–	499,715,846	499,709,702	6,144
Unemployment insurance	–	10,175,588	10,174,984	604
Supplementary pension scheme	471,321	163,376,546	156,722,169	7,125,698
	471,321	673,267,980	666,606,855	7,132,446

As of 30 June 2018 and 31 December 2017, the balance of payroll and employee benefits payable had not included performance-based wages.

In addition to the basic social endowment insurance, employees (including employees of the Company and some wholly-owned subsidiaries) participated in the established retirement benefit contribution plans (hereinafter referred to as the “Annuity Plan”) established by the Group. The employees who participated in the Annuity Plan used the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

Notes to the Interim Financial Statements (Continued)

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

31. TAXES PAYABLE

	30 June 2018 Unaudited	31 December 2017 Audited
Value-added tax	**267,754,114**	863,764,937
Corporate income tax	**112,751,725**	282,828,579
City construction and maintenance tax	**24,894,156**	54,922,631
Environment protection tax	**15,264,550**	–
Other taxes	**165,707,282**	141,320,450
	586,371,827	1,342,836,597

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

32. OTHER PAYABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Interest payables		
Interest payables for short-term loans	**39,472,577**	24,498,349
Installment interest payables for long-term loans repayable on due date	**7,741,947**	8,789,429
Interest payables for medium-term notes	**185,709,041**	87,820,274
Dividends payable	**1,715,025,129**	9,050,620
Payable for construction, maintenance and inspection fees	**440,634,214**	294,339,562
Sales incentives	**265,660,644**	323,548,997
Service fees payable	**42,831,767**	36,033,091
Withholding social welfare and housing fund payable	**40,056,209**	36,507,942
Accrued interest for letters of credit	**37,169,703**	7,158,738
Payable for forfeiting	**1,274,284,676**	503,388,810
Special funds	**502,822,019**	459,310,193
Others	**509,517,680**	563,881,861
	5,060,925,606	2,354,327,866

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

32. OTHER PAYABLES *(CONTINUED)*

As of 30 June 2018, there was no overdue interest payable and no dividends payable for more than one year.

At of 30 June 2018, except for interest payable and dividends payable, significant other payables aged over one year were as follows:

	Amount payable	**Reason for non-settlement**
Company 1	**152,568,484**	Note
Company 2	**2,709,539**	Note
Company 3	**2,000,000**	Note
Company 4	**1,371,600**	Note
Company 5	**1,000,000**	Note
	159,649,623	

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

33. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	30 June 2018 Unaudited	31 December 2017 Audited
Long-term loans due within one year (Note V.36)	**3,675,917,725**	933,091,711
Bonds payable due within one year (Note V.37)	**3,999,666,667**	3,995,666,667
Long-term payables due within one year (Note V.38)	**210,000,000**	–
	7,885,584,392	4,928,758,378

Notes to the Interim Financial Statements (Continued)

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

34. PROVISION

30 June 2018 (Unaudited)

	Opening balance	Changes in accounting policies	Increase during the period	Decrease during the period	Closing balance
Pending litigation or arbitration	**14,663,809**	**–**	**1,607,978**	**3,965,747**	**12,306,040**
Pending onerous contract (Note)	**20,963,088**	**–**	**–**	**405,167**	**20,557,921**
Loan commitment	**–**	**203,555**	**–**	**166,625**	**36,930**
Others	**2,910,472**	**–**	**34,757**	**17,800**	**2,927,429**
	38,537,369	**203,555**	**1,642,735**	**4,555,339**	**35,828,320**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	10,867,075	7,780,695	3,983,961	14,663,809
Pending onerous contract (Note)	14,284,847	21,931,794	15,253,553	20,963,088
Others	4,428,513	937,896	2,455,937	2,910,472
	29,580,435	30,650,385	21,693,451	38,537,369

Note: As of 30 June 2018, the provision of the pending onerous contract represented expected loss from executing some sales orders entered into by the Group's subsidiary, MG-VALDUNES. Management estimated that the cost of executing those orders would exceed the agreed price.

Notes to the Interim Financial Statements (Continued)

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

35. OTHER CURRENT LIABILITIES

	30 June 2018 Unaudited	31 December 2017 Audited
Short-term financing bonds (Note)	**2,038,424,932**	3,081,026,301

Note: The Group issued short-term financing bonds amounting to RMB2,000,000,000 of which RMB1,000,000,000 was issued on 19 September 2017 and RMB1,000,000,000 on 26 June 2018, respectively. The ending balance of outstanding short-term financing bonds includes interest amounting to RMB38,424,932.

36. LONG-TERM LOANS

	30 June 2018 Unaudited	31 December 2017 Audited
Guaranteed loans (Note)	**744,547,264**	1,178,983,424
Unsecured loans	**2,188,939,700**	5,796,975,210
	2,933,486,964	6,975,958,634

Note: The guaranteed loans were provided by the Holding as disclosed in Note X.5(14).

As of 30 June 2018, the interest rates of the above long-term loans ranged from 1.20% to 4.75% (31 December 2017: from 1.20% to 4.75%).

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

	30 June 2018 Unaudited	31 December 2017 Audited
*Within one year or on demand (Note V.33)	**3,675,917,725**	933,091,711
One to two years (inclusive)	**1,700,155,676**	5,670,785,522
Two to three years (inclusive)	**1,086,831,288**	1,109,173,112
Three to five years (inclusive)	**75,000,000**	100,000,000
Over five years	**71,500,000**	96,000,000
	6,609,404,689	7,909,050,345

Notes to the Interim Financial Statements (Continued)

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

37. BONDS PAYABLE

	30 June 2018 Unaudited	31 December 2017 Audited
Medium-term note payable	**3,999,666,667**	3,995,666,667
Less: Bonds payable due within one year (Note V.33)	**3,999,666,667**	3,995,666,667
	–	–

As of 30 June 2018, the bonds payable balances were as follows:

	Issue date	**Term to maturity**	**Amount on issuance**	**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**	**1,998,000,000**	**–**	**2,000,000**	**–**	**2,000,000,000**	**50,283,288**
2015 second issue	**2015/08**	**3 years**	**2,000,000,000**	**1,997,666,667**	**–**	**2,000,000**	**–**	**1,999,666,667**	**47,605,479**
			4,000,000,000	**3,995,666,667**	**–**	**4,000,000**	**–**	**3,999,666,667**	**97,888,767**

As of 31 December 2017, the bonds payable balances were as follows:

	Issue date	Term to maturity	Amount on issuance	Opening balance	Current year issuance	Amortisation of discount	Current year repayment	Closing balance	Current year accrued interest
Medium-term note payable									
2015 first issue	2015/07	3 years	2,000,000,000	1,994,000,000	–	4,000,000	–	1,998,000,000	101,400,000
2015 second issue	2015/08	3 years	2,000,000,000	1,993,666,667	–	4,000,000	–	1,997,666,667	96,000,000
			4,000,000,000	3,987,666,667	–	8,000,000	–	3,995,666,667	197,400,000

Medium-term note payable

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

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

Notes to the Interim Financial Statements (Continued)

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

38. LONG-TERM PAYABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Payables to a non-controlling interests of a subsidiary	**210,000,000**	210,000,000
Less: non-current liability due within one year (Note V.33)	**210,000,000**	–
	–	210,000,000

39. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE

	30 June 2018 Unaudited	31 December 2017 Audited
1. Post-employment benefits – net liability of defined benefit plans (Note 1)	**204,042,772**	213,432,260
Less: Early retirement benefits due within one year	**67,987,947**	80,790,568
2. Supplementary retirement benefit (Note 2)	**28,498,750**	29,416,315
Less: Supplementary retirement benefit due within one year	**789,958**	1,161,421
	163,763,617	160,896,586

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

30 June 2018 (Unaudited)	Opening balance	Increase	Unrecognized financing expense	Decrease	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefit	213,432,260	30,588,707	2,828,298	(42,806,493)	204,042,772	67,987,947	136,054,825

Note 2: Supplementary retirement benefit

30 June 2018 (Unaudited)	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefit	29,416,315	789,958	(1,707,523)	28,498,750	789,958	27,708,792

Notes to the Interim Financial Statements (Continued)

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

39. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Early retirement benefits expected to be paid by the Group:

	30 June 2018 Unaudited	31 December 2017 Audited
Undiscounted value		
Within one year	**67,987,947**	80,790,568
One to two years	**44,839,993**	43,752,545
Two to three years	**32,450,714**	31,489,509
Over three years	**87,766,122**	84,114,801
	233,044,776	240,147,423
Financing expense unrecognised	**(29,002,004)**	(26,715,163)
	204,042,772	213,432,260
Less: Due within one year	**67,987,947**	80,790,568
	136,054,825	132,641,692

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

39. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE *(CONTINUED)*

Early retirement benefit scheme was implemented by the Company due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Company calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirement. The Company forecasted the amount of early retirement benefits needed to be paid in the future years using a growth rate of 2.01% 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 2018 and accounted in general and administrative expenses. As of 30 June 2018, the current portion of the payment responsibility was accounted for in short-term employee benefits.

40. DEFERRED REVENUE

30 June 2018 (Unaudited)

	Opening balance	**Increase during the current period**	**Decrease during the current period**	**Closing balance**
Government grant	**1,462,490,533**	**52,315,377**	**146,529,152**	**1,368,276,758**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Government grant	1,269,496,538	251,905,601	58,911,606	1,462,490,533

Notes to the Interim Financial Statements (Continued)

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

40. DEFERRED REVENUE *(CONTINUED)*

As of 30 June 2018, liabilities related to government grants were as follows:

	Opening balance	Increase during the current period	Included in other income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage (Note)	652,138,319	-	-	(116,388,109)	535,750,210	income
Technological transformation fund for Phase II silicon steel	81,841,669	-	(2,200,000)	-	79,641,669	assets
Subsidy for hot-rolled 1580 project	36,828,750	-	(990,000)	-	35,838,750	assets
New-zone Thermal Power Plant CCPP system engineering	26,753,972	-	(2,156,000)	-	24,597,972	assets
EMU steel wheel production line project	32,774,990	-	(1,100,000)	-	31,674,990	assets
Environmental subsidy funds for flue gas desulfurisation and 135 MW thermal power	12,379,700	-	(283,800)	-	12,095,900	assets
Fixed assets subsidy for thin plate project	29,174,766	25,000,000	(2,691,480)	-	51,483,286	assets
Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT)	12,878,727	-	(295,240)	-	12,583,487	assets
Subsidy for material modification of high speed wheel and axle	33,349,080	-	(741,840)	-	32,607,240	assets
Subsidy for Maanshan railway industry (Maanshan)	12,152,100	-	(504,000)	-	11,648,100	assets
Comprehensive utilisation of gas for power generation of a thermal power plant	23,608,343	-	(545,380)	-	23,062,963	assets
Subsidy funds for 4# blast furnace project	184,486,667	-	(4,312,000)	-	180,174,667	assets
Others	324,123,450	27,315,377	(14,321,303)	-	337,117,524	assets
Total	1,462,490,533	52,315,377	(30,141,043)	(116,388,109)	1,368,276,758	

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

40. DEFERRED INCOME *(CONTINUED)*

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

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/ income
Compensation of land purchasing and storage (Note)	652,138,319	–	–	652,138,319	income
Technological transformation fund for Phase II silicon steel	86,241,669	–	(4,400,000)	81,841,669	assets
Subsidy for hot-rolled 1580 project	38,808,750	–	(1,980,000)	36,828,750	assets
New-zone Thermal Power Plant CCPP system engineering	31,065,972	–	(4,312,000)	26,753,972	assets
EMU steel wheel production line project	34,974,990	–	(2,200,000)	32,774,990	assets
Environmental subsidy funds for flue gas desulfurisation and 135 MW thermal power	12,900,000	–	(520,300)	12,379,700	assets
Fixed assets subsidy for thin plate project	31,448,673	–	(2,273,907)	29,174,766	assets
Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT)	13,420,000	–	(541,273)	12,878,727	assets
Subsidy for material modification of high speed wheel and axle	33,720,000	–	(370,920)	33,349,080	assets
Subsidy for Maanshan railway industry (Maanshan)	13,160,100	–	(1,008,000)	12,152,100	assets
Comprehensive utilisation of gas for power generation of a thermal power plant	24,699,103	–	(1,090,760)	23,608,343	assets
Subsidy for 4# blast furnace project	–	196,000,000	(11,513,333)	184,486,667	assets
Others	296,918,962	55,905,601	(28,701,113)	324,123,450	assets
Total	1,269,496,538	251,905,601	(58,911,606)	1,462,490,533	

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

Notes to the Interim Financial Statements (Continued)

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

41. SHARE CAPITAL

30 June 2018 (Unaudited)

Registered, issued and fully paid	At 1 January 2018 Number of shares	At 1 January 2018 Percentage (%)	Increase/(decrease) during the period Shares issued	Increase/(decrease) during the period Others	Increase/(decrease) during the period Sub-total	At 30 June 2018 Number of shares	At 30 June 2018 Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	–	–	–	–	–	–	–
2. State-owned legal person shares	–	–	–	–	–	–	–
3. Other domestically owned shares	–	–	–	–	–	–	–
Including: shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	–	–	–	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	–	–	–	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	–	–	–	7,700,681,186	100.0

31 December 2017 (Audited)

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

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

Notes to the Interim Financial Statements (Continued)

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

42. CAPITAL RESERVE

30 June 2018 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	**8,332,628,114**	**–**	**–**	**8,332,628,114**
Others	**19,659,078**	**–**	**–**	**19,659,078**
Total	**8,352,287,192**	**–**	**–**	**8,352,287,192**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,329,067,663	3,560,451	–	8,332,628,114
Others	19,659,078	–	–	19,659,078
Total	8,348,726,741	3,560,451	–	8,352,287,192

Notes to the Interim Financial Statements (Continued)

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

43. OTHER COMPREHENSIVE INCOME

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

	31 December 2017 Audited	Changes in accounting policies	Increase/ (decrease)	30 June 2018 Unaudited
Change in fair value of other equity instruments investments	–	27,490,314	(15,964,250)	11,526,064
Change in fair value of available-for-sale financial assets	(4,870,184)	4,870,184	–	–
Exchange differences arising from foreign currency translation	(119,285,876)	–	(13,094,936)	(132,380,812)
	(124,156,060)	32,360,498	(29,059,186)	(120,854,748)

	1 January 2017 Audited	Increase/ (decrease)	31 December 2017 Audited
Change in fair value of available-for-sale financial assets	(803,607)	(4,066,577)	(4,870,184)
Exchange differences arising from foreign currency translation	(118,459,847)	(826,029)	(119,285,876)
	(119,263,454)	(4,892,606)	(124,156,060)

Notes to the Interim Financial Statements (Continued)

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

43. OTHER COMPREHENSIVE INCOME *(CONTINUED)*

Amount of other comprehensive income attributable to owners of the parent in the income statement:

For the six months ended 30 June 2018 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit and loss in current period	Less: charged to other comprehensive income before and reclassified to retained earnings in current period	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that could not be reclassified to profit or loss						
Fair value changes of other equity instruments investments	**(21,285,666)**	**-**	**-**	**5,321,416**	**(15,964,250)**	**-**
Other comprehensive income to be reclassified to profit or loss under the equity method						
Exchange differences arising from foreign currency translation	**(13,094,936)**	**-**	**-**	**-**	**(13,094,936)**	**-**
	(34,380,602)	**-**	**-**	**5,321,416**	**(29,059,186)**	**-**

For the six months ended 30 June 2017 (Unaudited)

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

Notes to the Interim Financial Statements (Continued)

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

44. SPECIAL RESERVE

30 June 2018 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safety fund	**31,929,722**	**42,743,942**	**(40,110,027)**	**34,563,637**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	27,969,571	104,685,476	(100,725,325)	31,929,722

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

Notes to the Interim Financial Statements (Continued)

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

45. SURPLUS RESERVES

30 June 2018 (Unaudited)

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Statutory reserve (i)	**3,409,656,105**	**348,856,984**	**–**	**3,758,513,089**
Discretionary surplus reserve (ii)	**529,154,989**	**–**	**–**	**529,154,989**
Reserve fund (iii)	**95,685,328**	**–**	**–**	**95,685,328**
Enterprise expansion fund (iii)	**65,510,919**	**–**	**–**	**65,510,919**
	4,100,007,341	**348,856,984**	**–**	**4,448,864,325**

31 December 2017 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,152,880,381	256,775,724	–	3,409,656,105
Discretionary surplus reserve (ii)	529,154,989	–	–	529,154,989
Reserve fund (iii)	95,685,328	–	–	95,685,328
Enterprise expansion fund (iii)	65,510,919	–	–	65,510,919
	3,843,231,617	256,775,724	–	4,100,007,341

(i) In accordance with the Company Law of the PRC and the Articles of association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the CAS and related regulations applicable to these companies, to the statutory reserve (the "SR") until such reserve reaches 50% of the registered capital of these companies. Part of the SR may be capitalised as these companies' share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of these companies.

For the six months ended 30 June 2018, the Company accrued statutory reserve of RMB348,856,984 (For the six months ended 30 June 2017: Nil).

(ii) The Company is authorised to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

(iii) Upon the approval of the board, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Notes to the Interim Financial Statements (Continued)

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

46. GENERAL RESERVE

	30 June 2018 Unaudited	31 December 2017 Audited
General reserve (Note)	**191,546,668**	191,546,668

Note: According to the relevant policy of the MOF, Masteel Finance accrues the general reserve from net profit as profit distribution. The balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

47. RETAINED EARNINGS

	30 June 2018 Unaudited	31 December 2017 Audited
Retained earnings/(accumulated losses) at end of last year	**3,643,443,763**	(190,568,622)
Accounting policies changes adjustment (Note III.31)	**(20,317,968)**	–
Retained earnings/(accumulated losses) at beginning of the period	**3,623,125,795**	(190,568,622)
Net profit attributable to owners of the parent	**3,428,518,933**	4,128,939,861
Less: Transfer to surplus reserve	**348,856,984**	256,775,724
Transfer to general reserve	**–**	38,151,752
Attribute to shareholders (Note)	**1,270,612,396**	–
Retained earnings at the end of the period/year	**5,432,175,348**	3,643,443,763

Note: According to the "2017 Annual Profit Distribution Plan" approved by the Company's 2017 Annual General Meeting on 28 June 2018, the Company will distribute cash dividends to all shareholders of RMB0.165 (including tax) per share, for 7,780,681,186 shares amounting to RMB1,270,612,396.

Notes to the Interim Financial Statements (Continued)

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

48. REVENUE AND COST OF SALES

	For the six months ended 30 June			
	2018 (Unaudited)		2017 (Unaudited)	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operation	**39,496,862,420**	**33,340,407,278**	34,729,861,626	30,883,831,678
Other operation	**566,179,023**	**661,943,449**	457,718,014	424,788,462
	40,063,041,443	**34,002,350,727**	35,187,579,640	31,308,620,140

Revenue is stated as follows:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Sale of products	**39,924,210,183**	35,065,320,571
Rendering of services	**73,179,076**	73,047,146
Others	**65,652,184**	49,211,923
	40,063,041,443	35,187,579,640

Notes to the Interim Financial Statements (Continued)

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

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

	For the six months ended 30 June 2018 (Unaudited)		
Reporting segment	**Steel products and by-products**	**Others**	**Total**
Major operating region			
Mainland China	**36,868,881,304**	**566,179,023**	**37,435,060,327**
Overseas	**2,627,981,116**	**–**	**2,627,981,116**
	39,496,862,420	**566,179,023**	**40,063,041,443**
Type of major products			
Sale of steel products	**36,551,400,095**	**–**	**36,551,400,095**
Sale of steel and billets pig iron	**1,028,012,810**	**–**	**1,028,012,810**
Sale of coke by-products	**210,461,744**	**–**	**210,461,744**
Other	**1,706,987,771**	**566,179,023**	**2,273,166,794**
	39,496,862,420	**566,179,023**	**40,063,041,443**
Timing of revenue recognition			
At the date when goods are transferred	**39,496,862,420**	**427,347,763**	**39,924,210,183**
Service provided over time	**–**	**138,831,260**	**138,831,260**
	39,496,862,420	**566,179,023**	**40,063,041,443**

Notes to the Interim Financial Statements (Continued)

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

49. TAXES AND SURCHARGES

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
City construction and maintenance tax	**100,318,895**	79,933,019
Education surcharge	**76,195,659**	60,692,904
Land usage tax	**103,261,094**	94,928,023
Vehicle and vessel usage tax	**121,593**	178,588
Property tax	**52,205,172**	54,546,306
Stamp duty	**22,638,893**	19,840,324
Environment protection tax	**32,570,175**	–
Others taxes	**12,506,815**	12,481,355
	399,818,296	322,600,519

50. SELLING EXPENSES

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Employee benefits	**41,301,151**	33,458,015
Transportation fees	**376,320,917**	342,297,910
Insurance premium	**7,646,864**	7,827,608
Others	**39,826,394**	28,572,604
	465,095,326	412,156,137

Notes to the Interim Financial Statements (Continued)

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

51. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Employee benefits	**282,562,849**	247,212,300
Employee termination benefits	**53,852,419**	46,825,916
Office expenses	**124,020,523**	111,970,467
Rental fees	**35,243,439**	16,275,924
Amortisation of intangible assets	**22,437,478**	21,305,312
Depreciation of property, plant and equipment	**25,356,918**	77,120,668
Travel and entertainment expenses	**14,536,892**	12,763,838
Maintenance expenses	**12,988,620**	13,692,577
Auditors' remuneration	**4,614,827**	4,088,065
Others	**122,972,028**	102,170,493
	698,585,993	653,425,560

52. FINANCIAL EXPENSES

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Interest expenses (Note)	**476,375,706**	475,699,142
Less: Interest income	**17,490,196**	17,007,814
Less: Capitalised interest	**–**	–
Exchange loss	**93,720,882**	53,884,246
Others	**22,178,935**	15,631,808
	574,785,327	528,207,382

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

Notes to the Interim Financial Statements (Continued)

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

52. FINANCIAL EXPENSES *(CONTINUED)*

The breakdown of interest revenue is as follows:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash and bank balances	**17,490,196**	17,007,814

53. IMPAIRMENT LOSSES

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Bad debts/(reversal)	**–**	(4,299,294)
Provision for inventories	**57,950,358**	111,966,551
	57,950,358	107,667,257

54. LOSS OF CREDIT IMPAIRMENT

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Bad debts impairment	**22,751,923**	–
Debt instruments investment impairment	**75,220**	–
Provision – loan commitment	**(166,625)**	–
Impairment losses for financial assets purchased under agreements to resell	**(2,124)**	–
	22,658,394	–

Notes to the Interim Financial Statements (Continued)

30 June 2018
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

55. OTHER INCOME

The government subsidies related to daily operating activities are as follows:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Government subsidies related to assets (Note V.40)	**30,141,043**	24,351,242
Government subsidies related to profit or loss:		
Tax refund	**4,191,303**	42,610,000
Others	**9,819,763**	16,602,134
	44,152,109	83,563,376

56. INVESTMENT INCOME

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Investment income from long-term equity investments under the equity method	**298,820,874**	241,096,593
Investment income from disposal of a subsidiary (Note VI.2)	**173,624,062**	736,943
Investment income from available-for-sale financial assets in duration	**–**	1,540,000
Investment income from disposal of available-for-sale financial assets	**–**	26,066,785
Investment income from disposal of financial assets held for trading measured at fair value through profit or loss	**61,809,574**	17,187,696
Investment income from disposal of debt instruments investments	**26,523,097**	–
	560,777,607	286,628,017

Notes to the Interim Financial Statements (Continued)

30 June 2018
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

57. GAIN/(LOSS) FROM DISPOSAL OF ASSETS

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Gain on disposal of non-current assets	**53,182,354**	808,004
Including: Gain on disposal of fixed assets	**33,945,622**	808,004
Gain on disposal of intangible assets	**19,236,732**	–
Loss on disposal of non-current assets	**(578,928)**	(43,715,116)
Including: Loss on disposal of fixed assets	**(578,928)**	(43,715,116)
	52,603,426	(42,907,112)

58. NON-OPERATING INCOME

	For the six months ended 30 June		Included in non-recurring gains or losses for the six months ended 30 June 2018
	2018	2017	
	Unaudited	Unaudited	**Unaudited**
Government grants	**93,314,943**	68,914,690	**93,314,943**
Others	**3,307,319**	984,426	**3,307,319**
	96,622,262	69,899,116	**96,622,262**

Notes to the Interim Financial Statements (Continued)

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

59. NON-OPERATING EXPENSES

	For the six months ended 30 June		Included in non-recurring gains or losses for the six months ended
	2018	2017	**30 June 2018**
	Unaudited	Unaudited	**Unaudited**
Charity donation	**245,350**	173,950	**245,350**
Penalty	**1,409,769**	13,610	**1,409,769**
Compensation for trade	**–**	6,811,267	**–**
Others	**1,259,915**	589,178	**1,259,915**
	2,915,034	7,588,005	**2,915,034**

60. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Mainland China:		
Current income tax expense	**352,431,459**	264,181,195
Hong Kong current income tax expense	**173,230**	55,603
Overseas current income tax expense	**21,423,667**	11,441,919
Deferred income tax expense/(benefit)	**(27,988,580)**	62,240,454
	346,039,776	337,919,171

Notes to the Interim Financial Statements (Continued)

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

60. INCOME TAX EXPENSE *(CONTINUED)*

Reconciliation between income tax expense and profit before tax:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Profit before tax	**4,202,285,059**	2,242,052,969
Tax at the applicable tax rate of 25% (Note)	**1,050,571,265**	560,513,242
Effect of different tax rates of subsidiaries	**(9,203,354)**	(4,830,217)
Non-deductible expenses	**45,610,738**	44,992,901
Adjustment of current income tax of previous period	**1,256,455**	10,803
Other tax preference	**(46,971,739)**	(9,357,749)
Income not subject to tax	**(5,469,750)**	(1,337,348)
Unrecognised deductible temporary difference and tax losses	**40,044,092**	23,553,966
Tax losses utilized	**(655,092,712)**	(215,352,279)
Share of profits or losses of joint ventures and associates	**(74,705,219)**	(60,274,148)
Income tax expense at the Group's effective rate	**346,039,776**	337,919,171
The Group's effective tax rate	**8.23%**	15.07%

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

Notes to the Interim Financial Statements (Continued)

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

61. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing the profit attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares in issuance (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issuance according to the terms of contract of issuance.

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

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the parent, as used in the basic earnings per share calculation	**3,428,518,933**	1,643,396,514
Number of shares		
Weighted average number of ordinary shares in issue during the period, as used in the basic diluted earnings per share calculation	**7,700,681,186**	7,700,681,186
Earnings per share		
Basic and diluted	**44.52 cents**	21.34 cents

For the six months ended 30 June 2018 and 2017, there was no diluted item to adjust the Company's basic earnings per share.

Notes to the Interim Financial Statements (Continued)

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

62. NOTES TO THE STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash received relating to other operating activities:		
Government grants	**9,819,763**	16,902,134
Interest income	**17,490,196**	17,007,814
Employee relocation compensation received from government	**93,681,782**	68,914,690
Others	**3,307,319**	24,638,839
	124,299,060	127,463,477
Cash paid relating to other operating activities:		
Increase in deposit for notes, credit and guarantee	**84,852,593**	–
Office expenses	**124,020,523**	138,626,914
Bank charges	**22,178,935**	15,631,808
Safety production fees	**46,396,857**	26,028,589
Travel and entertainment expenses	**38,504,901**	28,225,593
Insurance expenses	**19,639,808**	17,799,684
Environmental improvement fee	**12,812,685**	9,140,610
Research and development expenses	**39,605,563**	21,362,660
Others	**161,756,971**	149,537,069
	549,768,836	406,352,927
Cash received relating to other investing activities:		
Government funding for particular projects	**52,315,377**	14,908,915
Steel futures deposits	**5,020,164**	–
	57,335,541	14,908,915

Notes to the Interim Financial Statements (Continued)

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

63. 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	
	2018	2017
	Unaudited	Unaudited
Net profit	**3,856,245,283**	1,904,133,798
Add: Credit impairment loss	**22,658,394**	–
Provision for asset impairment loss	**57,950,358**	107,667,257
Depreciation of fixed assets	**1,907,822,898**	1,882,522,481
Amortisation of intangible assets	**130,031,305**	32,472,055
Depreciation of investment properties	**874,650**	513,531
Disposal of (gain)/loss of fixed assets, intangible assets and other long-term assets	**(52,603,426)**	42,907,112
Amortisation of deferred revenue	**(30,141,043)**	(24,351,242)
Increase in special reserves	**2,633,915**	10,146,526
Financial expenses	**451,648,499**	529,583,388
Investment income	**(560,777,607)**	(286,628,017)
Loss/(gain) on fair value changes	**8,960,465**	(14,148,342)
(Increase)/decrease in deferred tax assets	**(22,654,197)**	60,412,478
(Decrease)/increase in deferred tax liabilities	**(5,334,383)**	1,541,979
Decrease in inventories	**54,881,355**	400,275,543
Decrease/(increase) in receivables from operating activities	**1,291,096,920**	(3,877,218,037)
(Decrease)/increase in payables from operating activities	**(2,932,898,412)**	689,761,546
Net cash flows from operating activities	**4,180,394,974**	1,459,592,056

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

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

(2) Disposal of subsidiaries and other business units

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash and cash equivalents received from disposal of a subsidiary and other units	**–**	–
Less: Cash and cash equivalents held by a subsidiary and other operation units disposed	**37,688**	–
Net cash impact of disposal of a subsidiary and other operating units	**(37,688)**	–

(3) Cash and cash equivalents

Net changes of cash and cash equivalents:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Closing balance of cash	**4,918,646,810**	3,446,085,741
Less: Opening balance of cash	**2,940,502,015**	4,324,131,687
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net increase/(decrease) in cash and cash equivalents	**1,978,144,795**	(878,045,946)

	For the six months ended 30 June	
	2018	2018
	Unaudited	Unaudited
Cash		
Including: Cash on hand	**5,126**	73,655
Balances in banks without restriction	**4,918,641,684**	3,446,012,086
Ending balance of cash and cash equivalents	**4,918,646,810**	3,446,085,741

Notes to the Interim Financial Statements (Continued)

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

64. RESTRICTED ASSETS

	30 June 2018 Unaudited	31 December 2017 Audited	
Cash and bank balances (Note V.1)	**1,759,377,003**	1,660,989,926	(i)
Notes receivable (Note V.4)	**774,389,336**	–	(ii)
	2,533,766,339	1,660,989,926	

(i) As of 30 June 2018, the Group's restricted cash and bank balances amounting to RMB1,759,377,003 (31 December 2017: RMB1,660,989,926) had been pledged to banks, including cash deposits as collateral amounting to RMB1,035,019,064 (31 December 2017: RMB950,166,471) pledged as security for trade facilities and performance, and mandatory reserves with the central bank of RMB724,357,939 (31 December 2017: RMB710,823,455).

(ii) As of 30 June 2018, the Group obtained bank borrowings with a bank acceptance notes of RMB774,389,336 (31 December 2017: Nil) as a pledge.

65. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Original currency	**Exchange rate**	**RMB**	Original currency	Exchange rate	RMB
Cash and bank balances						
HKD	**6,770,367**	**0.8431**	**5,708,096**	2,603,128	0.8359	2,175,955
USD	**445,361,148**	**6.6166**	**2,946,776,572**	198,986,821	6.5342	1,300,219,686
EUR	**5,726,710**	**7.6515**	**43,817,922**	9,252,617	7.8023	72,191,694
JPY	**5,819**	**0.0599**	**349**	12,735	0.0579	737
AUD	**29,701,627**	**4.8633**	**144,447,923**	22,040,249	5.0928	112,246,580
CAD	**869,885**	**4.9947**	**4,344,815**	24,470	5.2009	127,266
GBP	**571**	**8.6551**	**4,942**	573	8.7792	5,030
ZAR	**7,329,236**	**0.4824**	**3,535,623**	34,445	0.5277	18,177
			3,148,636,242			1,486,985,125
Trade receivables						
USD	**32,156,474**	**6.6166**	**212,766,526**	27,250,591	6.5342	178,060,812
EUR	**13,601,616**	**7.6515**	**104,072,765**	12,705,085	7.8023	99,128,885
CAD	**591,500**	**4.9947**	**2,954,365**	375,360	5.2009	1,952,210
AUD	**2,371,669**	**4.8633**	**11,534,138**	4,670,512	5.0928	23,785,984
HKD	**–**	**0.8431**	**–**	2,736,720	0.8359	2,287,624
ZAR	**1,253,750**	**0.4824**	**604,809**	62,466,250	0.5277	32,963,440
			331,932,603			338,178,955

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

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

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Other receivables						
HKD	8,289,336	0.8431	6,988,739	8,449,639	0.8359	7,063,053
EUR	1,641,251	7.6515	12,558,032	1,610,104	7.8023	12,562,514
AUD	–	4.8633	–	38	5.0928	194
USD	4,151	6.6166	27,466	6,761	6.5342	44,178
			19,574,237			19,669,939
Trade payables						
AUD	33,770	4.8633	164,234	49,103	5.0928	250,072
USD	400,000	6.6166	2,646,640	393,840	6.5342	2,573,429
EUR	9,567,503	7.6515	73,205,749	14,518,502	7.8023	113,277,708
HKD	1,629,894	0.8431	1,374,164	1,273,231	0.8359	1,064,294
			77,390,787			117,165,503
Other payables						
AUD	599,995	4.8633	2,917,956	969,070	5.0928	4,935,280
HKD	44,086,945	0.8431	37,169,703	8,564,108	0.8359	7,158,738
EUR	2,006,301	7.6515	15,351,212	1,693,432	7.8023	13,212,664
USD	192,589,845	6.6166	1,274,289,968	924	6.5342	6,038
			1,329,728,839			25,312,720
Short-term loan						
USD	363,323,240	6.6166	2,403,964,550	285,496,405	6.5342	1,865,490,610
EUR	9,500,000	7.6515	72,689,250	10,000,000	7.8023	78,023,000
			2,476,653,800			1,943,513,610
Long-term loan due within 1 year						
USD	7,360,000	6.6166	48,698,176	7,360,000	6.5342	48,091,712
EUR	9,700,000	7.6515	74,219,550	–	7.6515	–
			122,917,726			48,091,712
Long-term loan						
USD	43,123,135	6.6166	285,328,535	31,720,000	6.5342	207,264,824
EUR	5,000,000	7.6515	38,257,500	14,700,000	7.8023	114,693,810
			323,586,035			321,958,634

Notes to the Interim Financial Statements (Continued)

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VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARY

For the six months ended 30 June 2018, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the period end
Maanshan Mete Metallurgical Power Technology Co., Ltd. ("Meite Metallurgical Power") (Note 1)	March 2018	RMB500,000	100%	Cash	RMB500,000
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy") (Note 2)	March 2018	RMB 600,000,000	100%	Cash & non-cash assets	RMB 600,000,000

Note 1: The Company invested RMB500,000 in cash to establish wholly-owned subsidiary, Meite Metallurgical Power.

Note 2: The Company invested RMB260,514,040 in cash, and plant and buildings with net carrying amount of RMB122,478,300 and land use rights with net carrying amount of RMB36,568,401 to Magang Chemicals & Energy. According to evaluation result provided by the third party evaluation agency, the plant and buildings was valued at RMB175,608,500 with an evaluation appreciation amounting to RMB53,130,200 at the evaluation date of 15 May 2018 and VAT amounting to RMB17,560,850; the land use rights were valued at RMB133,015,000 with an evaluation appreciation amounting to RMB96,446,699 and VAT amounting to RMB13,301,510 at the evaluation date of 26 June 2018. The total investment in cash and non-cash assets amounted to RMB600 million.

Notes to the Interim Financial Statements (Continued)

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

2. DISPOSAL OF A SUBSIDIARY

	Place of registration	Business nature	Total equity interests ratio that the Group holds	Total voting right ratio that the Group holds	Reason for not being a subsidiary any longer
Masteel Shanghai Trading Co., Ltd. ("Masteel Shanghai Trading")	Shanghai, PRC	Trading	100%	100%	Note

Note: On 7 September 2017, Shanghai Baoan District People's Court issued civil ruling ([2017] No. Hu 0113 Po 2-1) accepted the bankruptcy application of Masteel Shanghai Trading, a subsidiary of the Group, and designated Beijing Yingke (Shanghai) Law Firm as the bankruptcy liquidation manager. On 27 February 2018, the Group received the takeover notice of Masteel Shanghai Trading issued by the bankruptcy liquidation manager ([2017] Masteel Bankruptcy Takeover No.1), indicating that Masteel Shanghai Trading was properly handed over in relevant materials such as property books, documents and files, seals and certificates of the enterprise in accordance with the requirements of the liquidation manager. Therefore, the Group lost control of Masteel Shanghai Trading since 27 February 2018 and no longer included it into the consolidation scope thereafter.

Notes to the Interim Financial Statements (Continued)

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

2. DISPOSAL OF A SUBSIDIARY *(CONTINUED)*

The financial information of Masteel Shanghai Trading at the disposal date is as follows:

	Carrying amount as at 27 February 2018
Current assets	521,926
Non-current assets	–
Current liabilities	(174,145,988)
Non-current liabilities	–
	(173,624,062)
Non-controlling interests	–
Disposal gain or loss	173,624,062
Disposal consideration	–

	From 1 January 2018 to 27 February 2018
Revenue	–
Cost of sales	–
Net profit	–

Notes to the Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Subsidiaries acquired by establishment or investment	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("New Building Masteel K. Wah")	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	–
Ma Steel (Wuhu)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	30
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	92	–
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.67	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	100	–
Holly Industrial	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	29
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	and mining	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	67	28
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	–
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	Anhui, PRC	Anhui, PRC	Trading	RMB100,000,000	100	–
Shanghai Trading	Shanghai, PRC	Shanghai, PRC	Trading	RMB60,000,000	100	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	–
Hefei Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	–	100
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	–	100
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Maanshan (Guangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Guangzhou Sales")	Guangdong, PRC	Guangdong, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Chongqing) Iron and Steel Sales Co., Ltd. ("Ma Steel Chongqing Sales")	Chongqing, PRC	Chongqing, PRC	Trading	RMB10,000,000	100	–
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	–

Notes to the Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Details of the subsidiaries are as follows: *(Continued)*

Subsidiaries acquired by establishment or investment	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%) Direct	Indirect
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	–	100
Ma'anshan Chang Jiang Iron and Steel Trading Co., Ltd. ("Chang Jiang Iron and Steel Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES	France	France	Manufacturing	EUR80,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America	USA	USA	Service industry	USD500,000	100	–
Ma Steel Antirust	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	–
Meite Metallurgical Power (Note 1)	Anhui, PRC	Anhui, PRC	Service industry	RMB500,000	100	–
Magang Chemicals& Energy (Note 1)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	100	–
Subsidiaries acquired through business combination not under common control						
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Ma steel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation	Anhui, PRC	Anhui, PRC	Manufacturing	RMB360,000,000	100	–
Mascometal	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	–
Subsidiary acquired through business combination under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	–

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

Notes to the Interim Financial Statements (Continued)

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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 2018 or for the six months ended 30 June 2018 Unaudited	31 December 2017 or for the six months ended 30 June 2017 Audited/ Unaudited
The proportion of equity held by non-controlling interests:		
Ma Steel (Hefei)	**29%**	29%
Anhui Chang Jiang Iron and Steel	**45%**	45%
Masteel Finance	**9%**	9%
Profit or loss attributable to non-controlling interests:		
Ma Steel (Hefei)	**15,800,671**	(15,896,512)
Anhui Chang Jiang Iron and Steel	**382,789,275**	245,873,784
Masteel Finance	**12,182,769**	7,608,153
Dividends paid to non-controlling interests:		
Ma Steel (Hefei)	**–**	–
Anhui Chang Jiang Iron and Steel	**432,000,000**	20,670,280
Masteel Finance	**6,266,572**	1,127,828
Cumulative balances of non-controlling interests at the balance sheet date:		
Ma Steel (Hefei)	**599,846,108**	584,355,789
Anhui Chang Jiang Iron and Steel	**1,960,754,281**	2,009,269,170
Masteel Finance	**255,348,034**	249,192,105

Notes to the Interim Financial Statements (Continued)

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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 Chang Jiang Iron and Steel	Masteel Finance
30 June 2018 or for the six months ended 30 June 2018 (Unaudited)			
Current assets	1,162,224,111	5,658,550,592	10,963,711,616
Non-current assets	3,217,486,434	4,292,259,339	1,569,984,079
Total assets	4,379,710,545	9,950,809,931	12,533,695,695
Current liabilities	(1,501,066,881)	(5,449,291,669)	(9,695,777,345)
Non-current liabilities	(810,208,810)	(144,286,528)	(628,308)
Total liabilities	(2,311,275,691)	(5,593,578,197)	(9,696,405,653)
Revenue	2,724,528,391	7,113,010,984	131,312,175
Net profit	54,485,074	850,642,833	135,364,095
Total comprehensive income	54,485,074	850,642,833	135,364,095
Net cash flows from operating activities	21,935,881	964,413,456	213,528,340

Notes to the Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

1. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
31 December 2017 (Audited) or for the six months ended 30 June 2017 (Unaudited)			
Current assets	1,116,606,101	4,556,775,162	5,265,573,414
Non-current assets	3,567,650,505	4,340,023,298	7,032,740,451
Total assets	4,684,256,606	8,896,798,460	12,298,313,865
Current liabilities	(1,775,526,986)	(4,286,186,339)	(9,528,658,823)
Non-current liabilities	(893,709,661)	(145,569,521)	(853,875)
Total liabilities	(2,669,236,647)	(4,431,755,860)	(9,529,512,698)
Revenue	1,801,517,243	6,608,923,730	110,324,959
Net 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 operating activities	8,850,474	845,222,575	(617,918,883)

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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
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Associates							
Henan JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	31.99	–	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	–	Equity method
Xinchuang Environmental Protection	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	–	Equity method
Anhui Linhuan Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	–	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method
Ma-Steel Commercial Factoring (Note)	Shanghai, PRC	Shanghai, PRC	Service industry	RMB300,000,000	25	–	Equity method
Ma-Steel Finance Leasing (Note)	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB300,000,000	–	25	Equity method

Note: for the information of the newly established associates, please refer to Note V.15.

Notes to the 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, was accounted by using the equity method.

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

	30 June 2018 or for the six months ended 30 June 2018	31 December 2017 or for the six months ended 30 June 2017
Current assets	**342,243,332**	497,193,002
Non-current assets	**228,682,785**	254,130,647
Total assets	**570,926,117**	751,323,649
Current liabilities	**54,746,322**	82,408,257
Non-current liabilities	**–**	–
Total liabilities	**54,746,322**	82,408,257
Non-controlling interests	**–**	–
Equity attributable to owners of the parent	**516,179,795**	668,915,392
The Group's share of net assets	**258,089,898**	334,457,696
Adjustment	**–**	–
The carrying value of the investment	**258,089,898**	334,457,696
Revenue	**276,145,030**	277,742,567
Income tax expense	**30,232,045**	29,159,911
Net profit	**87,264,404**	88,428,211
Other comprehensive income	**–**	–
Total comprehensive income	**87,264,404**	88,428,211
Dividends received	**120,000,000**	75,000,000

Notes to the Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

Henan JinMa Energy and Shenglong Chemical are the Group's material associates and are accounted by using the equity method.

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

Henan JinMa Energy	**30 June 2018 or for the six months ended 30 June 2018**	31 December 2017 or for the six months ended 30 June 2017
Current assets	**2,167,695,000**	1,557,276,000
Non-current assets	**1,540,794,000**	1,405,050,000
Total assets	**3,708,489,000**	2,962,326,000
Current liabilities	**1,408,670,000**	894,491,000
Non-current liabilities	**376,810,000**	339,509,000
Total liabilities	**1,785,480,000**	1,234,000,000
Non-controlling interests	**86,933,000**	94,210,000
Equity attributable to owners of the parent	**1,836,076,000**	1,634,116,000
The Group's share of net assets	**499,166,795**	441,184,749
Adjustment	**–**	–
The carrying value of the investment	**499,166,795**	441,184,749
Revenue	**3,293,855,000**	2,556,554,820
Income tax expenses	**128,974,000**	83,102,443
Net profit	**371,406,000**	249,241,268
Other comprehensive income	**–**	–
Total comprehensive income	**371,406,000**	249,241,268
Dividends received	**40,320,000**	36,000,000

Notes to the 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 2018 or for the six months ended 30 June 2018**	31 December 2017 or for the six months ended 30 June 2017
Current assets	**2,038,940,101**	1,565,609,058
Non-current assets	**1,468,694,031**	1,500,566,720
Total assets	**3,507,634,132**	3,066,175,778
Current liabilities	**1,729,929,225**	1,598,531,277
Non-current liabilities	**–**	–
Total liabilities	**1,729,929,225**	1,598,531,277
Non-controlling interests	**–**	–
Equity attributable to owners of the parent	**1,777,704,907**	1,467,644,501
The Group's share of net assets	**568,687,801**	469,646,241
Adjustment	**–**	–
The carrying value of the investment	**568,687,801**	469,646,241
Revenue	**2,325,144,510**	2,629,480,948
Income tax expense	**125,291,248**	88,393,691
Net profit	**407,646,350**	264,233,722
Other comprehensive income	**–**	–
Total comprehensive income	**407,646,350**	264,233,722
Dividends received	**32,000,000**	–

Notes to the Interim Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES *(CONTINUED)*

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

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

	30 June 2018 Unaudited	31 December 2017 Audited
Joint ventures		
The carrying value of the Group's investments	**545,618**	546,153

	For the six months ended	
	30 June 2018 Unaudited	30 June 2017 Unaudited
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	**(535)**	(4,347,403)
Other comprehensive income	**–**	–
Total comprehensive income	**(535)**	(4,347,403)

	30 June 2018 Unaudited	31 December 2017 Audited
Associates		
The carrying value of the Group's investments	**455,889,254**	279,390,363

	For the six months ended	
	30 June 2018 Unaudited	30 June 2017 Unaudited
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	**27,054,475**	6,577,202
Other comprehensive income	**–**	–
Total comprehensive income	**27,054,475**	6,577,202

Notes to the Interim Financial Statements (Continued)

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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 2018 (Unaudited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income		Total
	According to Standard	Designated		According to Standard	Designated	
Cash and bank balances	–	–	7,538,181,813	–	–	7,538,181,813
Financial assets held for trading	1,928,207,037	–	–	–	–	1,928,207,037
Notes and trade receivables	–	–	7,917,108,224	–	–	7,917,108,224
Other receivables	–	–	330,496,890	–	–	330,496,890
Financial assets purchased under agreements to resell	–	–	884,886,602	–	–	884,886,602
Loans and advances to customers	–	–	1,766,370,623	–	–	1,766,370,623
Debt instruments investment	–	–	1,541,575,160	–	–	1,541,575,160
Other equity instruments investment	–	–	–	143,120,746	–	143,120,746
	1,928,207,037	–	19,978,619,312	143,120,746	–	22,049,947,095

Financial liabilities

	Financial liabilities at amortized cost	Total
Short-term loans	6,843,480,037	6,843,480,037
Deposits and balances from banks and other financial institutions	200,000,000	200,000,000
Customer deposits	2,101,060,111	2,101,060,111
Repurchase agreements	1,013,146,250	1,013,146,250
Notes and trade payables	8,690,455,040	8,690,455,040
Other payables	4,935,090,253	4,935,090,253
Other current liabilities	2,038,424,932	2,038,424,932
Non-current liabilities due within one year	7,885,584,392	7,885,584,392
Long-term loans	2,933,486,964	2,933,486,964
	36,640,727,979	36,640,727,979

Notes to the 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 2017 (Audited)

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity investment	Total
	Initial recognition	Held for trading				
Cash and bank balances	–	–	4,978,352,093	–	–	4,978,352,093
Financial assets at fair value through profit or loss	1,546,139,404	–	–	–	–	1,546,139,404
Notes and trade receivables	–	–	9,341,614,275	–	–	9,341,614,275
Other receivables	–	–	247,325,199	–	–	247,325,199
Financial assets purchased under agreements to resell	–	–	1,204,603,000	–	–	1,204,603,000
Loans and advances to customers	–	–	1,251,315,253	–	–	1,251,315,253
Held-to-maturity investment	–	–	–	–	406,082,606	406,082,606
Available-for-sale financial assets	–	–	–	1,111,168,160	–	1,111,168,160
	1,546,139,404	–	17,023,209,820	1,111,168,160	406,082,606	20,086,599,990

Financial liabilities

	Financial liabilities at fair value through profit or loss		Other financial liabilities	Total
	Initial recognition	Held for trading		
Short-term loans	–	–	4,630,303,694	4,630,303,694
Deposits and balances from banks and other financial institutions	–	–	200,000,000	200,000,000
Financial liabilities measured at fair value through profit or loss	10,498,810	–	–	10,498,810
Customer deposits	–	–	2,947,639,610	2,947,639,610
Repurchase agreements	–	–	308,100,956	308,100,956
Notes and trade payables	–	–	11,778,382,830	11,778,382,830
Other payables	–	–	1,811,478,016	1,811,478,016
Other current liabilities	–	–	3,081,026,301	3,081,026,301
Non-current liabilities due within one year	–	–	4,928,758,378	4,928,758,378
Long-term loans	–	–	6,975,958,634	6,975,958,634
Long-term payables	–	–	210,000,000	210,000,000
	10,498,810	–	36,871,648,419	36,882,147,229

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

2. OFFSETTING OF FINANCIAL INSTRUMENTS

For the six months ended 30 June 2018, there were no offsetting arrangements for receivables (2017: Nil).

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognised

As of 30 June 2018, the Group endorsed (but not yet fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB222,902,072 for settlement of trade payables (31 December 2017: RMB53,676,353), and there was no bank acceptance notes discounted to banks which was not derecognised. As of 30 June 2018, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to 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 2018, the carrying amount of trade payables settled by the Group through them amounted to RMB222,902,072 (31 December 2017: RMB53,676,353). As of 30 June 2018, the book value of short term loans obtained from the pledge of receivables amounted to RMB700,000,000 (31 December 2017: Nil).

Transferred financial assets fully derecognised but with continuing involvement

As of 30 June 2018, the Group endorsed (and fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB7,491,140,954 (31 December 2017: RMB4,778,024,515) for settlement of trade payables, and the bank acceptance notes discounted to banks which was fully derecognised has a carting amount of RMB100,000,000 (31 December 2017: Nil). As of 30 June 2018, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognised them and then settled account payables associated therewith.

For the six months ended 30 June 2018, no gain or loss was recognised in the date of transfer. No income or expense was recognised for the current year or on an accumulative basis as a result of the Group's Continuing Involvement in derecognised financial assets. Endorsements were incurred basically evenly during the period.

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK

The Group faced several kinds of financial instruments risk in its daily operation, mainly including credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's principal financial instruments are comprised of cash and bank balances, interest-bearing bank borrowings, other interest-bearing borrowings, notes and trade receivables, notes and trade payables, etc. The Group's risk management strategies to lower such risks are outlined below.

Credit risk

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

Since the trading counterparties of cash and bank balances and financial assets held for trading are banks with good reputation and high credit rank, these financial instruments face lower credit risk.

The Group's other financial assets comprise debt instruments investments, other equity instruments investment, notes and trade receivables, other receivables, financial assets purchased under agreements to resell and loans and advances to customers, and the credit risk of these financial assets arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Credit risk is managed in accordance with customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had a certain concentration of credit risk as 5% (2017: 7%) and 21% (2017: 23%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

Based on the credit risk changes since financial instruments' initial recognition, the Group calculates expected credit losses in three different phases:

Phase 1: Financial instruments whose credit risk have not increased significantly will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses.

Phase 2: Financial instruments whose credit risk have increased significantly but without objective evidence for impairment will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses.

Phase3: Financial instruments that is evidently credit-impaired at the financial position date will be included in phase 3, and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses.

For a financial instruments, whose loss allowance had been measured at an amount equal to lifetime expected credit losses in previous accounting period, if its credit risk does not increase significantly at the end of current period, the Group should measure the loss allowance of that financial instrument at an amount equal to 12-month expected credit losses.

Criteria for significant increase in credit risk

At each financial position date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, the Group shall consider reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis of the Group's historical statistics, external credit risk rate and forecasting information. On an individual basis or a collective basis for financial instruments with shared credit risk characteristics, the Group compares the default risks of financial instruments at financial position date and the default risks at initial recognition to determine the change of default risk of financial instruments in expected lifetime.

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

Criteria for significant increase in credit risk (Continued)

One or several of the following quantitative, qualitative or maxim criteria are triggered, the Group determines the credit risk of a financial instruments has increased significantly:

Quantitative criteria:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over specific percentage.

Qualitative criteria:

- Material adverse change occurs in the operation or financial position of main debtors or receiving warning customer lists.

Maximum criteria:

- The overdue of debtors' contract payment (including principle and interest) has reached specific period.

Definition of credit-impaired financial assets

When considering whether credit impairment has incurred under the new financial instruments standards, the Group will consider both quantitative and qualitative factors, which agrees with the goal of the Group's credit risk management.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

Definition of credit-impaired financial assets (Continued)

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or

- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

- Any principle, advances, interest or corporate bond investment of a debtor has been overdue for certain period of time.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Parameters of expected credit losses measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures loss allowance for different instruments at an amount equal to 12-month expected credit losses or equal to lifetime expected credit losses. The key parameters for measuring expected credit losses include default probability, default loss rate and default risk exposure. Based on the external credit rate applied in credit risk management and according to the requirements of the new financial instrument standards under CAS, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counter party, the guarantee method, the nature of collateral and the repayment style) as well as forecasted information to establish a model for default probability, default loss rate and default risk exposure.

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

Parameters of expected credit losses measurement (Continued)

Definitions:

- Default probability is probability that a debtor fails to fulfil its repayment duty in 12 month or in the rest of expected lifetime. The Group's default probability is based on external credit rate and adjusted by carefully chosen forecasting information, to reflect debtors' probability of default under current Marco-economy condition;

- Default loss rate is the Group's expectation on the level of loss if default risk exposed and caused losses. Default loss rate varies with the types of trading counterparty, the ways of recourse and priority and the nature of collaterals. Default loss rate is the loss percentage of exposure when default incurs and is calculated basing on 12-month expected credit losses or lifetime expected credit losses;

- Default risk exposure is the amount to be recovered by the Group when default incurs during 12 months or the rest of expected lifetime.

Forecasting information

Forecasting information are used in both assessment of whether the credit risk has been increased significantly and calculation of expected credit losses. The Group identifies key economic indicators that will influence the credit risk of different business and expected credit losses by analysing historical statistics.

These indicators will have different impact on default probability and default loss rate for different types of business. In the process, the Group will apply management judgement. Based on the result of judgement, the Group will forecast those indicators every half a year and apply regression analysis to determine the impact of the indicators on default probability and loss rate.

The credit risk level of the Group has not changed compared with last year. The quantitative information of credit risk exposure generated by trade receivables and other receivables are disclosed in Note V.4 and 6.

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

31 December 2017 (Audited)

As of 31 December 2017, the aging analysis of the Group's financial assets not impaired either individually or aggregately is as follows:

			Overdue	
	Total	Neither overdue nor impaired	Less than six months	Over six months
Cash and bank balances	4,978,352,093	4,978,352,093	–	–
Notes and trade receivables	9,287,106,231	9,165,453,090	91,185,153	30,467,988
Other receivables	213,071,211	203,015,186	3,679,964	6,376,061
Available-for-sale financial assets	1,111,168,160	1,111,168,160	–	–
Loans and advances to customers	1,251,315,253	1,251,315,253	–	–
Financial assets purchased under agreements to resell	1,204,603,000	1,204,603,000	–	–
Held-to-maturity investment	406,082,606	406,082,606	–	–

As of 31 December 2017, the Group's trade receivables that were not considered to be impaired mainly relate to a number of independent customers that had a good track record with the Group.

Based on past experience, the directors of the Group were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable as of 31 December 2017.

Liquidity risk

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

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. As of 30 June 2018, 90% of the Group's debts were due within 1 year (31 December 2017: 80%).

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Liquidity risk *(Continued)*

A liquidity analysis of the undiscounted contractual cash flows of the financial liabilities is as shown in below table:

30 June 2018 (Unaudited)

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Short-term loans	6,843,480,037	–	–	–	–	6,843,480,037
Deposits and balances from banks and other financial institutions	200,000,000	–	–	–	–	200,000,000
Customer deposits	2,101,060,111	–	–	–	–	2,101,060,111
Repurchase agreements	1,013,146,250	–	–	–	–	1,013,146,250
Notes and trade payables	8,690,455,040	–	–	–	–	8,690,455,040
Other payables	4,702,166,688	–	–	–	–	4,702,166,688
Non-current liabilities due within one year	7,885,584,392	–	–	–	–	7,885,584,392
Long-term loans	383,104,342	1,803,292,904	1,124,107,512	78,459,326	74,739,703	3,463,703,787
Other current liabilities	2,038,424,932	–	–	–	–	2,038,424,932
Total	33,857,421,792	1,803,292,904	1,124,107,512	78,459,326	74,739,703	36,938,021,237

31 December 2017 (Audited)

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Short-term loans	4,630,303,694	–	–	–	–	4,630,303,694
Deposits and balances from banks and other financial institutions	200,000,000	–	–	–	–	200,000,000
Financial liabilities measured at fair value through profit or loss	10,498,810	–	–	–	–	10,498,810
Customer deposits	2,947,639,610	–	–	–	–	2,947,639,610
Repurchase agreements	308,100,956	–	–	–	–	308,100,956
Notes and trade payables	11,491,341,467	167,589,414	32,970,687	86,481,262	–	11,778,382,830
Other payables	1,690,369,964	–	–	–	–	1,690,369,964
Non-current liabilities due within one year	4,928,758,378	–	–	–	–	4,928,758,378
Long-term loans	384,083,855	5,737,564,935	1,132,822,485	104,790,907	101,169,444	7,460,431,626
Long-term payables	–	210,000,000	–	–	–	210,000,000
Other current liabilities	3,081,026,301	–	–	–	–	3,081,026,301
Total	29,672,123,035	6,115,154,349	1,165,793,172	191,272,169	101,169,444	37,245,512,169

Notes to the 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 long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates for assets and liabilities denominated in foreign currency as at 30 June 2018, with all other variables held constant, of the Group's net profit/(loss) (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
For the six months ended 30 June 2018 (Unaudited)		
RMB	**50**	**(9,152,169)**
USD	**50**	**(136,009)**
EUR	**50**	**–**
RMB	**(50)**	**9,152,169**
USD	**(50)**	**136,009**
EUR	**(50)**	**–**
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

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Exchange rate risk

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

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

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash, note and trade receivables, other receivables, short term loans, notes and trade payables, other payables and long-term loans are stated in Notes V.1, 4, 6, 26, 28, 32, 33 and 36 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, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities).

30 June 2018 (Unaudited)

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in equity** (Note)
Depreciation of RMB to USD	**1%**	**(7,128,343)**	**(26,368)**
Depreciation of RMB to EUR	**1%**	**73,194**	**(2,159,236)**
Depreciation of RMB to AUD	**1%**	**–**	**(1,471,092)**
Depreciation of RMB to HKD	**1%**	**(198)**	**(3,451,122)**
Appreciation of RMB to USD	**(1%)**	**7,128,343**	**26,368**
Appreciation of RMB to EUR	**(1%)**	**(73,194)**	**2,159,236**
Appreciation of RMB to AUD	**(1%)**	**–**	**1,471,092**
Appreciation of RMB to HKD	**(1%)**	**198**	**3,451,122**

Notes to the Interim Financial Statements (Continued)

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

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Market risk *(Continued)*

Exchange rate risk (Continued)

31 December 2017 (Audited)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
Depreciation of RMB to USD	1%	(4,888,660)	(26,383)
Depreciation of RMB to EUR	1%	132,297	(3,784,268)
Depreciation of RMB to AUD	1%	(76,466)	(2,108,277)
Depreciation of RMB to HKD	1%	402	(1,802,170)
Appreciation of RMB to USD	(1%)	4,888,660	26,383
Appreciation of RMB to EUR	(1%)	(132,297)	3,784,268
Appreciation of RMB to AUD	(1%)	76,466	2,108,277
Appreciation of RMB to HKD	(1%)	(402)	1,802,170

Note: Not include retained earnings.

5. CAPITAL MANAGEMENT

The main objective of the Group's capital management is to ensure the Group's ability to continue operations and to maintain healthy capital ratios in order to support business growth and 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 2018, the capital management objectives, policies or procedures of the Group did not change.

Notes to the Interim Financial Statements (Continued)

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

5. CAPITAL MANAGEMENT *(CONTINUED)*

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes deposits, bank loans, notes and trade payables, bonds payable, payroll and employee benefits payable, and other payables, minus cash. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Deposits and balances from banks and other institutions	**200,000,000**	200,000,000
Customer deposits	**2,101,060,111**	2,947,639,610
Repurchase agreements of financial assets	**1,013,146,250**	308,100,956
Short-term loans	**6,843,480,037**	4,630,303,694
Financial liabilities at fair value through profit and loss	**–**	10,498,810
Notes and trade payables	**8,690,455,040**	11,778,382,830
Payroll and employee benefits payable	**827,076,654**	654,822,505
Other payables	**5,060,925,606**	2,354,327,866
Other current liabilities	**2,038,424,932**	3,081,026,301
Non-current liabilities due within one year	**7,885,584,392**	4,928,758,378
Long-term loans	**2,933,486,964**	6,975,958,634
Long-term payable	**–**	210,000,000
Long-term employee benefits payable	**163,763,617**	160,896,586
Less: Cash and bank balances	**7,538,181,813**	4,978,352,093
Net liabilities	**30,219,221,790**	33,262,364,077
Capital attributable to owners of the parent	**26,039,263,608**	23,895,739,812
Adjusted capital	**26,039,263,608**	23,895,739,812
Capital and net liabilities	**56,258,485,398**	57,158,103,889
Gearing ratio	**54%**	58%

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

30 June 2018 (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 held for trading	**19,789,892**	**3,800,950**	**1,904,616,195**	**1,928,207,037**
Other equity instruments investments	**–**	**128,923,960**	**14,196,786**	**143,120,746**
	19,789,892	**132,724,910**	**1,918,812,981**	**2,071,327,783**

The Group's level 1 fair value measurement items mainly include future contracts. The fair value of the future contracts was determined by the settlement price of the Dalian Commodity Exchange and Zhengzhou Commodity Exchange on the last trading day in the first half year of 2018.

The Group's level 2 fair value measurement items mainly include forward exchange contracts and unlisted equity investment. The fair value of the forward exchange contracts was determined by the forward exchange rate of the last trading day of the first half year 2018. The fair value of the unlisted equity investment was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as at 30 June 2018 and the information of the comparable listed companies in the same industry.

The Group's level 3 fair value measurement items mainly include financial products and unlisted equity investment not available for the comparable company multiplier method. The fair value of financial products is determined by the discounted cash flow model, with consideration of the initial transaction prices, near-term transactions of the same or similar financial instruments, or transactions of comparable financial instruments between the third parties. If necessary, the assessment model will be adjusted according to delays, early redemption, liquidity, default risk, and changes in the market, economy or specific circumstances. The fair value of the unlisted equity instruments investments not available for the comparable company multiplier method were determined by net asset basis method as at 30 June 2018.

Notes to the Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *(CONTINUED)*

31 December 2017 (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
Financial assets				
Recurring fair value measurement for:				
Financial assets measured at fair value through profit or loss	1,546,139,404	–	–	1,546,139,404
Available-for-sale financial assets investments in debt instruments	984,446,000	–	–	984,446,000
	2,530,585,404	–	–	2,530,585,404
Non-recurring fair value measurement for:				
Assets held for sale	–	–	73,454,334	73,454,334
	2,530,585,404	–	73,454,334	2,604,039,738
Financial liabilities				
Recurring fair value measurement for:				
Financial assets measured at fair value through profit or loss	–	10,498,810	–	10,498,810

Notes to the Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

30 June 2018 (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**
Financial assets				
Debt instruments investments	**50,350,000**	**–**	**–**	**50,350,000**
Financial liabilities				
Long-term loans	**–**	**3,167,444,943**	**–**	**3,167,444,943**

31 December 2017 (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
Financial assets				
Held-to-maturity investment	98,896,400	–	–	98,896,400
Financial liabilities				
Long-term loans	–	7,206,511,864	–	7,206,511,864
Long-term payable	–	195,879,166	–	195,879,166
	–	7,402,391,030	–	7,402,391,030

Notes to the Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE *(CONTINUED)*

3. VALUATION OF FAIR VALUE

Fair value of financial instruments

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

	Carrying amounts		Fair values	
	30 June 2018 Unaudited	31 December 2017 Audited	**30 June 2018 Unaudited**	31 December 2017 Audited
Financial assets				
Debt instruments investments	**51,148,671**	–	**50,350,000**	–
Held-to-maturity investment	**–**	100,854,230	**–**	98,896,400
Financial liabilities				
Long-term loans	**2,933,486,964**	6,975,958,634	**3,167,444,943**	7,206,511,864
Long-term payable	**–**	210,000,000	**–**	195,879,166

Management had assessed the fair value of cash, notes and trade receivables, other receivables, debt instruments investments, financial assets purchased under agreements to resell, notes and trade payables, other payables, loans and advances to customers, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities. Since the residual terms of the above-mentioned items were not long, the fair values were similar to the book values.

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

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

The method of discounted cash flows is adopted to determine the fair value of long-term loans, 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 2018, the default risk for the long-term loans was evaluated as not significant.

Notes to the Interim Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

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

The Company is ultimately controlled by the Holding.

2. SUBSIDIARIES

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

3. ASSOCIATES AND JOINT VENTURES

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

4. OTHER RELATED PARTIES

Name	Relationship with the Company
Magang (Group) Holding Company Limited	Controlled by the Holding
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) Logistics Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Assets Management Company	Controlled by the Holding
Magang (Group) Holding Company Limited Cable TV Center	Controlled by the Holding
Magang (Group) Holding Company Limited Magang Press	Controlled by the Holding
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Nanshan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Gushan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Taochong Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Qiangyang Cloud Mine	Controlled by the Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Magang Group Biding and Consulting Co., Ltd	Controlled by the Holding
Masteel Engineering Technology (Group) Co., Ltd.	Controlled by the Holding

Notes to the Interim Financial Statements (Continued)

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	**Relationship with the Company**
Feimazhike Automation and Information Technology Co., Ltd.	Controlled by the Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by the Holding
Shenzhen Yuexinma Information and technology Co., Ltd.	Controlled by the Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by the Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by the Holding
Masteel Group Mapping Co., Ltd.	Controlled by the Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by the Holding
Anhui Masteel Dongli Transmission Equipment Co., Ltd.	Controlled by the Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by the Holding
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Controlled by the Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding
Anhui Masteel Equipment Maintenance Co, Ltd.	Controlled by the Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by the Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by the Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by the Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by the Holding
Masteel Refractory Materials Co., Ltd.	Controlled by the Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by the Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by the Holding
Xinchuang Environmental Protection	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	Controlled by the Holding
Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd.	Controlled by the Holding
Guizhou Xinchuan Environmental Protections Co., Ltd.	Controlled by the Holding
Anhui Vocational College of Metallurgy and Technology	Controlled by the Holding
Anhui Masteel Advanced Technician School	Controlled by the Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by the Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by the Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by the Holding
Ma Steel (Hefei) Logistics Co., Ltd.	Controlled by the Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by the Holding

Notes to the Interim Financial Statements (Continued)

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

4. OTHER RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Company
Ma Steel International Trade and Economic Co., Ltd.	Controlled by the Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by the Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by the Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding
Maanshan Yangzi River Logistics Co., Ltd.	Controlled by the Holding
Maanshan Changjiang Ship Agent Co., Ltd.	Controlled by the Holding
Maanshan Zhongli Ocean Ship Tally Co., Ltd.	Controlled by the Holding
Maanshan Port (Group) Co., Ltd.	Joint venture of the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Joint venture of the Holding
Ruitai Masteel New Material Technology Co., Ltd.	Associate of the Holding
Ma Steel Gongchang United Roller Co., Ltd.	Associate of the Holding
Anhui Wanbao Mining Limited Co., Ltd.	Associate of the Holding
Maanshan Jiangnan Chemical Industry Co., Ltd.	Associate of the Holding
Tongling Yuanda Co., Ltd.	Associate of the Holding
Maanshan Mine Research Institute Blasting Engineering Co., Ltd.	Associate of the Holding
Anhui Zhengpu Port Administrative Affair Co., Ltd.	Associate of the Holding
China Logistics Hefei Co., Ltd.	Associate of the Holding
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Masteel Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Electricity Selling Co., Ltd.	Associate of the Holding
Anhui Huasu Co., Ltd.	Associate of the Holding

Notes to the Interim Financial Statements (Continued)

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

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

(1) Purchases of ore from related parties

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
The Holding	(i)	**1,874,411,815**	1,978,192,113
Ma Steel International Trade and Economic Co., Ltd.		**–**	923,430
An Hui Masteel Zhang Zhuang Mining Co., Ltd.		**–**	51,621,848
Masteel Shen Ma Metal Co., Ltd.		**–**	177,805
		1,874,411,815	2,030,915,196

(i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 10 September 2015 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Plats Index.

Notes to the Interim Financial Statements (Continued)

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

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

(2) Fees paid for labour, logistics and other services

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
The Holding	(ii)	**29,294,578**	28,952,993
Ruitai Masteel New Material Technology Co., Ltd.	(ii)	**441,296,171**	–
Anhui Masteel Equipment Maintenance Co, Ltd.	(ii)	**287,662,127**	–
Xinchuang Environmental Protection	(ii)	**266,018,472**	213,870,442
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	**222,043,168**	154,763,989
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	**128,392,970**	291,941,833
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**124,088,338**	101,375,670
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	**116,027,259**	96,481,534
Feimazhike Automation and Information Technology Co., Ltd.	(ii)	**102,479,632**	83,514,567
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**64,961,885**	46,177,349
Magang (Group) logistics Co., Ltd.	(ii)	**98,941,151**	73,362,774
Anhui Zhonglian Shipping Co., Ltd.	(ii)	**92,564,908**	53,505,920
Maanshan Port (Group) Co., Ltd.	(ii)	**90,771,344**	–
Ma Steel International Trade and Economic Co., Ltd.	(ii)	**11,962,556**	47,301,550
Masteel Refractory Materials Co., Ltd.	(ii)	**36,833,193**	447,873,597
Maanshan Xinchuangbaineng Energy Technology Co., Ltd	(ii)	**25,321,797**	24,377,732
Others	(ii)	**187,358,732**	93,721,826
		2,326,018,281	1,757,221,776

(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 the Interim Financial Statements (Continued)

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

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

(3) Agency fees paid to related parties

	Note	For the six months ended 30 June **2018** **Unaudited**	2017 Unaudited
Ma Steel International Trade and Economic Co., Ltd.	(iii)	**1,000,358**	174,149

(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 **2018** **Unaudited**	2017 Unaudited
The Holding	(iv)	**28,297,620**	20,416,706

(iv) The Holding leased a building to the Group and the rental was determined by terms of mutually agreed between the Group and the Holding.

Notes to the Interim Financial Statements (Continued)

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

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

(5) Purchases of fixed assets and construction services

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Masteel Engineering Technology (Group) Co., Ltd.	(v)	**256,263,024**	133,892,131
Maanshan Iron Construction Group Co., Ltd.	(v)	**53,904,103**	–
Feimazhike Automation and Information Technology Co., Ltd.	(v)	**49,960,438**	17,478,462
Xinchuang Environmental Protection	(v)	**61,115,440**	21,814,810
Maanshan Jiahua Commodity Concrete Co., Ltd.	(v)	**7,210,439**	–
Masteel Transportation Equipment Manufacturing Co., Ltd.	(v)	**–**	314,800
Masteel Heavy Machinery Manufacturing Co., Ltd.	(v)	**–**	7,248,000
Others	(v)	**6,582,044**	1,607,039
		435,035,488	182,355,242

(v) 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 the Interim Financial Statements (Continued)

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

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

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

	Note	**For the six months ended 30 June 2018 Unaudited**	2017 Unaudited
The Holding	(vi)	**1,545,854**	1,761,556
Xinchuang Environmental Protection	(vi)	**5,603,481**	116,444,340
Masteel Engineering Technology (Group) Co., Ltd.	(vi)	**58,513,817**	8,670,709
Ma Steel Powder Metallurgy Co., Ltd.	(vi)	**30,899,542**	26,229,142
Maanshan Iron Construction Group Co., Ltd.	(vi)	**18,170,330**	–
Anhui Masteel Equipment Maintenance Co., Ltd.	(vi)	**10,831,176**	–
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(vi)	**6,882,658**	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(vi)	**13,276,044**	12,204,652
Feimazhike Automation and Information Technology Co., Ltd.	(vi)	**4,280,957**	2,407,821
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(vi)	**3,764,698**	638,655
Maanshan Port (Group) Co., Ltd.	(vi)	**1,539,280**	–
Ruitai Masteel New Material Technology Co., Ltd.	(vi)	**1,466,298**	–
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(vi)	**449,949**	7,868,218
Masteel Transportation Equipment Manufacturing Co., Ltd.	(vi)	**337,925**	774,058
Masteel Refractory Materials Co., Ltd.	(vi)	**30,351**	4,702,138
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(vi)	**6,275**	20,104
Others	(vi)	**12,421,927**	7,339,568
		170,020,562	189,060,961

(vi) 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 the Interim Financial Statements (Continued)

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

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

(7) Sales of steel products

		For the six months ended 30 June	
		2018	2017
	Note	**Unaudited**	Unaudited
The Holding	(vii)	**–**	225,017
Masteel Engineering Technology (Group) Co., Ltd.	(vii)	**100,799,290**	92,104,703
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vii)	**35,416,054**	10,270,315
Masteel Heavy Machinery Manufacturing Co., Ltd.	(vii)	**29,731,208**	27,708,246
Ma Steel International Trade and Economic Co., Ltd.	(vii)	**16,972,416**	10,901,153
Anhui Masteel Luo He Mining Co., Ltd.	(vii)	**–**	4,435,754
Maanshan Jiahua Commodity Concrete Co., Ltd.	(vii)	**–**	1,717,240
		182,918,968	147,362,428

(vii) 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 the Interim Financial Statements (Continued)

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

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

(8) Financial service fee and interest paid to related parties

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
The Holding	(viii)	**5,656,976**	9,858,995
Maanshan Iron & Steel Group Mining Co., Ltd.	(viii)	**1,953,234**	961,785
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(viii)	**1,344,902**	2,229,353
Masteel Engineering Technology (Group) Co., Ltd.	(viii)	**1,386,262**	1,208,342
Ruitai Masteel New Material Technology Co., Ltd.	(viii)	**648,158**	–
Ma Steel International Trade and Economic Co., Ltd.	(viii)	**560,630**	611,002
Xinchuang Environmental Protection	(viii)	**210,301**	271,084
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(viii)	**201,036**	245,375
Magang Group Biding and Consulting Co., Ltd.	(viii)	**168,293**	–
Magang (Group) Holding Company Limited Assets Management Company	(viii)	**135,808**	–
Masteel Group Kang Tai Land Development Co., Ltd.	(viii)	**134,865**	246,509
Anhui Masteel Luo He Mining Co., Ltd.	(viii)	**119,662**	125,518
Others	(viii)	**4,171,004**	2,355,662
		16,691,131	18,113,625

(viii) Masteel Finance 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: 0.42% to 3.99%).

Notes to the Interim Financial Statements (Continued)

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

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

(9) Financial service income received from related parties

		For the six months ended 30 June	
		2018	2017
	Note	**Unaudited**	Unaudited
The Holding	(ix)	**16,461,919**	17,210,070
Maanshan Iron & Steel Group Mining Co., Ltd.	(ix)	**8,770,178**	8,509,600
Anhui Masteel Luo He Mining Co., Ltd.	(ix)	**1,240,684**	2,447,323
Anhui BRC & Masteel Weldmesh Co., Ltd.	(ix)	**1,182,236**	769,105
Magang (Group) Logistics Co., Ltd.	(ix)	**37,736**	–
Xinchuang Environmental Protection	(ix)	**36,501**	–
Masteel Engineering Technology (Group) Co., Ltd.	(ix)	**11,669**	38,251
Ma Steel International Trade and Economic Co., Ltd.	(ix)	**–**	9,434
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(ix)	**–**	333,504
Others	(ix)	**538,959**	202,180
		28,279,882	29,519,467

(ix) Masteel Finance, a subsidiary of the Group, received financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance notes discounting and entrusted loan. The lending rates were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

Notes to the Interim Financial Statements (Continued)

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

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

(10) Sales of land to related party

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Masteel Automobile Transportation Service Co., Ltd.	(x)	**23,109,567**	–

(x) The transactions with Masteel Automobile Transportation Service Co., Ltd. were conducted based on the valuation result of the fair value of the land.

(11) Sales of products and provision of services to joint ventures and associates

	Note	For the six months ended 30 June 2018 Unaudited	2017 Unaudited
Ma-Steel OCI Chemical	(xi)	**247,964,231**	160,132,068
BOC-Ma Steel	(xi)	**135,264,963**	123,644,492
		383,229,194	283,776,560

Notes to the Interim Financial Statements (Continued)

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

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

(12) Purchase of products from joint ventures and associates

		For the six months ended 30 June	
		2018	2017
	Note	**Unaudited**	Unaudited
Henan JinMa Energy	(xi)	**701,455,910**	459,954,023
BOC-Ma Steel	(xi)	**276,145,030**	272,320,596
		977,600,940	732,274,619

(xi) The terms for trading, including sales of coke by-products, sales of gas, wastewater treatment services, power services, providing facilities and utilities, equipment maintenance services, purchase of coke and purchase of gas, were determined in accordance with a service agreement between the Group and the Holding.

(13) Provide rental service to a joint venture

		For the six months ended 30 June	
		2018	2017
	Note	**Unaudited**	Unaudited
BOC-Ma Steel	(xii)	**625,000**	1,250,000

(xii) The transactions with a joint venture were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to the Interim Financial Statements (Continued)

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

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

(14) Guarantee provided by a related party

30 June 2018 (Unaudited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiii)	**The Company**	**RMB1.893 billion**	**2014.7**	**2025.10**	**Not yet as of the approval date of the report**

31 December 2017 (Audited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiii)	The Company	RMB1.927 billion	2014.7	2025.10	Not yet as of the approval date of the report

(xiii) During the period, the Holding had guaranteed additional certain bank loans of the Group amounting to approximately RMB0.6 billion (2017: approximately RMB1.7 billion) without attached conditions. The Holding had guaranteed part of bank loans without attached conditions amounting to approximately RMB1.893 billion as of 30 June 2018 (31 December 2017: approximately RMB1.927 billion).

Notes to the Interim Financial Statements (Continued)

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

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

(15) Borrowings from related parties

30 June 2018 (Unaudited)

	Note	**Amount**	**Start date**	**End date**
The Holding	(xiv)	**40,000,000**	**2017/8/30**	**2018/8/29**

31 December 2017 (Audited)

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xiv)	30,000,000	2017/5/4	2017/7/25
The Holding	(xiv)	40,000,000	2017/8/30	2018/8/29
Anhui Zhonglian Shipping Co., Ltd.	(xiv)	70,000,000	2017/9/26	2018/9/25

(xiv) On 4 May 2017, Anhui Zhonglian Shipping Co., Ltd. entrusted Masteel Finance to provide the Company with a short-term loan of RMB30,000,000 with the annual interest of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB270,788. The principle and interest were fully paid on 25 July 2017.

On 30 August 2017, the Holding entrusted Masteel Finance to provide the Company with a short-term loan of RMB40,000,000 with the annual interest of 4.35%, and repay the principal and the interest on the expiration date. The Company accrued interest of RMB599,333 in current period.

On 26 September 2017, Anhui Zhonglian Shipping entrusted Masteel Finance to provide the Company with a short-term loan of RMB70,000,000 with the annual interest rate of 3.915% and repay the principal and the interest on the expiration date. The Company accrued interest of RMB738,413 in current period, and had repaid the principal and interest as at 30 June 2018.

(16) According to the financial service agreement signed by Masteel Finance and the Holding on 27 December 2017, Masteel Finance provided financing services and deposit transactions to the Group and its subsidiaries. During the period, the highest daily deposit balance was RMB3.51 billion (2017: RMB4.69 billion); the highest average daily deposit balance on a monthly basis was RMB3.08 billion (2017: RMB4.17 billion); the highest daily loan balance was RMB0.498 billion (2017: RMB0.498 billion); and the highest average daily loan balance on a monthly basis was RMB0.498 billion (2017: RMB0.497 billion).

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Book value	**Provision**	Book value	Provision
Notes and trade receivables				
The Holding and its subsidiaries				
The Holding	**103,120**	**1,031**	–	–
Anhui BRC & Masteel Weldmesh Co., Ltd.	**18,446,940**	**184,469**	526,093	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	**17,159,802**	**171,598**	16,008,365	–
Ma Steel Powder Metallurgy Co., Ltd.	**12,167,437**	**121,674**	33,333,133	–
Ma Steel International Trade and Economic Co., Ltd.	**12,000,000**	**120,000**	–	–
Maanshan Jiahua Commodity Concrete Co., Ltd.	**7,035,208**	**2,458,066**	–	–
Anhui Masteel Luo He Mining Co., Ltd.	**5,861,544**	**703,385**	4,000,000	–
Anhui Masteel Equipment Maintenance Co., Ltd.	**4,088,901**	**40,889**	1,374,641	–
Masteel Engineering Technology (Group) Co., Ltd.	**4,021,507**	**40,215**	5,608,594	–
Masteel Automobile Transportation Service Co., Ltd.	**426,356**	**4,264**	243,971	–
Xinchuang Environmental Protection	**–**	**–**	15,933,746	–
Others entities controlled by the Holding	**727,341**	**7,273**	1,980,926	–
	82,038,156	**3,852,864**	79,009,469	–
Associate of the Group				
Ma-Steel OCI Chemical	**–**	**–**	13,620,000	–

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Book value	**Provision**	Book value	Provision
Other receivables				
The Holding	**–**	**–**	350,000	–
Masteel Automobile Transportation Service Co., Ltd.	**6,180**	**62**	3,672	–
Magang Group Biding and Consulting Co., Ltd.	**2,000**	**20**	–	–
	8,180	**82**	353,672	–
Prepayments				
The Holding	**2,924,227**		2,328,164	
Masteel Engineering Technology (Group) Co., Ltd.	**24,335,794**		23,887,100	
Ma Steel International Trade and Economic Co., Ltd.	**5,919,153**		14,894,591	
Others entities controlled by the Holding	**206,000**		763,431	
	33,385,174		41,873,286	
Associate of the Group				
Henan JinMa Energy	**113,779,140**		103,217,438	

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	30 June 2018 Unaudited	31 December 2017 Audited
Loans and advances to customers		
The Holding and its subsidiaries		
Anhui Masteel Luo He Mining Co., Ltd.	**68,010,275**	48,517,364
Anhui BRC & Masteel Weldmesh Co., Ltd.	**45,968,102**	60,057,628
Maanshan Iron & Steel Group Mining Co., Ltd.	**1,343,260,810**	737,990,218
Other entities controlled by the Holding	**2,003,264**	961,320
	1,459,242,451	847,526,530
Trade payables		
The Holding and its subsidiaries		
The Holding	**121,554,043**	35,001,304
Masteel Heavy Machinery Manufacturing Co., Ltd.	**160,329,857**	65,521,140
Xinchuang Environmental Protection	**88,692,224**	60,687,857
Ma Steel International Trade and Economic Co., Ltd.	**86,684,814**	6,439,946
Masteel Engineering Technology (Group) Co., Ltd.	**57,762,995**	198,725,638
Feimazhike Automation and Information Technology Co., Ltd.	**94,080,552**	32,336,697
Maanshan Masteel Surface Engineering Technology Co., Ltd.	**45,219,237**	78,591,810
Masteel Transportation Equipment Manufacturing Co., Ltd.	**39,549,452**	8,712,630
Anhui Masteel Equipment Maintenance Co., Ltd.	**22,628,703**	59,108,818
Others entities controlled by the Holding	**53,225,118**	82,695,702
	769,726,995	627,821,542
Joint ventures and associates of the Group		
BOC-Ma Steel	**53,317,662**	78,529,423
Shenglong Chemical	**207,497**	366,902
	53,525,159	78,896,325

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	30 June 2018 Unaudited	31 December 2017 Audited
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	**6,328,530**	6,598,827
Xinchuang Environmental Protection	**10,692,106**	6,257,260
Masteel Engineering Technology (Group) Co., Ltd.	**3,359,488**	19,908,392
Anhui Masteel Equipment Maintenance Co., Ltd.	**–**	6,584,855
Maanshan Masteel Electric Repair Co., Ltd.	**100,150**	1,477,621
Maanshan Port (Group) Co., Ltd.	**18,838,488**	15,470,463
Other entities controlled by the Holding	**10,984,896**	14,412,949
	50,303,658	70,710,367
Joint venture of the Group		
BOC-Ma Steel	**70,000**	70,000
Short-term loans		
The Holding and its subsidiaries		
The Holding	**40,000,000**	40,000,000
Anhui Zhonglian Shipping Co., Ltd.	**–**	100,000,000
	40,000,000	140,000,000

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	30 June 2018 Unaudited	31 December 2017 Audited
Advances from customers		
The Holding and its subsidiaries		
The Holding	**150,785**	178,121
Ma Steel International Trade and Economic Co., Ltd.	**12,252,914**	838,098
Masteel Engineering Technology (Group) Co., Ltd.	**26,339,200**	13,365,245
Anhui BRC & Masteel Weldmesh Co., Ltd.	**2,537,288**	177,975
Maanshan Iron Construction Group Co., Ltd.	**7,215,808**	2,208,396
Xinchuang Environmental Protection	**963,183**	–
Other entities controlled by the Holding	**2,408,602**	2,558,034
	51,867,780	19,325,869
Joint ventures and associates of the Group		
Ma-Steel OCI Chemical	**499,103**	7,606,264
Shenglong Chemical	**11**	11
	499,114	7,606,275

Notes to the Interim Financial Statements (Continued)

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

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES *(CONTINUED)*

	30 June 2018 Unaudited	31 December 2017 Audited
Customer deposits		
The Holding and its subsidiaries		
The Holding	**552,499,909**	893,256,203
Masteel Engineering Technology (Group) Co., Ltd.	**169,684,708**	279,389,411
Masteel Heavy Machinery Manufacturing Co., Ltd.	**132,063,434**	88,350,190
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	**118,517,635**	412,747,007
Ruitai Masteel New Material Technology Co., Ltd.	**101,202,108**	–
Maanshan Iron & Steel Group Mining Co., Ltd.	**78,538,352**	152,763,055
Xinchuang Environmental Protection	**77,867,438**	118,673,055
Ma Steel International Trade and Economic Co., Ltd.	**61,877,721**	97,179,819
Masteel Group Kang Tai Land Development Co., Ltd.	**25,476,854**	33,005,890
Other entities controlled by the Holding	**657,303,942**	395,573,023
	1,975,032,101	2,470,937,653
Joint venture of the Group		
BOC-Ma Steel	**126,028,010**	182,254,044

The fee charged by Masteel Finance for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the parties.

* As of 30 June 2018, in current assets and current liabilities, except for the interests charge for the deposit and loans provided by Masteel Finance, all these receivables and payables had no interest, no pledge and would be paid in the future.

7. COMMITMENT TO RELATED PARTIES

As of 30 June 2018, the Group had no commitment to related parties.

Notes to the Interim Financial Statements (Continued)

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XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Contracted, but not provided for		
Capital commitments	**1,486,318,991**	1,130,565,007
Investment commitments	**13,969,500**	15,000,000
	1,500,288,491	1,145,565,007

Unrecognised commitments related to investments in joint ventures and associates are included in Note X.7.

2. CONTINGENCIES

Difference of corporate income tax

The State Administration of Taxation issued "The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other nine companies listed overseas corporation" (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the "People's Republic of China Administration of Tax Collection Law".

The Company was one of the nine companies mentioned above and used 15% preferential tax rate in the previous year. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which was adjusted from the original 15%. The Company had not been recovered prior year income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year's income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any preparation or adjustments related to the income tax differences.

Pending litigation

As of 30 June 2018, the Group and the Company did not have significant pending litigation.

Notes to the Interim Financial Statements (Continued)

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XII. EVENTS AFTER THE BALANCE SHEET DATE

As at 29 August 2018, as approved by the 11th meeting of the 9th board of directors of the Company, the board of directors proposed to distribute interim cash dividend of RMB0.05 (tax included) per share to all shareholders, which is subject to the approval by the shareholders' meeting of the Company.

As of the approval date of these financial statements, saved as above, there is no other significant event after the reporting period need 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 three to eighteen years. The periodic rental was fixed during the operating lease periods.

	30 June 2018 Unaudited	31 December 2017 Audited
Remaining lease period		
Within 1 year, inclusive	**1,558,490**	1,558,490
1 to 2 years, inclusive	**1,404,245**	1,558,490
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**2,032,534**	2,657,534
	6,245,269	7,024,514

XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

1. LEASES *(CONTINUED)*

As lessee

According to the leasing contract signed with the lessor, the minimum lease payment for the irrevocable lease is as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Remaining lease period		
Within 1 year, inclusive	**230,649**	–
1 to 2 years, inclusive	**338,912**	–
2 to 3 years, inclusive	**338,912**	–
Over 3 years	**108,264**	–
	1,016,737	–

2. OPERATING SEGMENT INFORMATION

Operating segments

The Group divides the operation services into two operating segments which are determined based on the internal organisation structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and its subsidiaries except for Masteel Finance

- Financial service: Masteel Finance

The Group did not consider financial service as an individual reportable segment, as Masteel Finance mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Notes to the Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Other information

Product and service information

External principal operating income

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Sale of steel products	**36,551,400,095**	32,685,470,879
Sale of steel billets and pig iron	**1,028,012,810**	982,818,293
Sale of coke by-products	**210,461,744**	210,793,879
Others	**1,706,987,771**	850,778,575
	39,496,862,420	34,729,861,626

Notes to the 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	
	2018	2017
	Unaudited	Unaudited
Mainland China	**36,868,881,304**	32,372,797,968
Overseas	**2,627,981,116**	2,357,063,658
	39,496,862,420	34,729,861,626

Non-current assets

	30 June	31 December
	2018	2017
	Unaudited	Audited
Mainland China	**37,250,118,771**	38,072,610,336
Overseas	**318,299,750**	330,183,194
	37,568,418,521	38,402,793,530

The non-current asset information above is based on the locations of the assets and excludes financial assets and deferred tax assets.

Major customer information

The Group had not placed reliance on any single external customer which accounted for 10% or more of its total revenue.

Notes to the Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. OTHER FINANCIAL INFORMATION*

	Group		Company	
	30 June 2018 Unaudited	31 December 2017 Audited	**30 June 2018 Unaudited**	31 December 2017 Audited
Current assets	**34,816,234,773**	32,098,538,779	**23,467,074,789**	23,227,123,182
Less: Current liabilities	**39,232,205,980**	36,118,138,248	**29,592,901,069**	28,093,364,985
Net current liabilities	**(4,415,971,207)**	(4,019,599,469)	**(6,125,826,280)**	(4,866,241,803)

	Group		Company	
	30 June 2018 Unaudited	31 December 2017 Audited	**30 June 2018 Unaudited**	31 December 2017 Audited
Total assets	**73,078,028,237**	72,191,589,979	**60,000,701,170**	60,044,692,283
Less: Current liabilities	**39,232,205,980**	36,118,138,248	**29,592,901,069**	28,093,364,985
Total assets less current liabilities	**33,845,822,257**	36,073,451,731	**30,407,800,101**	31,951,327,298

4. COMPARATIVE AMOUNT

As stated in Note III. 31, due to the changes in financial statements format, the Company combined "notes receivable" and "trade receivable" as "notes and trade receivables", and combined "interest receivable", "dividends receivable" and "other receivables" as "other receivables", combined "fixed assets" and "disposal on fixed assets" as "fixed assets", combined "notes payable" and "trade payable" as "notes and trade payables", combined "special payables" as "long-term payables". The Company split "Research and Development expenses" from "General and administrative expenses" in the income statement, split "interest expenses" and "interest income" from the item "financial expenses". The accounting treatment and presentation of the above items in the financial statements have been changed to meet the new requirements. Correspondingly, the Company retrospectively represented the comparative amount in the statement of financial position and the income statement to comply with the requirement of the presentation and accounting treatment of current period.

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. NOTES AND TRADE RECEIVABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Notes receivable	**5,573,309,280**	8,065,941,428
Trade receivables	**2,460,848,469**	2,152,462,187
	8,034,157,749	10,218,403,615
Less: Provisions for bad debts	**50,983,938**	47,921,020
	7,983,173,811	10,170,482,595

Notes receivable

	30 June 2018 Unaudited	31 December 2017 Audited
Bank acceptance notes	**5,573,309,280**	8,065,941,428

The pledged notes receivable were as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Bank acceptance notes	**774,389,336**	–

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance notes	**7,028,106,158**	**168,893,103**	3,377,050,840	59,005,216

As of 30 June 2018 and 31 December 2017, there was no trade receivables transferred from notes receivable because of the drawers' inability to pay.

The Company's trade receivable was interest-free with normal credit terms of 30 to 90 days.

The aging of trade receivables, based on the invoice date, is analysed below:

	30 June 2018 Unaudited	31 December 2017 Audited
Within one year	**2,267,953,880**	1,964,496,309
One to two years	**45,159,212**	74,975,028
Two to three years	**104,349,273**	69,673,222
Over three years	**43,386,104**	43,317,628
	2,460,848,469	2,152,462,187
Less: Provisions for bad debts	**50,983,938**	47,921,020
	2,409,864,531	2,104,541,167

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

The movements of the provision of bad debts were as follows:

	Opening balance	Increase	Reversal	Write-back	Write-off	Other changes	Closing balance
30 June 2018	**47,921,020**	**3,062,918**	**–**	**–**	**–**	**–**	**50,983,938**
31 December 2017	13,382,203	34,538,817	–	–	–	–	47,921,020

The trade receivable balances are analysed as follows:

	30 June 2018 (Unaudited)			
	Book value		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed for bad debt provision individually	**1,975,734,661**	**80**	**–**	**–**
Assessed bad debt provision in portfolios based credit risk characteristics	**485,113,808**	**20**	**(50,983,938)**	**11**
	2,460,848,469	**100**	**(50,983,938)**	

The trade receivables balances are analysed as follows:

	31 December 2017 (Audited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for bad debt provision individually	40,137,408	2	(40,137,408)	100
Assessed bad debt provision in portfolios based on credit risk characteristics	1,925,329,597	89	(5,354,261)	–
Individually insignificant but assessed for impairment individually	186,995,182	9	(2,429,351)	1
	2,152,462,187	100	(47,921,020)	

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	20,279,298	(20,279,298)	100	Note
Company 2	6,927,040	(6,927,040)	100	Note
Company 3	6,291,156	(6,291,156)	100	Note
Company 4	3,920,206	(3,920,206)	100	Note
Company 5	2,719,708	(2,719,708)	100	Note
	40,137,408	(40,137,408)		

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

The Company's provision for bad debts of trade receivables analysed by aging was follows:

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value expected to default	**Expected credit loss percentage (%)**	**Expected credit loss during lifetime**	Book value	Ratio (%)	Provision for bad debts
Within one year	**390,847,909**	**1**	**(3,908,479)**	1,911,419,009	–	–
One to two years	**45,159,212**	**12**	**(5,419,105)**	3,708,544	10	(370,854)
Two to three years	**12,191,259**	**51**	**(6,217,542)**	392,049	20	(78,410)
Over three years	**36,915,428**	**96**	**(35,438,811)**	9,809,995	50	(4,904,997)
	485,113,808		**(50,983,937)**	1,925,329,597		(5,354,261)

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. NOTES AND TRADE RECEIVABLES *(CONTINUED)*

During the current period, the Company's provision for bad debts was RMB3,062,918, and there was no collection or reversal of provision for bad debts.

During the current period, there was no trade receivable that had been written off.

The top five trade receivables classified by debtor:

30 June 2018 (Unaudited)

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	913,812,421	Within one year	37%	–
Company 2	Subsidiary	374,958,457	Within one year	15%	–
Company 3	Subsidiary	159,351,167	Within one year	6%	–
Company 4	Subsidiary	120,888,900	Within one year	5%	–
Company 5	Subsidiary	102,975,419	Within one year	4%	–
		1,671,986,364		67%	

31 December 2017 (Audited)

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	905,424,701	Within one year	42%	–
Company 2	Subsidiary	170,135,854	Within one year	8%	–
Company 3	Subsidiary	159,853,738	Within one year	7%	–
Company 4	Subsidiary	116,262,406	Within one year	5%	–
Company 5	Subsidiary	102,945,205	Within one year	5%	–
		1,454,621,904		67%	

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES

	30 June 2018 Unaudited	31 December 2017 Audited
Dividends Receivable		
Associate – Shenglong Chemical	**32,000,000**	–
Subsidiary – Ma Steel (Hefei) Processing	**6,700,000**	–
Subsidiary – Chongqing Material	**5,600,000**	–
Subsidiary – Ma Steel (Yangzhou) Processing	**7,100,000**	–
Subsidiary – Anhui Chang Jiang Iron and Steel	**528,000,000**	–
Prepayment of custom duties and VAT	**18,799,531**	39,396,766
Prepayment for trading	**415,916,327**	415,916,327
Guarantee for steel futures	**126,462,731**	131,482,895
Others	**171,142,588**	25,643,567
	1,311,721,177	612,439,555
Less: Provision for bad debts	**423,714,537**	423,714,537
Total	**888,006,640**	188,725,018

Notes to the Interim Financial Statements (Continued)

30 June 2018
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

An ageing analysis of the other receivables is as follows:

	30 June 2018 Unaudited	31 December 2017 Audited
Within one year	**887,783,079**	187,226,756
One to two years	**244,125**	1,181,088
Two to three years	**179,520**	304,865
Over three years	**423,514,453**	423,726,846
	1,311,721,177	612,439,555
Less: Provision for bad debts	**423,714,537**	423,714,537
	888,006,640	188,725,018

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

The other receivables balances are analysed as follows:

	30 June 2018 (Unaudited)			
	Book value		**Provision for bad debts**	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Assessed expected credit losses individually	**705,862,732**	**54**	**–**	**–**
Assessed expected credit loss in portfolios based on credit risk characteristics	**605,858,445**	**46**	**(423,714,537)**	**70**
	1,311,721,177	**100**	**(423,714,537)**	

	31 December 2017 (Audited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	418,316,326	68	(418,316,326)	100
Assessed bad debts provision in portfolios based on credit risk characteristics	181,292,054	30	(2,607,132)	1
Individually insignificant but assessed for impairment individually	12,831,175	2	(2,791,079)	22
	612,439,555	100	(423,714,537)	

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	Note
Company 2	127,685,367	(127,685,367)	100	Note
Company 3	60,939,960	(60,939,960)	100	Note
Company 4	57,988,833	(57,988,833)	100	Note
Company 5	37,243,732	(37,243,732)	100	Note
Company 6	2,400,000	(2,400,000)	100	Note
	418,316,326	(418,316,326)		

Note: Full provision for bad debts were made as these long-term uncollected other receivables were unable to be collected for a long time and less expected to be recovered in the future.

The Company's provision for bad debts of other receivables analysed by aging are disclosed as follows:

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Book value expected to default	**Expected credit loss percentage**	**Expected credit loss**	Book value	Ratio	Provision for bad debts
Within one year	**181,920,347**	**2%**	**(3,638,407)**	174,950,001	–	–
One to two years	**244,125**	**22%**	**(53,708)**	1,181,088	10%	(118,109)
Two to three years	**179,520**	**27%**	**(48,470)**	304,865	20%	(60,973)
Over three years	**423,514,453**	**99%**	**(419,973,952)**	4,856,100	50%	(2,428,050)
Total	**605,858,445**		**(423,714,537)**	181,292,054		(2,607,132)

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

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, and there was no collection or reversal of provision for bad debts.

During the current period, there was no other receivables that had been written off.

As of 30 June 2018, the top five largest other receivables were as follows:

	Balance	**Ratio to total other receivables (%)**	**Nature**	**Ageing**	**Balance of bad debts**
Company 1	**528,000,000**	**40**	**Dividends receivable**	**Within 1 year**	**–**
Company 2	**132,058,434**	**10**	**Prepayments**	**More than 3 years**	**(132,058,434)**
Company 3	**127,685,367**	**10**	**Prepayments**	**More than 3 years**	**(127,685,367)**
Company 4	**126,912,236**	**10**	**Prepayments**	**Within 1 year**	**(2,538,245)**
Company 5	**67,731,041**	**5**	**Futures deposit**	**Within 1 year**	**–**
	982,387,078	**75**			**(262,282,046)**

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

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	22	Prepayments	More than 3 years	(132,058,434)
Company 2	127,685,367	21	Prepayments	More than 3 years	(127,685,367)
Company 3	73,560,769	12	Futures deposit	Within 1 year	–
Company 4	60,939,960	10	Prepayments	More than 3 years	(60,939,960)
Company 5	57,988,833	9	Prepayments	More than 3 years	(57,988,833)
	452,233,363	74			(378,672,594)

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. LONG-TERM EQUITY INVESTMENTS

	30 June 2018 Unaudited	31 December 2017 Audited
Long-term investments under the equity method		
Joint ventures (i)	**258,635,516**	335,003,849
Associates (i)	**1,448,086,182**	1,190,221,353
Long-term investments under the cost method		
Subsidiaries (ii)	**7,905,564,910**	7,365,064,910
Subtotal	**9,612,286,608**	8,890,290,112
Less: Provision for impairment	**–**	60,000,000
Total	**9,612,286,608**	8,830,290,112

In the opinion of the directors, there was no material restriction on the realisation of investments as of the financial position date.

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(i) Joint ventures and associates

30 June 2018 (Unaudited)

	Opening balance	Movements during the period							Closing balance	Impairment at the end of the period
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment		
Joint ventures										
BOC-Ma Steel	334,457,696	-	-	43,632,202	-	-	(120,000,000)	-	258,089,898	-
MASTEEL-CMI	546,153	-	-	(535)	-	-	-	-	545,618	-
Associates										
Henan JinMa Energy	441,184,749	-	-	97,728,664	-	573,382	(40,320,000)	-	499,166,795	-
Shenglong Chemical	469,646,241	-	-	130,406,068	-	635,492	(32,000,000)	-	568,687,801	-
Shanghai Iron and Steel Electronic	22,759,705	-	-	(1,093,073)	-	-	-	-	21,666,632	-
Xinchuang Environmental Protection	48,584,024	-	-	4,972,583	-	198,584	(1,428,658)	-	52,326,533	-
Anhui Linhuan Chemical	80,254,391	-	-	13,722,355	-	80,614	-	-	94,057,360	-
Ma-Steel OCI Chemical	127,792,243	-	-	8,479,638	-	593,876	-	-	136,865,757	-
Masteel Shanghai Business factoring (Note)	-	75,000,000	-	315,304	-	-	-	-	75,315,304	-
	1,525,225,202	75,000,000	-	298,163,206	-	2,081,948	(193,748,658)	-	1,706,721,698	-

Note: Please refer to Note V.15 for details.

31 December 2017 (Audited)

	Opening balance	Movements during the year							Closing balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment		
Joint ventures										
BOC-Ma Steel	319,018,068	-	-	90,439,628	-	-	(75,000,000)	-	334,457,696	-
MASTEEL-CMI	541,433	-	-	4,720	-	-	-	-	546,153	-
Mascometal	53,284,037	78,431,997	(127,368,631)	(4,347,403)	-	-	-	-	-	-
Associates										
Henan JinMa Energy	296,196,390	-	(22,335,060)	202,392,735	-	930,684	(36,000,000)	-	441,184,749	-
Shenglong Chemical	309,396,424	-	-	179,443,817	-	-	(19,194,000)	-	469,646,241	-
Shanghai Iron and Steel Electronic	27,120,592	-	-	1,639,113	-	-	(6,000,000)	-	22,759,705	-
Xinchuang Environmental Protection	43,780,961	-	-	5,362,627	-	746,827	(1,306,391)	-	48,584,024	-
Anhui Linhuan Chemical	72,000,000	-	-	7,320,968	-	933,423	-	-	80,254,391	-
Ma-Steel OCI Chemical	118,438,408	-	-	8,154,347	-	1,199,488	-	-	127,792,243	-
	1,239,776,313	78,431,997	(149,703,691)	490,410,552	-	3,810,422	(137,500,391)	-	1,525,225,202	-

Notes to the Interim Financial Statements (Continued)

30 June 2018
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(ii) Subsidiaries

30 June 2018 (Unaudited)

		Changes during the period						
	Opening balance	Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the period	Cash dividends declared
New Building Masteel K. Wah.	44,443,067	-	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	23,000,000
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	-
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	6,773,781
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	85,596,489	-	-	-	-	85,596,489	-	6,700,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	7,100,000
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Masteel Shanghai Trading (Note 1)	-	-	-	-	-	-	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	5,600,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	528,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	63,362,007
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	646,004,985	-	-	-	-	646,004,985	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Rail Transportation	396,021,369	-	-	-	-	396,021,369	-	-
Ma Steel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Ma Steel America Inc	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antirust	3,060,000	-	-	-	-	3,060,000	-	-
Mascomental	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power (note 2)	-	500,000	-	-	-	500,000	-	-
Magang Chemical & Energy (note 2)	-	600,000,000	-	-	-	600,000,000	-	-
	7,305,064,910	600,500,000	-	-	-	7,905,564,910	-	640,535,788

Note 1: Refer to Note VI.2 for details.

Note 2: For the information of the newly established subsidiaries, refer to Note VI.1.

Notes to the Interim Financial Statements (Continued)

30 June 2018
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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

(ii) Subsidiaries *(Continued)*

31 December 2017 (Audited)

	Opening balance	Changes during the year Increase	Decrease	Other equity movement	Provision for impairment	Closing balance	Impairment at the end of the year	Cash dividends declared
New Building Masteel K. Wah.	44,443,067	–	–	–	–	44,443,067	–	9,081,100
Ma Steel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	–
Ma Steel (Cihu)	48,465,709	–	–	–	–	48,465,709	–	6,858,085
Ma Steel (Guangzhou)	80,000,000	–	–	–	–	80,000,000	–	1,800,042
Ma Steel (HK)	21,146,421	31,440,129	–	–	–	52,586,550	–	–
MG Trading	1,573,766	–	–	–	–	1,573,766	–	–
Holly Industrial	21,478,316	–	–	–	–	21,478,316	–	–
Huayang Equipment	900,000	–	(900,000)	–	–	–	–	–
Ma Steel (Jinhua)	90,000,000	–	–	–	–	90,000,000	–	–
Ma Steel (Australia)	126,312,415	–	–	–	–	126,312,415	–	–
Ma Steel (Hefei)	1,775,000,000	–	–	–	–	1,775,000,000	–	–
Ma Steel (Hefei) Processing	73,200,000	12,396,489	–	–	–	85,596,489	–	5,000,000
Ma Steel (Yangzhou) Processing	116,462,300	–	–	–	–	116,462,300	–	5,000,000
Wuhu Technique	106,500,000	–	–	–	–	106,500,000	–	–
Masteel Scrap	100,000,000	–	–	–	–	100,000,000	–	–
Masteel Shanghai Trading	–	–	–	–	–	–	60,000,000	–
Chongqing Material	175,000,000	–	–	–	–	175,000,000	–	2,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	–	–	–	–	1,234,444,444	–	45,933,957
Masteel Finance	933,172,609	910,000,000	–	–	–	1,843,172,609	–	12,531,425
Hefei Materials	140,000,000	–	–	–	–	140,000,000	–	–
MG-VALDUNES	336,695,298	309,309,687	–	–	–	646,004,985	–	–
Ma Steel Guangzhou Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Hangzhou Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Wuxi Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Chongqing Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Nanjing Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Wuhan Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Shanghai Sales	10,000,000	–	–	–	–	10,000,000	–	–
Ma Steel Rail Transportation	396,021,369	–	–	–	–	396,021,369	–	–
Ma Steel Oubang Color-coated	10,050,000	–	–	–	–	10,050,000	–	–
Ma Steel America Inc	3,298,375	–	–	–	–	3,298,375	–	–
Ma Steel Antirust	–	3,060,000	–	–	–	3,060,000	–	–
Mascomental	–	127,368,631	–	–	–	127,368,631	–	–
	5,912,389,974	1,393,574,936	(900,000)	–	–	7,305,064,910	60,000,000	88,204,609

4. REVENUE AND COST OF SALES

	For the six months ended 30 June 2018 Unaudited Revenue	2018 Unaudited Cost of sales	2017 Unaudited Revenue	2017 Unaudited Cost of sales
Principal operating income	**33,228,832,286**	**28,970,953,608**	28,812,859,261	26,489,292,378
Other operating income	**463,426,324**	**595,711,764**	373,772,191	373,628,838
	33,692,258,610	**29,566,665,372**	29,186,631,452	26,862,921,216

Notes to the Interim Financial Statements (Continued)

30 June 2018
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Sale of products	**33,670,209,866**	29,164,896,323
Rendering of services	**22,048,744**	21,735,129
	33,692,258,610	29,186,631,452

5. INVESTMENT INCOME

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Long-term equity investment income under the equity method	**298,163,206**	241,096,593
Long-term equity investment income under the cost method	**640,535,788**	50,533,509
Investment income from disposal of a subsidiary	**–**	7,796,084
Investment income from available-for-sale financial assets in duration	**–**	1,540,000
Investment income from disposal of financial assets held for sale measured at fair value through profit or loss	**(6,718,623)**	(2,992,563)
	931,980,371	297,973,623

As of the financial position date, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

30 June 2018
Renminbi Yuan

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) issued by the CSRC.

	For the six months ended 30 June 2018 (Unaudited)
Items of non-recurring gains or losses	
Gain from disposal of non-current assets	**53,182,354**
Loss from disposal of non-current assets	**(578,928)**
Government grants not related to the Company's daily activities	**93,314,943**
Government grants related to the Company's daily activities	**44,152,109**
Employee termination compensation	**(53,852,419)**
Reversal of provision for receivables assessed for impairment individually	**487,578**
Loss on fair value changes of financial assets held for trading at fair value through profit or loss	**(8,960,465)**
Investment income from disposal of a subsidiary	**173,624,062**
Investment income from disposal of financial assets held for trading at fair value through profit or loss	**61,809,574**
Investment income from disposal of debt instruments investment	**26,523,097**
Net non-operating income or expenses other then the above items	**392,285**
	390,094,190
Less: Income tax effect of non-recurring gains or losses	**10,306,386**
Non-recurring gains or losses attributable to non-controlling interests	**7,932,634**
Net effect of non-recurring gains or losses	**371,855,170**
Net profit attributable to owners of the parent deducting non-recurring gains or losses	
Net profit attributable to owners of the parent	**3,428,518,933**
Less: net effect of non-recurring gains or losses	**371,855,170**
Net profit attributable to owners of the parent excluding non-recurring gains or losses	**3,056,663,763**

Supplementary Information (Continued)

30 June 2018
Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2018 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owners of the parent	**13.39**	**0.445**	**0.445**
Net profit attributable to owners of the parent deducting non-recurring gains or losses	**11.94**	**0.397**	**0.397**

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 parent	7.98	0.213	0.213
Net profit attributable to owners of the parent deducting non-recurring gains or losses	7.44	0.199	0.199

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 report 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: 2018-8-29